



Director's Recommended Retail Contracts and Commission Rates
January 23, 2020

Proposed Changes to 2020 Retail Contracts

- Separating contracts so there are multiple contract options: traditional only, video only, other Lottery games only and a combo package. All will be five-year contracts
- Specify that a retailer cannot grant a security interest in Lottery proceeds to a third party (for example: a retailer can not obtain a loan with a promise to pay X% of Lottery proceeds to pay off the loan)
- A retailer will be required to provide and monitor a working email address (email is now an accepted form of communication)
- Modify the compliance with laws paragraph so the Lottery can contract with businesses that sell CBD products (CBD is still illegal Federally even though the U.S. DOJ has stated that this portion of the law will not be enforced)
- Expand RG training requirements beyond just Key Persons to any employee that sells or facilitates play of Lottery games

Director's Objectives in Proposing New Rate Structures

- Recognize pressures felt by both retailers and the Lottery in the current market
- Support Lottery operations and future investment in games and technology
- Eliminate retailer financial barriers to offering Platinum Series games and shared jackpots across the retailer network
- Create a simpler structure that is easier to understand and predict
- Reduce disincentive to increase sales
- Minimize impact to retailers – while understanding there will always be “winners” and “losers” in any change

Video Lottery Retail Commissions

Simpler structure, based on dollars played

Video Lottery Dollars Played Commission Structure – Option E2

Current (Net Sales)		Option E2 (Dollars Played)	
<u>Option A:</u>		\$0 - \$2.25M	2.2%
\$0 - \$175K	27.5%	\$2.25M - \$4.0M	1.75%
\$175K - \$475K	23%	\$4.0M - \$6.5M	1.5%
\$475K - \$800K	14%	\$6.5M+	1.34%
\$800K+	11%		
<u>Option B:</u>			
\$0K - \$600K	22%		
\$600K - \$1.8M	17.5%		
\$1.8M+	11%		

Video Lottery Dollars Played Commission Structure Impact – Option E2

		Option E2
Diff Compared to Current Structure (BY 19)		\$2,378,090
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Avg Change in Commissions by Sales Volume per Retailer		
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Tier 4	Avg Net Sales: \$87,970 Avg Dollars Played: \$1,099,981	\$8
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Tier 3	Avg Net Sales: \$246,587 Avg Dollars Played: \$3,135,143	\$66
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Tier 2	Avg Net Sales: \$539,032 Avg Dollars Played: \$7,049,932	\$545
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Tier 1	Avg Net Sales: \$1,082,026 Avg Dollars Played: \$14,416,733	\$7,904
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Breakdown of Current Video Lottery Retailer Base

Tier	Avg Annual Sales Volume	% of Retailers	% of Dollars Played	% PS Retailers	% of Retailers Newly Acquired in Past 2 Years	Retailers Experienced a Negative Week in BY19	Avg Hours of Operation per Day
Tier 4	Net Sales: \$87,970 Dollars Played: \$1,099,981	21%	4%	24%	15%	349	12
Tier 3	Net Sales: \$246,587 Dollars Played: \$3,135,143	25%	14%	45%	7%	203	14
Tier 2	Net Sales: \$539,032 Dollars Played: \$7,049,932	41%	51%	71%	2%	119	16
Tier 1	Net Sales: \$1,082,026 Dollars Played: \$14,416,733	13%	31%	93%	2%	6	18

Impact of Potential Changes Resulting from Option E2 Commission Structure

Estimated Impact to Retailers by Tier

Change in Average Annual Commission per Active Retailer

Tier	Extending Operation by One Hour per Day	Adding Platinum Series Statewide	Adding Progressives Statewide
Tier 4	\$26	\$1,864	\$512
Tier 3	\$81	\$3,864	\$1,080
Tier 2	\$288	\$5,866	\$1,918
Tier 1	\$1,201	\$9,949	\$3,694

Estimated Impact to Lottery

Change in Total Annual Net Sales and Transfers

	Adding Platinum Series Statewide	Adding Progressives Statewide
Net Sales	\$16,379,293	\$18,396,457
Transfers (65.2% Rate)	\$10,679,299	\$11,994,490

Future Traditional Lottery Retail Commissions

Simpler structure, aligned to market

Commission Rate Scenarios | Traditional Structures – Flat 8%

Current		Flat 8%
\$0 - \$1,000	5%	Flat 8% against gross sales
\$1,000 - \$2,000	7%	
\$2,000 - \$3,000	7.5%	
\$3,000 - \$4,000	8%	
\$4,000 - \$5,000	8.5%	
\$5,000 - \$6,000	9%	
\$6,000 - \$7,000	9.5%	
\$7,000+	10%	

	Current Structure	Flat 8%
Difference Compared to Current Structure (BY 19)	N/A	-\$703,244
Avg Commission per Retailer	\$8,542	\$8,349
Avg Commissions by Sales Volume per Retailer		
Avg Gross Sales: \$274,361	\$25,529	\$21,949
Avg Gross Sales: \$108,093	\$8,739	\$8,647
Avg Gross Sales: \$86,884	\$6,582	\$6,951
Avg Gross Sales: \$29,665	\$1,847	\$2,373



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