MEMORANDUM

Date: October 28, 2010

To: California State Lottery Commission

From: Joan M. Borucki
Director

Prepared By: Michael Brennan, Deputy Director
Sales & Marketing Division

Subject: Item 9(b) General Market Advertising Services Contract

ISSUE

Should the California State Lottery Commission (Commission) approve a contract award with David & Goliath/Initiative for general market advertising services?

RECOMMENDATION

Staff recommends that the Commission approve a contract award with David & Goliath/Initiative to provide general market advertising services for five (5) years with the option to extend for two (2) additional years. The total expenditure authority, including optional extension authority is $210 million.

BACKGROUND

The Lottery's current general market advertising services contract expires on January 31, 2011. On June 3, 2010 the Lottery posted a document on its website that provided an executive overview of the competitive solicitation process it would undertake to procure general market advertising services. This overview was also mailed to 69 potential vendors from the Lottery's Contract and Procurement Services Section data base and a list of agencies provided by the Sales & Marketing Division. Concurrently, notification announcing the pending release of the RFP was published in the *Small Business Exchange Challenge News, Disabled Veteran Voice, Ad Week, Ad Age* and online in the California State Contracts Register.

On June 8, 2010 the Lottery released a Request for Proposal (RFP) inviting responses from qualified agencies to provide general market advertising and integrated

communications services for all Lottery products with the objective of maximizing net revenue from Lottery sales for the benefit of public education.

The general market advertising services RFP was developed with the understanding that the Lottery is entering a strategic inflection point in its lifecycle and that it needs a strategically-based, highly creative agency partner with best-in-breed capabilities in media planning and buying across all channels, including digital creative and media, to handle its integrated advertising account to help it navigate future challenges and opportunities. Accordingly, the Lottery made it clear that it was seeking an agency team capable of developing breakthrough work and highly integrated cross-channel media communications solutions that will successfully elevate its brand and will motivate more customers to engage with and buy its products to drive sales, and that the Lottery would consider proposals from partnerships and joint ventures, including creative advertising agencies, media management firms, and PR firms.

DISCUSSION

Eleven agencies submitted proposals in response to the general market advertising services RFP: (1) Alcone Marketing/OMD (2) BBDO West-SF/PHD-LA (3) David & Goliath/Initiative (4) DDB-SF/PHD-SF (5) Doner/Carat-SF (6) Goodness Mfg/KSL Media (7) Ignited/Horizon (8) Johnson & Murphy (9) McCann Erickson (10) Mendelsohn Zien and (11) Publicis Riney. All eleven of these agencies participated in the first phase of the three phase evaluation process.

Phase I

Phase I was open to all agencies and joint ventures that met specified minimum qualifications associated with the size of the agency, digital experience, the agency's location and some basic business requirements (e.g. licensed to do business in California, etc.) Bidders were required to submit an Introduction Letter, Agency Fact Sheet, Agency Questionnaire, Certification and Guaranty as well as a profile of their agency including some recent broadcast creative; two case histories of their most recent and relevant campaign work; and two media case histories that showcased media planning capabilities and demonstrated buying and negotiating skills.

Submission of the Introduction Letter, Agency Fact Sheet, Agency Questionnaire, and Certification and Guaranty forms was mandatory and was evaluated as pass/fail. The remaining submittals, including the Introduction Letter and Agency Fact Sheet, were evaluated using the following criteria (listed in order of importance):

- Caliber of strategic thinking;
- Creativity and innovation;
- Quality of media capabilities (buying, planning, research, and analytics);

- Innovative integrated communications planning that drive sales;
- Best-in-class digital and social media;
- Innovative promotions and experiential marketing;
- Relevant experience with gaming, entertainment and/or low cost consumer goods; and
- Quality of client list.

Phase II – Semi-Finalist

Of the eleven agencies that participated in phase I, the following five agencies advanced to phase II, or the semi-finalist phase: (1) Alcone Marketing/OMD (2) David & Goliath/Initiative (3) Ignited/Horizon (4) McCann Worldgroup and (5) Publicis Riney. The semi-finalist phase included an evaluation of the Agency Questionnaire and face-to-face meetings between the Lottery evaluation team and the semi-finalists. The objective of these meetings was to provide each agency the opportunity to give the evaluation team a sense of their agency that went beyond the written work and description of credentials that were submitted and evaluated in phase I. Additionally, the evaluation team wanted to personally meet with the staff that would be assigned to the Lottery account to assess the depth of resources, measure the strategic process, and evaluate the intensity of the agency's interest and commitment to our business.

Phase III – Finalist

Of the five agencies that participated in phase II, the following three agencies advanced to phase III, or the finalist phase: (1) Alcone Marketing/OMD (2) David & Goliath/Initiative and (3) McCann Worldgroup. These three finalists were asked to prepare and present a strategic, creative, and integrated work assignment including media and online components. Each finalist was also required to provide a staff plan and compensation proposal. As a result of the evaluation process, a competitive range was established with the two finalists who submitted the most highly rated proposals: (1) David & Goliath/Initiative and (2) McCann Worldgroup.

Best Value Analysis

David & Goliath/Initiative and McCann Worldgroup's staff plans and compensation proposals were evaluated and areas of improvement were identified. Both of these agencies were then given the opportunity to revise their staff plans and compensation proposals after discussions with Lottery staff. David & Goliath/Initiative's revised staff plan and compensation proposal provides the lowest total agency fee and offers the most staff hours and number of Full Time Equivalents (FTEs). In addition, David & Goliath/Initiative is offering the best cost per FTE and blended hourly rate and the lowest overhead rate and profit margin. McCann Worldgroup's revised staff plan and

compensation proposal has a slightly higher total agency fee and significantly fewer staff hours and total number of FTEs. McCann Worldgroup also has the highest cost per FTE and blended hourly rate as well as the highest overhead rate and profit margin.

David & Goliath/Initiative's proposal provides the Lottery with the best value in quantity and quality of staff allocated to the Lottery account, at the lowest agency fee. The quality of this agency's strategic thinking and creativity are also exemplified by its scores in all three phases of the evaluation process. David & Goliath/Initiative either beat or tied McCann Worldgroup in all three phases by receiving a rating of "Significantly Exceeds" in phase I, "Superior" in phase II and "Superior" in the phase III finalist work assignment.

As a result of the competitive range and negotiation discussions between the two most highly rated agencies, staff recommends that the Commission approve a contract award with David & Goliath/Initiative to provide general market advertising services for five (5) years with the option to extend for two (2) additional years. The total expenditure authority, including optional extension authority is $210 million.

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