



M E M O R A N D U M

Date: June 20, 2019

To: California State Lottery Commission

From: Nicole Soluri, Chief Deputy Director NS [Initials on file]

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Subject: Item 8(e) – Marketing Promotions and Point-of-Sale 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, 2019.

BACKGROUND

Following a formal solicitation in 2014, the California State Lottery Commission (Commission) approved a four-year contract award to Alcone, with the option to extend for three additional one-year terms, with a maximum authorized contract expenditure amount of \$40 million. The initial contract term was September 1, 2014 through August 31, 2018. In June 2018, the Commission approved exercising the first one-year extension and the addition of \$10.2 million to the authorized contract expenditure, bringing the maximum authorized contract expenditure amount to \$50.2 million.

DISCUSSION

Alcone assists the Lottery in the development and design of POS materials and with marketing promotions for Lottery products distributed at more than 23,000 retail locations statewide.

The marketing promotions and POS services contract is an integral part of the Lottery's overall marketing plan requiring a strategic and creative agency partner that can encourage consumers to make a Lottery purchase amidst competing retail product offerings. Alcone has proven to be an agency partner that consistently develops impactful POS materials and promotional programs to attract consumer attention and drive sales.

The Lottery seeks approval to exercise the second available one-year contract extension option. Alcone provides the comprehensive resources required for marketing, promotions, and POS initiatives. Exercising the second one-year contract extension option will enable the Lottery to continue critical marketing efforts that will maintain the Lottery's sales and retailer growth momentum without interruption.

The current maximum authorized contract expenditure amount is \$50.2 million, approximately \$390,000 of which staff estimates will remain unspent at the end of the current term. Based on average monthly invoices, expected growth in the retailer network, the need to replace outdated playcenter equipment, new game initiatives, and an anticipated increase in promotions and experiential marketing activities to appeal to new and casual players, staff anticipates the services required to be performed during the proposed one-year extension period will require an additional \$10.5 million.

Additionally, in anticipation of the extended term, staff has updated the payment provisions in order to clarify timelines and responsibilities with Alcone.

With the approval of the second one-year extension and a \$10.5 million funding increase, the new contract expiration date will be August 31, 2020, and the maximum authorized contract expenditure amount will be \$60.7 million.

RECOMMENDATION

Lottery staff recommends that the Commission approve the exercise of a second available one-year extension of the Alcone contract to August 31, 2020 and the addition of \$10.5 million in funding. The proposed extension and additional funding will result in a maximum authorized contract expenditure of \$60.7 million.