

# On the Strategies and Changes of Capital Constitution of Sports Lottery in China

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**Abstract:** With the methods of documentation research, comparative analysis and logical analysis, this paper analyzes the changes of the constitution of the lottery funds and makes a conclusion that money return rate of sports lottery should be set in accordance with the characteristics and market rules and should not be oppressed and opposed simply. And the money return rate should be raised through managerial and marketable methods and expanding lottery consumers to collect more public welfare funds for the state; The overall ratio of the sports lottery issue costs shall be reduced, and the structure of the issue costs should be adjusted to further improve the function of the market regulation.

**Keywords:** Sports economic; Sports lottery; Capital constitution

## 1. Introduction

According to The Regulations on the Management of the Lottery issued by China in 2009, lottery refers to the voucher which is published by the state to collect public welfare funds and promote the development of social welfare, sold according to the law, and purchased by the natural persons voluntarily who has the chance to get the award by the rules. And according to the issuing purposes of lottery and the current sales management model in China, lottery as a special commodity, owns a specific market supply and demand relationship.

### 1.1. Commodity characteristics of lottery

#### (1) Publicity

According to this classification of economics, products purchased by people include private and public products. Based on this classification, sports facilities and services provided by the government to provide public sports facilities and services belong to public products. Being supported by lottery welfare funds, social insurance, "Red Cross" medical assistance as well as public sports facilities are all public products. And sports lottery itself is not equal to these public goods. However, except for the costs and awards, all the collect welfare funds are directly turned into public products. Therefore, the lottery can be seen as derivative of public goods. In financial market, stock futures contracts, stock index futures contracts, options contracts, bond futures contracts and other contracts which are derived from original financial tools are transformations and derivative of capitals rather than the direct form of capital. Economists defined them as derived financial products. In this way, sports lottery can be seen as a derivative of public goods.

#### (2) Entertainment

Sports lottery has the characteristic of lottery which is different from general merchandise and belongs to spiritual and cultural products which can satisfy the needs of special spiritual entertainment and greatly enrich people's cultural entertaining life. In an opening economical environment and social atmosphere, sports lottery forms a broad market and obtains a relatively big market scale and industry scale which reflects the industrialized feature. And it is even considered as the promising industry of China and the world. Sports lottery researches and development have been diversified and become suitable for the tastes of consumers; more attention are paid to the full life cycle management of sports lottery; marketing network of sports lottery with three-dimension and multi channels are established; more attention are paid to brand management

It is different from ordinary merchandise. It is a kind of consumer goods that can satisfy the needs of special spiritual entertainment and greatly enrich people's cultural entertainment which has a broad market and is characterized by the size of the market and industry. Sports lottery is considered to be the industry of China and the world. Attention has been paid to the whole life cycle management.

#### (3) Monopoly

Firstly, whether to open the sports lottery industry and to what degree it can be opened, is closely linked to the ideology of a country. Sports lottery does not have the educational function but it is, to some degree, a symbol of a national ideology. Secondly, the question that whether to open the sports lottery industry or not should be risen to the level of national economic security. Sports lottery is a lottery form with the smallest "gambling" quality. Without this outlet, it is inevitable that the some people's gambling desire will be depressed, distorted

which will lead to the birth of underground gambling, and illegal gaming, producing problems such as capital outflows, social instability and social insecurity. Thirdly, the existence and development of lottery depends on its trust of public and the credibility of sports lottery represents that of the nation. Seeing from the history of the lottery, since 18th century, the private lottery has been banned and the establishment, distribution, selling and the supervision of lottery are all the national behaviors.

### **1.2. The special marketing supply and demand relationship of sports lottery**

Due to the above characteristics of sports lottery, the marketing supply and demand of lottery also has its own features.

1) The price of one lottery ticket is general low because the lottery's fundamental purpose is to absorb the social idle funds for social welfare career. Therefore, the price of lottery tickets should be set in the level which general public need not spend big price and willing to buy the ticket. The prices of most lotteries in China are maintained at 2 Yuan which is closely related to the publicity of lottery. The common feature of public products is that consumers generally have to spend little or no money to buy or enjoy.

2). Lottery sales and bonuses are closely related to each other. The impacts of the amount of the bonus on sales are mainly reflected in: first, grand prix. The higher the first prize is, the stronger of consumer's desire to purchase will be; second, the proportion of bonus. The higher proportion of prize in total sales, the bigger of the scale of money return rate will be. And buyers are more willing to buy; third, large progressive game. With bigger cumulative bonus in the pond, the excitement degree will be stronger. To some degree, the design of bonus is an important lever of lottery sales.

3) China's lottery industry is a monopolistic competition market. The state authorizes civil affairs departments and sports administrative departments to issue the welfare lottery, and sports lottery. The two departments establish independent distribution system, and form a separate management mode. And the two departments compete for each other to some degree. The national monopoly, business management system, and market operation mode, to a certain extent, ensure the national control and market stability, but also bring low management efficiency and high cost management.

## **2. The Capital Constitution and Recent Changes of Sports Lottery**

In China, the lottery capitals refer to the money which are got after the purchase of lottery tickets, including the lottery prize, the lottery issuance management fee, and the lottery public welfare funds. In different lotteries, the

amounts of these three capitals are different according to the rules of the game.

### **2.1. Sports lottery price and its changes**

Sports lottery prize refers to the money that is withdrawn from sports lottery sales by sports lottery issuing institutions, and selling organizations according to the regulated ratio of lottery game and to pay for lottery winners. As mentioned before, in the case of lottery prices being basically unchanged, the proportion of lottery prize money is an important lever to adjust sales. But two factors should be paid attention to:

First, different lottery games have different lottery bonus ratio range. That is to say, due to the different playing methods, the difference different lottery games in price proportion may be significant. For example, the market lotto game generally set the prize pool which is used for collecting the fund balance of setting prices after actually paying to the winners. If bonus ratio is set up too high, accumulated funds in the prize pond will be very limited and can not play due role. For example, the instant paper lottery which means that the lottery is open while buying is to allow more people to have the experience of winning, and enhance the attractiveness for the ordinary people, with relatively higher winning range and the winning rate.

Second, the proportion of lottery prize differs a lot in different countries. In Europe and the United States, generally government gives the permission to lottery companies to issue and sell lottery. The goal of the lottery company is to obtain the maximum profit after deducting taxes and management fees, so the return of lottery ticket and the sales profit has to reach a balanced point. In addition, in the countries which have opened gaming industry, there are gambling houses. The odds of a casino game are generally 80-90%. In order to occupy a place in the gaming market, the lottery company must set the lottery prize money to a certain level. For example, the return award rate of United States video lottery is very high, with most of them beyond 90%. And return award rate of international sports lottery is generally 80%-90%.

Over years, the money return rate of sports lottery does not change too much. Only in 2000, the money return rate of traditional football lottery had been increased from 50% to 65%; from 2011-2013, the money return rate of high-frequency game had been increased from 50% to 59% gradually; and the money return rate of lottery type, digital type game which occupy the biggest markets remained at 50%. However, newly issued lotteries in recent years has a money return rate of more than 60%, such as instant paper lottery issued in 2008 has a money return rate of 65%; sports betting lottery issued in 2009 has a money return rate of 65%. So it seems that the overall money return rate of the sports lottery market is in an upward trend.

## 2.2. Issue costs and existed problems

Sports lottery issue costs are used for business expenses and the sales expenses of sports lottery issuers and lottery sales agencies. In October 2001, The State Council's Notification on Further Standardize the Management of Lottery (2001 issued by the state [35]) established the principle of "reduce the issuance costs, and increase the lottery funds", and made the provisions that from January 1, 2002, the proportion of the issue costs shall not be higher than 15%. Although this document and The Regulations of Lottery Management implemented from the beginning of 2009 stipulate that "with the increase in the size of the lottery and lottery varieties, the proportion of lottery issue costs can be reduced", there is no clear statement about to which extent of sale expand can the issue costs be reduced and how much it can be reduced. It only makes partial adjustments of issue costs based on the changes of some game rules and newly added lottery tickets.

From the perspective of the composition of issue cost of sports lottery, commissioned sales agency costs accounts for about 7% -8%. The other parts of the costs are distributed between central issue agency and the local sales agency in accordance with a certain proportion. The costs include lottery printing costs, system technology and infrastructure construction costs, communication, depreciation and maintenance costs of machinery and equipment, marketing costs, the cost of lottery organization and propaganda, administrative cost and so on. At present, the main problem of sports lottery is:

1) The central issuance cost always has balance. In 2010, the issue cost of central finance lottery has balance of 386 billion Yuan. Among them, the issue costs balance of sports lottery accounts for a large proportion. According to The Regulations of Lottery Management, lottery issuers are mainly responsible for formulating development plan, management system, working standards and technical standards, establishing a unified technical system, the market regulation, control and restraint mechanisms, supervision and management mechanism, organizing lottery researches and application, organizing the management of sales system data, the funds collection and settlement, equipment and technical services, sales channels and site planning, printing and logistics, running and cashing lottery and destroying lottery tickets, organizing the management of image construction, lottery commissioned sales, marketing campaigns, business training, talent team construction and so on. With the expansion of sales volume, economies of scale of sports lottery gradually emerge and the outcome of balance of the central issue costs is inevitable.

2) Uneven distribution of local issue costs and unbalanced using efficiency. Firstly, there is a huge gap in the amount of lottery sales among different provinces, which will lead to a huge gap of the issue costs which are with-

drawn from the sales. This imbalance is also widespread in different regions inside one province. The lower the sales is, the lower the related investment will be. And with higher sales, the more related investment will be made. This situation is easy to cause a vicious cycle of unbalanced development. Secondly, due to the independent and different policies taken by financial departments and sports departments of every province, there are great differences of issue costs in using scope, and the efficiency of examination and approval. These factors lead to the phenomena that some provinces are strapped for cash while others have balance.

3) Commissioned costs of point-of-sales are high. In all parts of the country, the commissions of sports lottery point-of-sales agents are 7-8% of the price of lottery tickets which have not been changed for years. However, in the recent 10 years, social economic status of China has undergone great changes. Only rent, utilities, sales staff wages have increased exponentially, and the development of lottery industry put forward new requirements in the door packaging, interior decoration, internal management and service level, making the fixed costs and operation costs of all the point-of-sales agents have been greatly improved. Therefore those point-of-sales lottery agencies which have small sales and those in luxury locations in first and second level cities will face great difficulty in running business.

## 2.3. Public welfare funds

According to the distributing policies approved by State Council, lottery welfare funds are distributed between the central and local governments by the proportion of 50:50. These funds are specially used for social welfare, sports and other social welfare undertakings and include in the budget according to government funds managing method which are "two lines of revenue and expenditure" and special funds used for special purposes. The balance is transferred to the next year. The lottery public welfare funds collected by central government are distributed to national social security funds, the central special lottery, the ministry of civil affairs and the State Sports General Administration according to the proportion of 60%, 30%, 5% and 5%. The principle of distribution of lottery public welfare funds saved by local governments is determined by the provincial finance department, sports and other relevant departments.

In recent years, with the sharp increase in sales of lottery tickets, the size of the lottery public welfare funds has gradually expanded. In 1994, the first year of the issuance of sports lottery, the lottery public welfare funds are 190 billion Yuan. By 2012, this figure has reached 7,580 billion Yuan. However, although the total amount of public welfare funds increase rapidly, the proportion of public welfare funds in the lottery has declined. In 2012, the national lottery issue size has reached 2610

billion Yuan which is 3.7 times of that in 2000; the actual collected public welfare funds are 7580 billion Yuan which is 3.1 times of that in 2000. The proportion of public welfare funds has reduced from 35% in 2000 to 29% in 2012.

In the condition of lottery issue costs being unchanged, the money return rate and lottery public welfare funds are in a shift relationship with one bigger, the other one smaller. As mentioned earlier, although the money return rate did not change much for the past few years, because of a number of lotteries with higher returning rate have been issued, the overall money return rate has been raised, making the proportion of public welfare funds decline for a certain degree.

### 3. Strategies and Advices

#### 3.1 Expand sports lottery buying groups and increase the overall size and total amount of the public welfare funds through various means

Firstly, establish market-oriented management mechanism and operation mode. According to the special characteristics of the lottery, use market means to carry out operations, and avoid excessive administrative intervention and administration. Secondly, design various lotteries to meet the needs of the lottery's entertainment. Strengthen product management of the products in sale and make more efforts in promoting those lottery products which have potential quality and make updating of the old products. Thirdly, improve the interpretation, publicity and appropriate marketing of lottery game rules, to expand the purchasing group. Fourthly, enhance the image of the lottery sales-of-points, strengthen the sales staff training, and improve service quality. Fifthly, increase the intensity of lottery public welfare propaganda, and the use and management of public welfare funds should open and transparency.

#### 3.2. Reasonably design money return rate of sports lottery

A reasonable money return rate can achieve three purposes: First, moderately stimulate lottery desire, and enhance the entertainment, so as to improve the lottery sales. Second, suppress and combat illegal lottery. Third, lottery management and operation in China gradually reach to international standards. Although Lottery itself

is not international, the internationalization of lottery technology and management has been overwhelming. And the introduction and taking reference of international advanced lottery products and lottery technology has become an inevitable trend. Among them, the money return rate of similar products abroad can become an important reference basis

#### 3.3. Reduce the rate of lottery issue costs and adjust constitution of issue costs

First, adjust the constitution of issue cost. Appropriately reduce the central issue costs, and improve commissions of sales agency, so that the financial support for sports lottery selling can be implemented on the local agents. Second, establish regulation mechanism of sports lottery issue costs on the market. At present, local issue costs distributed by certain proportion has begun to be oval planed by provincial governments. But that how to plan it needs to establish a sound approach to achieve the control of the market. In addition, the reduced part of central issue costs also can be used as the national sports lottery market regulation fund, which can be used by the issuing agency with overall plan. Sports lottery issuing institutions can take issue costs as a lever to actively carry out the market regulation and control and establish a long-term management and using mechanism. It is a choice with a strategic significance.

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