



M E M O R A N D U M

Date: March 17, 2022

To: California State Lottery Commission

From: Alva V. Johnson, Director *AJ*

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Subject: Item 8(c) – Alcone Marketing Group Contract

ISSUE

The California State Lottery (Lottery) currently contracts with Alcone Marketing Group (Alcone) for promotions and retail marketing services. This contract is set to expire on May 31, 2022. The Lottery is currently conducting a formal solicitation to secure a new contract for these services; however, it will not be completed before the contract expiration. The Lottery is requesting a seven-month contract with Alcone through December 31, 2022. This will allow for essential promotional and retail marketing initiatives to continue while permitting the completion of a comprehensive and competitive solicitation.

BACKGROUND

In 2014, following a formal solicitation, the California State Lottery Commission (Commission) awarded a four-year contract with three one-year extension options to Alcone Marketing Group with an initial contract expenditure authority of \$40 million for promotional and retail marketing services. The Lottery exercised the three one-year contracted extension options and increased the contract expenditure authority to \$67.3 million.

Alcone is responsible for strategically planning, creating, and implementing the Lottery's promotional and retail marketing initiatives, such as point-of-sale (POS) materials and displays distributed to over 23,000 retail locations, retailer communication plans, business-to-business partnerships, and promotional programs that motivate consumers to purchase Lottery products.

In January 2020, the Lottery began working on the Promotions and Retail Marketing Request for Proposal (RFP); however, the process was interrupted due to the uncertainty caused by the pandemic and time needed to establish teleworking protocols as well as the reorganization and restructuring of the Procurement Services and Support (PSS) unit, which included vital staff members retiring, hiring and orientation of new staff members, and the restructuring of procurement procedures and policies. Due to these issues, in March 2021, the Commission approved a nine-month emergency extension and an additional \$5.5 million in funding bringing the total contract expenditure authority to \$72.8 million and an expiration date of May 31, 2022. This emergency extension permitted the Lottery to continue critical promotional and retail marketing services while developing a comprehensive solicitation.

Marketing services at the level required by the Lottery are unique within state government. In consideration of this unique need, the Lottery worked with an industry consultant to create a formal solicitation process specific for marketing that can attract best-in-class agencies and/or vendors that meet the Lottery's requirements, while also remaining consistent with all State and Lottery procurement requirements. This process has been successfully utilized for over ten years and has served as a model for other state agencies that contract with marketing agencies. In addition to yielding contracts with top-ranked agencies in the state that have successfully helped the Lottery meet its sales and profit goals, the process has also held up to multiple external audits.

The RFP was on schedule to release in August 2021 when PSS did additional analysis and determined that the existing process needed revamping to further align the Lottery with other state organizations, to standardize and create a template for future solicitations, and make the RFP process more defensible in case of an audit and/or protest.

The Marketing and PSS teams worked extensively to discuss and review all aspects of the current process and proposed changes to ensure that it would meet PSS's goals without impacting the Lottery's unique requirements. Ultimately, the evaluation scoring process was changed to add quantitative scoring to the qualitative scoring system. Merging the proven and successful marketing RFP evaluation processes with a new numeric scoring system took more time than anticipated and caused delays in finalizing this solicitation.

DISCUSSION

The Promotions and Retail Marketing RFP was released on December 17, 2021 with a numeric scoring evaluation process. The present RFP process encompasses three tactical phases within which each proposer is required to present and demonstrate their marketing qualifications and work skills. Collectively, a Lottery evaluation panel will discuss, assess, and score each proposer's qualifications during these different phases with the goal of awarding a new contract no later than December 2022.

Due to the complexity of the RFP procurement process, the critical services provided by this marketing agency, and the introduction of a new evaluation scoring process, a new non-competitive bid contract with Alcone is necessary to complete a thorough and fair RFP process.

If the Lottery were to rush the RFP process to meet the current May 31, 2022 deadline, it would provide a distinct advantage to the incumbent agency and limit proposers by signaling favoritism. These core retail marketing services cannot be absorbed by other agency contracts or by the Lottery itself. A lapse in the Lottery's retail marketing contract would negatively impact product sales as well as player and retailer relationships, and ultimately contributions to education.

A non-competitive bid process to create a new contract is required to extend the services with Alcone through December 31, 2022. Funding will also be needed to support this new contract. Staff estimates that \$10.5 million will be needed to maintain retail marketing services during this seven-month period. This will allow the Lottery to continue core retail marketing operations, including point-of-sale materials and permanent displays for our retailer network, as well as consumer and retailer promotional activities supporting new game launches. The new contract will be issued with the same scope, terms, and conditions as the current contract.

If the RFP process and new contract award can be completed ahead of schedule, the Alcone contract may end sooner than December 31, 2022.

RECOMMENDATION

Lottery staff recommends that the Commission approve a new seven-month contract with Alcone Marketing Group for the period of June 1, 2022 to December 31, 2022 with a total expenditure authority of \$10.5 million to continue promotional and retail marketing services without interruptions.