



M E M O R A N D U M

Date: April 26, 2012

To: California State Lottery Commission

From: Robert O'Neill
Director

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Consumer Marketing and Advertising

Subject: Item (8a) - 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 contract #13285 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 the remaining 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 August 31, 2014. The remaining 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 including in-counter units, stackable ticket dispensers, fiberglass signs, and LED messaging services. As a result of these negotiations, the Lottery has saved approximately \$45,000 and is projected to save an estimated \$125,000 over the remaining term of the contract. Alcone also agreed to reduce the mark-up for re-orders on these items to 2 percent mark-up rate.

In March 2011, the Commission approved an eighteen month extension of the Alcone contract from September 1, 2011 through February 28, 2013. The purpose of this extension was to ensure that the new advertising campaign process would work properly to have an integrated campaign. The Marketing Division has discovered that Alcone Marketing Group has adapted very well to the new integrated campaign process. No additional funding was required and the contract expenditure authority remained at \$40 million.

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 21,000 Lottery retailers statewide with proper equipment to prominently display and sell Lottery products

Extending this contract is necessary for many reasons. One of the Lottery's goals and objectives is to increase Retailer Recruitment by increasing the number of quality retailers offering Lottery products to improve the average weekly retailer sales. Alcone's expertise will play a vital role in assisting the Lottery meet this goal. Alcone uses their insights and knowledge to strategically position the Lottery product at retail to build awareness and purchases among our consumers. Alcone also provides expert advice regarding point-of-sale in the retail environment which enhances the Lottery's integrated advertising campaigns.

With the approval of the 18-month extension, the new expiration date of this contract will be August 31, 2014 with a total expenditure authority of \$40 million.