



State of Wisconsin • DEPARTMENT OF REVENUE

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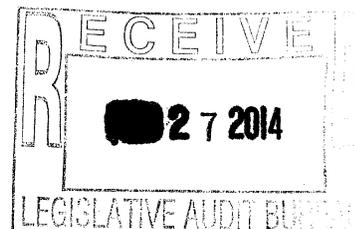
Scott Walker  
Governor

Richard G. Chandler  
Secretary of Revenue

February 26, 2014

The Honorable Robert Cowles, Co-Chair  
Joint Legislative Audit Committee  
State Capitol – Room 118 South  
Madison, WI 53702

Representative Samantha Kerkman, Co-Chair  
Joint Legislative Audit Committee  
State Capitol – Room 315 North  
Madison, WI 53702



**Re: Lottery Games with Licensed Trademarked Properties**

Dear Senator Cowles and Representative Kerkman:

The Wisconsin Lottery has generated more than \$3.5 billion in property tax relief for Wisconsin homeowners over the last 25 years. In each of the last two fiscal years, the Lottery has set new records in overall sales and instant scratch sales. As part of its overall strategy to increase sales and provide more property tax relief for Wisconsin homeowners, the Lottery produces scratch games which have a trademarked property (e.g., Green Bay Packers, Klement's Racing Sausages, Monopoly).

Of the 70 scratch games the Lottery produces each year, three or four of the games may use a trademarked property. The Lottery pays a licensing fee for the use of the trademark, generally around 2% of sales. The Lottery carefully analyzes each trademarked property prior to deciding whether to purchase a license. Consideration is given to potential sales, brand leverage (the amount by which the Lottery's brand equity is improved by associating with another brand), the potential to attract new players and the ability of the brand to attract attention in a crowded marketplace. Wisconsin is not unique in offering such trademark games.

In its most recent audit of the Wisconsin Lottery (Report 13-11, July 2013), the Legislative Audit Bureau reviewed the performance of instant scratch tickets using a licensed trademark. The audit analyzed eight of these games and concluded that six of the games generated lower net sales than games at the same price point for which no license fee was paid. The audit asked "whether the additional expenses associated with trademarked or copyrighted properties maximized net revenue from instant game sales" (Audit, p.24). The audit recommended that the Lottery "consider discontinuing the introduction of instant games for which it must pay license fees in order to maximize available revenue for property tax relief; and report to the Joint Legislative Audit Committee by March 3, 2014, on its future plans" (Audit, p.25).

Lottery sales are higher when a trademarked game is on the market. To better understand the impact of trademarked games on sales, the Lottery used a regression model to analyze the market impact of \$3 trademarked games (the Lottery chose the \$3 price point because most trademarked games are offered at that price). The analysis covered a six year period which included 84 games. Ten of the games had trademarked properties. The regression analysis investigated a number of market variables including gas prices, consumer confidence index, new game launches, time of year and the presence of a licensed game on the market. A copy of the full analysis is available upon request.

The analysis shows that the presence of a trademarked game adds about \$44,000 per week to sales of all \$3 games. The licensing fees for the 10 games analyzed were \$424,619. Of the 313 weeks studied, a trademarked \$3 game was offered for sale during 150 weeks, generating an additional \$6.6 million in sales resulting in over \$1.5 million in profit. Therefore, after careful analysis of all factors related to trademarked games, we believe that any limited savings derived by eliminating trademarked games would come at broader expense to overall Lottery profits and subsequently property tax relief for Wisconsin citizens.

The Lottery appreciates the Legislative Audit Bureau's recommendation to carefully consider its use of trademarked games. After our detailed analysis, we continue to be confident that licensed properties inject life into the Lottery's product mix of instant games, as seen in the attached graph of sales trends for \$3 instant games for 2013. We believe that trademark games successfully add a vital and profitable component to Lottery operations that we should maintain and utilize for the benefit of taxpayers.

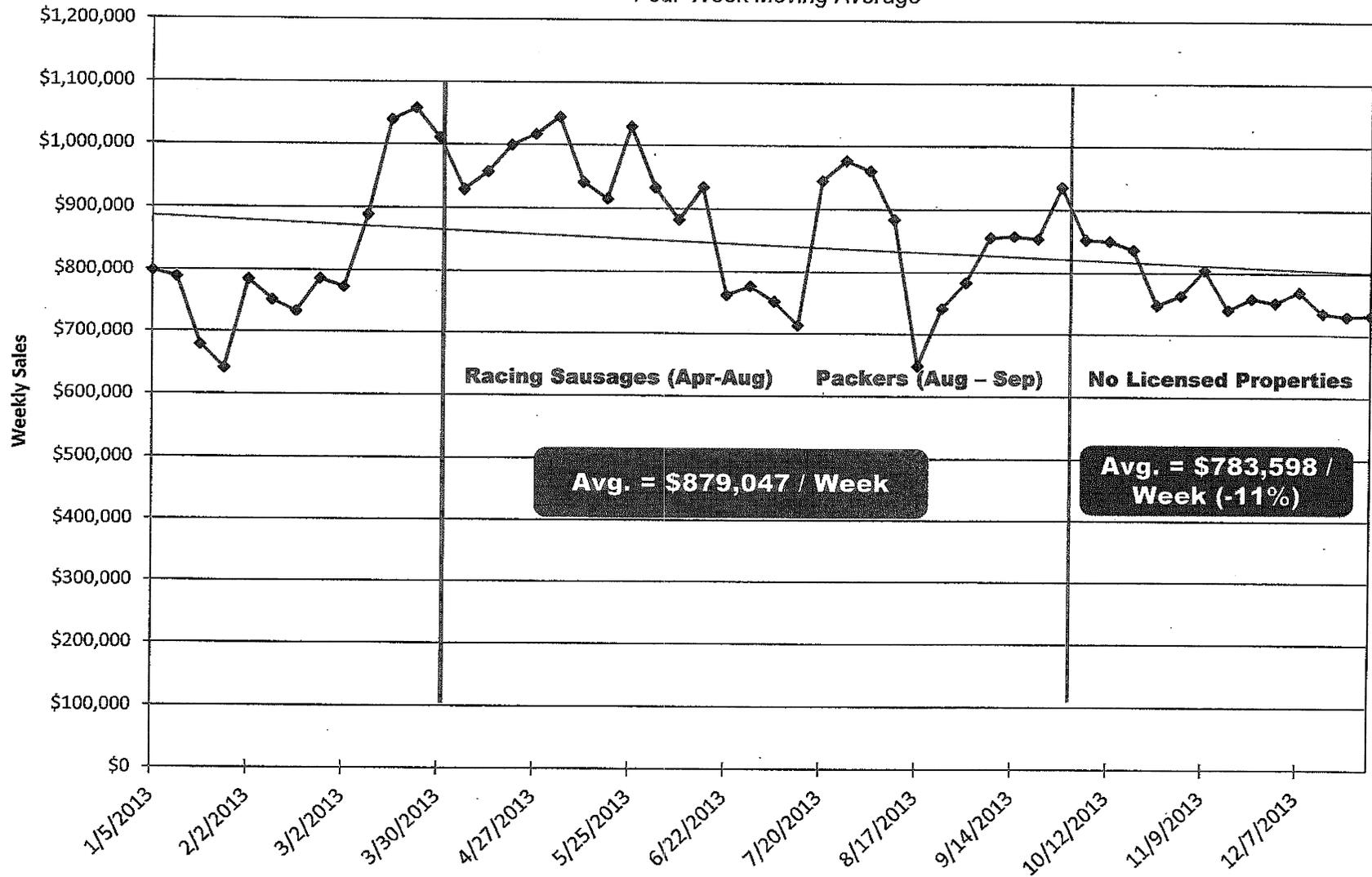
Sincerely,



Richard G. Chandler  
Secretary of Revenue

Attachment

### Past Year \$3 Instant Sales Trend: Four-Week Moving Average



**Racing Sausages (Apr-Aug)**

**Packers (Aug - Sep)**

**No Licensed Properties**

**Avg. = \$879,047 / Week**

**Avg. = \$783,598 / Week (-11%)**