



M E M O R A N D U M

Date: June 25, 2020

To: California State Lottery Commission

From: Alva V. Johnson, Director *AA*

Prepared By: Sharon Allen
Deputy Director, Sales & Marketing

Subject: Item 9(c) - Marketing Promotions and Point-of-Sales Services
Contract Extension and Contract Amendment

ISSUE

The California State Lottery (Lottery) contracts with Alcone Marketing Group (Alcone) for promotional and point-of-sale (POS) services. The current contract term is set to expire on August 31, 2020.

BACKGROUND

Following a formal solicitation in 2014, the California State Lottery Commission (Commission) awarded a four-year contract to Alcone with the option to extend for three additional one-year terms and an authorized contract expenditure amount of \$40 million. The initial contract term was September 1, 2014 through August 31, 2018. In May 2018, the Commission approved exercising the first one-year contract extension and the addition of \$10.2 million to the authorized contract expenditure. In June 2019, the Commission approved exercising the second one-year contract extension and the addition of \$10.5 million to the authorized contract expenditure, bringing the maximum authorized contract expenditure amount to \$60.7 million.

DISCUSSION

Alcone assists the Lottery in the development and design of campaign POS materials, and permanent retail POS displays, as well as with promotional programs for Lottery products distributed throughout 23,000 retail locations statewide.

Alcone is part of the roster of Lottery's advertising and marketing agencies that work together in partnership with Lottery marketing staff to develop cohesive and effective marketing communication strategies and programs. Specifically, the Marketing Promotions and POS Services agency is an integral part of the Lottery's overall marketing plan requiring a strategic and creative partner that can motivate consumers to make a Lottery purchase amidst competing retail product offerings.

During the term of the contract, Alcone has proven to be an effective agency partner that consistently develops impactful POS materials and promotional programs that attract consumer attention and drive sales. Alcone has experienced staff turnover and teleworking issues within their organization due to COVID-19, which has resulted in some invoicing issues. These issues have been addressed and measures have been established to improve processes. Alcone has hired additional accounting staff, weekly status meetings are conducted with stakeholders, plus quarterly and annual performance evaluations are performed with Alcone management. These actions should effectively mitigate any further issues and we recommend moving forward with the third and final one-year contract extension.

Due to the time, effort, and expense associated with the solicitation and contract award process, the Marketing department plans to conduct only one active solicitation at a time to ensure that critical marketing functions are not interrupted. Currently, the Marketing department is in the process of procuring and potentially onboarding an African American Marketing and Advertising Services vendor. In addition, pre-work has begun to issue a "Request for Proposal" (RFP) for a Marketing Promotions and POS Services contract.

Exercising the third and final one-year contract extension option will enable the Lottery to continue essential marketing efforts without interruption and provide ample time for a thorough RFP process for a Promotions and POS vendor.

As a result of reduced marketing activity during the COVID-19 pandemic, there will be approximately \$4.95 million remaining of the current expenditure authority through the end of the current contract term. Staff estimates an additional \$6.6 million will be required to fund this extension based on anticipated needs for Fiscal Year 2020-21,

This will allow the Lottery to continue core retail marketing operations, including point-of-sale and permanent displays for our growing retailer network and replacing outdated or damaged equipment as well as consumer and retailer promotional activities supporting new games, expanding playership and communicating key brand messages.

RECOMMENDATION

Lottery staff recommends that the Commission approve a the third and final one-year extension of the Alcone contract for the period of September 1, 2020 to August 31, 2021 and grant an addition of \$6.6 million in funding. The proposed extension and additional funding will result in a maximum authorized contract expenditure of \$67.3 million.