

## COMMISSION AGENDA ITEM

### Item 8(b) – Ancillary Scratchers® Ticket Delivery Services Contract



**Date:** January 23, 2025

**To:** California State Lottery Commission

**From:** Harjinder K. Shergill Chima *HKC*  
Director

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Sales & Marketing Division

**Subject:** **Item 8(b) – Ancillary Scratchers®  
Ticket Delivery Services Contract**

### **ISSUE**

The California State Lottery (Lottery) needs to secure an Ancillary Scratchers® Ticket Delivery Services Contract to handle additional order volume.

### **BACKGROUND**

Scratchers sales represent approximately 75% of Lottery revenue. The Lottery ships Scratchers products from two distribution centers to over 21,500 retailers throughout the state, including ongoing maintenance orders and monthly AutoShip orders. The Lottery is currently operating under a contract with Unity Courier Services, Inc. (Unity) for Scratchers ticket delivery services. The contract term is from March 1, 2021, through February 28, 2026, and has a maximum spending authority of \$48 million. The contract is non-exclusive, and Lottery is permitted to engage other vendors for Scratchers ticket delivery services.

Lottery retailers (retailers) require timely and accurate delivery of Scratchers products. Historically, the Lottery made substantial efforts to provide Just-In-time (JIT) inventory to retailers. JIT inventory allows the Lottery to increase production efficiency at the distribution centers and provide inventory flexibility to retailers by reducing lead times and waste, particularly with large orders. Due to pandemic-related disruptions, the Lottery had to change to a Just-In-Case (JIC) inventory methodology which resulted in larger amounts of inventory going to retailers less frequently. JIC enabled the Lottery to get products to retailers; however, the methodology requires more forecasting and is not as dynamic.

While the Lottery has been steadily selling more Scratchers through a greater number of retailers as compared to pre-pandemic years, the current shipping methodology does not afford the Lottery the ability to ship orders weekly to any retailers outside of the highest volume retailers. To effectively use the JIT methodology, the Lottery needs to ship orders on a weekly basis to approximately 93%, or over 20,100 retailers receiving Scratchers orders. This would add an estimated 29,000 additional orders needing delivery per month.

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#### **DISCUSSION**

Due to staffing and geographical constraints, the Lottery determined Unity would not have the capacity to meet the required delivery timeframes if order volume were to increase as dramatically as is projected. Therefore, the only feasible way for the Lottery to return to JIT inventory practices and to successfully distribute the additional order volume generated is to utilize an ancillary Scratchers delivery contractor.

To meet this need, the Lottery met with multiple delivery companies and determined the best option was with FedEx Corporate Services, Inc. (FedEx) available through a leveraged procurement agreement with the National Association of State Procurement Officials (NASPO) via the State of California participating addendum number 7-22-99-45-02 (NASPO agreement).

The Lottery's formal competitive bidding procedures will not apply to this procurement, pursuant to the exception set forth in the Lottery Regulations Section 8.1.2.C as follows:

“The goods or services will be acquired using a standard United States General Services Master Services Agreement, Multiple Award Schedule, Master Rental Agreement, or other such agreement which establishes a list of pre-qualified bidders who have agreed to contract terms and prices.”

A maximum contract expenditure authority of \$5 million for the initial term is recommended.

#### **RECOMMENDATION**

Lottery staff recommends the Commission approve the award of the Ancillary Scratchers Delivery Services Contract to FedEx with a term beginning February 2025 through November 27, 2026, with the option to extend based on the extension of the State of California NASPO agreement, and a maximum authorized expenditure authority of \$5 million.