



M E M O R A N D U M

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To: California State Lottery Commission

From: Hugo López, Director

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Subject: Item 9(b) – Lead Agency Advertising Services Contract

ISSUE

The California State Lottery's (Lottery) contract for general market advertising services is expiring on August 18, 2018. A new contract for lead agency advertising services is needed.

BACKGROUND

The Lottery's current general market advertising services contract expires on August 18, 2018. In anticipation of the expiration, the Lottery released Request for Proposal (RFP) #50077 on July 28, 2017, to solicit bids for a new contract. The RFP provided a detailed description of the solicitation process, minimum contractor qualifications, solicitation projected time table, evaluation criteria, and draft contract terms and conditions.

Contract Development Services posted the RFP on the Lottery's public website and notified 211 potential bidders obtained from the Lottery's vendor database and a list of California agencies that might be interested in responding to the RFP. Notices were also published in the Small Business Exchange, ADWEEK (online), Advertising Age (online), and FI\$Cal.

The Lottery released the RFP inviting responses from qualified agencies to provide lead agency advertising services for all Lottery products with the objective of maximizing net revenue from Lottery sales for the benefit of public education.

The lead agency advertising services RFP was developed with the understanding that the Lottery needs an advertising agency partner to help address California's diverse population through advertising. To realize this goal, the Lottery requires an agency that would be able to work collaboratively with other partner advertising agencies, understand the common themes that are relevant to the broader audience within the state, and develop advertising that leverages these insights.

Through the RFP, the Lottery sought a strategic, highly creative agency partner that would also provide a strong collaborative approach in developing cohesive advertising plans. Additionally, the Lottery was searching for an agency with best-in-breed media planning and buying capabilities across all channels and different audiences. The Lottery needed an agency team capable of developing breakthrough work and highly integrated cross-channel media communications solutions that would successfully elevate its brand, motivate customer engagement, and spur product purchases.

The current annual expenditure for the existing general market contract is approximately \$54 million, which covers marketing costs for jackpot alerts and advertising support for the Lottery's draw and instant games. Advertising campaigns include approximately six to eight traditional TV spots and various media elements, which vary from campaign to campaign and may include: video; radio; digital; social; print; out-of-home; and sponsorships. In addition, tactics have been produced in multiple languages in conjunction with partner agencies for a total market approach.

DISCUSSION

The RFP process consisted of three phases, each with a diverse Lottery evaluation team comprised of subject matter experts from Consumer Marketing & Advertising, Product Development and Business Planning as well as a representative from Contract Development Services. The first phase focused on agencies' current samples of work and capabilities. The second phase consisted of agency site visits focusing on a chemistry and culture check. The third phase focused on a Lottery work assignment and evaluation of the agencies' proposed staff plan and compensation.

Twenty agencies from partnerships and joint ventures that included creative advertising agencies and media management firms submitted proposals in response to the lead agency advertising services RFP #50077: 1) 180LA; 2) 215 McCann; 3) Art Machine; 4) Campbell Ewald; 5) Campus Advantage; 6) David & Goliath; 7) DDB SF; 8) Deloitte Consulting; 9) FCB West; 10) Fuseideas; 11) Gallegos; 12) Giant Spoon; 13) Grey; 14) Hawthorne; 15) Innocean; 16) M&C Saatchi; 17) Mering Carson; 18) Mullen Lowe; 19) Petrol Advertising; and 20) Vitro Partners.

Phase I

Phase I was open to all agencies and joint ventures that met specified minimum qualifications associated with the number of years of experience performing advertising services, the size of the agency, digital experience, the agency's location, and some basic business requirements (e.g. licensed to do business in California, etc.). Bidders were required to submit an Introduction Letter, an Agency Fact Sheet, a Certification and Guaranty, a profile of the agency including some recent broadcast creative, two case histories of their most recent and relevant

campaign work, and two media case histories that showcased media planning capabilities and demonstrated buying and negotiation skills.

The mandatory submittals were evaluated on a pass/fail basis. Nineteen agencies passed the mandatory submittal review and advanced to the rated evaluation portion of Phase I. The remaining agencies' submittals were evaluated using the following criteria (listed in order of importance):

- Caliber of strategic thinking;
- Creativity and innovation;
- Quality of media capabilities (buying, planning, research, and analytics);
- Innovative integrated communications planning that drives sales;
- Best-in-class digital and social media;
- Agency positioning, vision, and philosophy;
- Innovative promotions and experiential marketing;
- Depth and breadth of agency's organizational qualifications and experience;
- Relevant experience with gaming, entertainment, and/or low-cost consumer goods; and
- Quality of client list.

Phase II – Semi-Finalist

Of the nineteen agencies that participated in Phase I, the following thirteen agencies advanced to Phase II, or the semi-finalist phase: 1) 180LA; 2) 215 McCann; 3) Art Machine; 4) Campbell Ewald; 5) David & Goliath; 6) DDB SF; 7) FCB West; 8) Gallegos; 9) Grey; 10) M&C Saatchi; 11) Mering Carson; 12) Mullen Lowe; and 13) Vitro Partners.

The semi-finalist phase included face-to-face meetings between the Lottery evaluation team and the semi-finalists. The objective of these meetings was to provide each agency the opportunity to give the evaluation team a sense of its agency that went beyond the written work and description of credentials that were submitted and evaluated in Phase I. Additionally, the evaluation team wanted to personally meet with the staff that would be assigned to the Lottery account to assess the depth of resources, measure the strategic process, and evaluate the intensity of the agency's interest and commitment to Lottery business.

Phase III – Finalist

Of the thirteen agencies that participated in Phase II, the following five agencies advanced to Phase III, or the finalist phase: 1) 215 McCann; 2) Campbell Ewald; 3) David & Goliath; 4) FCB West; and 5) Mullen Lowe.

The five finalists were asked to prepare and present a strategic, creative, and integrated work assignment including media and digital components. The Lottery was looking for each finalist agency's recommendations and creative capabilities, as well as the analytical and strategic thinking used to derive its proposed direction. Finalists were also provided with staff plan and compensation proposal materials to enable it to demonstrate how it would staff the Lottery account and to present its compensation requirements, which would be evaluated on both a stand-alone and comparative basis.

Best Value Analysis

Following the agencies' final work assignment presentations and submission of the staff plans and compensation proposals, the evaluation team performed a best value analysis to determine which proposal would provide the Lottery with the maximum benefits in the areas of security, competence, experience, qualifications, performance, and price. As a result of this analysis, the evaluation team determined that David & Goliath, an advertising agency located in El Segundo, California, would provide the Lottery with the best value in all the desired areas.

David & Goliath demonstrated the ability to provide innovative solutions for the Lottery to achieve its goal of becoming the number one Lottery by 2020. The quality of the agency's strategic thinking, capability to lead the partner agencies, and creativity are exemplified by its rating of "Significantly Exceeds" in each of the three phases of the RFP. Additionally, David & Goliath's staff plan included strong account management staffing levels dedicated to the Lottery account, which would enable it to provide advertising services that better assist the Lottery in meeting its strategic goal of becoming the largest lottery in the nation.

Staff recommends a maximum authorized contract expenditure amount of \$295 million, which was calculated by applying an assumed 3 percent annual media cost inflation factor to the current general market budget of approximately \$54 million. Note that this contract expenditure authority level assumes that the Lottery's annual general market advertising expenditures over the next five years remain at current levels. To the extent an expansion of general market advertising is required to meet future strategic objectives, the Lottery will subsequently request that the California State Lottery Commission (Commission) increase the contract expenditure authority as needed.

RECOMMENDATION

Lottery staff recommends that the Commission approve awarding a contract to David & Goliath to provide lead agency advertising services for five years with the option to unilaterally extend the contract for up to two additional one-year terms, with a maximum authorized contract expenditure amount of \$295 million.