



January 20, 2020

Dear Director Pack and Lottery Commissioners,

Thank you for the opportunity to work on “fixing” the current video Lottery commission rates and structure. There are a few issues retailers have with the current rate structure we feel the proposed structure will help to correct.

### **Fixing the current structure**

The third tier in Option A drops commission rates from 23% to 14% after \$475,000 in net sales. This drop of almost 50% is intended to be punitive enough to drive retailers to Option B. This penalizes people who receive an unexpected increase in sales in the middle of a fiscal year and in our opinion, it does not make sense to have a punitive rate included in a contract with your retail partner.

The proposed rate structure eliminates Option B and instead sets up a formula with one set of rates. This change will reduce some of the negative feelings and actions taken by retailers who have experienced that drop in Option A and should result in a slight increase for a few retailers who are currently around the \$500,000 net sales level.

### **Platinum Series Games**

Under the current system, smaller retailers are less likely to carry the Lottery’s Platinum Series Games. Under the current net sales option, the retailer is penalized when players hit a top prize and forces these small retailers to have a negative commission for the week.

Under the proposed structure with gross sales and the Oregon Lottery covering those larger payouts, it would eliminate the “negative sales” weeks for smaller retailers and all retailers could then carry the Platinum Series without fear of the down weeks. This should benefit both the Lottery and the retailers by increasing sales across the state by 1-2%.

### **Video Lottery Commission Rates**

As for the actual rates, some of this would be easier if we could start from scratch to “fix” the rates, but we know that’s simply not feasible at this point. The current rate structure has many flaws, but “fixing” that rate structure would have a dramatic impact on current businesses who have experienced a certain revenue for over 15 years. Instead of starting over and fixing the rates then, improving them to help benefit the retailers and the Lottery is the best course of action.

The main difference with Lottery commissions and other sales commissions rates is the fact that Lottery commission rates decline the more you sell. Most sales commissions are structured to benefit top performers. In a few of the proposed rate structures, there were options decreasing the gross sales commission rate below 1.34%.

ORLA truly believes it would be extremely dangerous and detrimental to the retail system to go below 1.34% for commissions. The retailers that will fall in this sales volumes category are the Lottery's biggest producers and are more likely to make behavioral changes that would decrease sales if the 1.34% rate is adopted. ORLA would be opposed to anything decreasing the rates below the 1.34% gross sales rate.

This is a complicated and complex commission sales system. We believe it is one of the best performing lottery retail networks in the country. We appreciate the corrections in the structure, and we do believe the rates would be potentially better and more beneficial for everyone involved if the rate system would improve under the proposal that starts at 2.2% as long as rates do not fall below 1.34%.

Thank you again for the opportunity to participate in the creation of the latest Lottery Retailer contract.

Best regards,

A handwritten signature in black ink, appearing to read 'Greg Astley', with a long horizontal flourish extending to the right.

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