



M E M O R A N D U M

Date: April 14, 2011

To: California State Lottery Commission

From: Linh Nguyen
Acting Director

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Subject: Item 9(a) - Amendment to Extend the Term of the Marketing Promotions and Point-of-Sale Services Contract

ISSUE

Should the California State Lottery Commission (Commission) approve an 18-month extension to its contract with Alcone Marketing Group (Alcone) to continue marketing promotions and point-of-sale services for the California State Lottery (Lottery)?

RECOMMENDATION

Staff recommends that the Commission approve the extension of the Alcone contract for eighteen months under the same terms and conditions to ensure that the Lottery will continue to receive business-critical marketing promotions and point-of-sale services through February 28, 2013. The 18-month extension requires no additional funding and the total expenditure authority for this contract will remain at \$40 million.

BACKGROUND

As a result of a formal solicitation in 2008, the Commission awarded Alcone a three-year contract with an expenditure authority of \$40 million to provide marketing promotions and point-of-sale services to include the development, design, and implementation of all collateral point-of-sale materials, and the development of consumer promotions. Retail point-of-sale services used by the Lottery include the design and production of permanent interior and exterior signage, banners, and product displays. Alcone was the only bidder to receive an overall evaluation rating of "Significantly Exceeds" in addition to having the most competitive pricing and the lowest mark-up rates. The initial term of this contract was September 1, 2008 through August 31, 2011 with extension options of up to three additional years.

In March 2011, the Lottery entered into negotiations with Alcone to reduce the mark-up on specific point-of-purchase items. Specific point-of-purchase items include in-counter units, stackable ticket dispensers, fiberglass signs, and LED messaging services. These specific items do not require a formal Request for Proposal (RFP) process as they are purchased from proprietary vendors and re-ordered on an annual basis. As a result of these negotiations, the Lottery will save an estimated \$45,000 over the next 18 months. Alcone agreed to reduce the mark-up for re-orders on these items to 2 percent mark-up rate.

DISCUSSION

Alcone continues to provide a consistently high level of service above what is expected and will continue to play a critical role in supplying the Lottery with marketing promotions and point-of-sale services. These materials and services are required to furnish over 20,000 Lottery retailers statewide with proper equipment to prominently display and sell Lottery products.

Extending this contract is necessary for a variety of reasons, some within our control and some out of our control. Previously, there had been direction to try to bring the advertising services under one or two providers. That meant that the RFP timelines had to be condensed to allow for that process to be implemented. Later it was determined that it was not in the best interest of the Lottery to follow that strategy and therefore the contracts now need to be separated so that staff resources can devote the proper time to the process. Over the last 12 to 16 months, the same staff who develop RFP's and coordinate the entire procurement efforts have been challenged with implementing the many Renew initiatives that were critical to the Lottery's ability to implement its three-year strategic business plan. Staffing shortages and vacancies require that we carefully assess priorities and direct our limited resources accordingly.

With the approval of the 18-month extension, the new expiration date of this contract will be February 28, 2013 with a total expenditure authority of \$40 million.