



State of Wisconsin • DEPARTMENT OF REVENUE

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Scott Walker
Governor

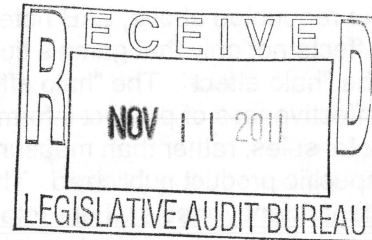
Richard G. Chandler
Secretary of Revenue

November 11, 2011

The Honorable Robert Cowles
Co-Chairperson, Joint Legislative Audit Committee
State Capitol - Room 118 South
Madison, WI 53707-7882

The Honorable Samantha Kerkman
Co-Chairperson, Joint Legislative Audit Committee
State Capitol - Room 315 North
Madison, WI 53708

Re: **Wisconsin Lottery Program Audit
Report 11-6, May 2011**



Dear Senator Cowles and Representative Kerkman:

In its most recent program evaluation, the Legislative Audit Bureau evaluated the Wisconsin Lottery's expenditures for product information (Report 11-6, May 2011). The report noted the following:

"Assessing the impact of product information expenditures is difficult. The amount spent to publicize a given lottery game likely affects not only that game's ticket sales, but also ticket sales of games not publicized. However, other factors also affect ticket sales."

Subsequently, the report recommended that the Wisconsin Lottery report to the Joint Legislative Audit Committee by November 11, 2011, on how it proposes to measure the effects of its product information expenditures. This letter outlines how the Lottery proposes to do so.

As a first step in attempting to measure the effectiveness of its product information expenditures, the Lottery asked its ad agency to conduct a preliminary study to determine what factors might be the best indicators of Lottery sales performance. The study notes that "economic factors, especially gasoline prices, unemployment rates and consumer sentiment measures" do impact instant scratch game sales. Furthermore, the study also indicates that expenditures on product information "actually can counteract lower consumer confidence factors; in essence preserving sales that would otherwise be lost to other discretionary activities."

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As recounted above, LAB noted that "the amount spent to publicize a given lottery game likely affects not only that game's ticket sales, but also ticket sales of games not publicized." This is the "halo effect". The "halo effect" suggests that any model that seeks to measure the effectiveness of product information expenditures should measure the effect of expenditures on total sales, rather than measuring the effect of a single product information campaign on the specific product publicized. Therefore, total Wisconsin Lottery sales is the most appropriate dependent variable where total product information expense (lotto and instant ticket sales) is used as an independent variable.

One method of developing a model to measure the effect of multiple independent variables (product information expenditures, gas prices, consumer confidence) on one dependent variable (e.g., Wisconsin Lottery sales) is provided by regression analysis. Regression analysis is a widely used statistical technique that assists in understanding how the value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables are held fixed.

With the help of data and advice provided by economists in the Wisconsin Department of Revenue's Division of Research and Policy, the Wisconsin Lottery will develop a model, based upon regression analysis, as its initial tool to assess the effect of total product information expenses on total sales. Initial research suggests that gas prices, unemployment rates, consumer sentiment and the amount of product information expense should be the independent variables used to construct a model. Other variables, such as consumer spending, interest rates or the consumer price index, may be added.

The Department of Revenue and the Lottery look forward to discussing these efforts and results with LAB during the next program audit.

Sincerely,



Richard G. Chandler
Secretary of Revenue

cc:

Joe Chrisman, State Auditor
Michael J. Edmonds, Administrator, Lottery Division