

# NORTH CAROLINA EDUCATION LOTTERY COMMISSION

## Meeting Minutes

*Members in Attendance:* Dr. Charles Sanders, chair  
Robert Appleton  
Robert Farris  
James Woodward  
Secretary Bryan Beatty  
Linda Carlisle (via telephone)  
Max Cogburn  
Bridget-Anne Hampden

*Members not in Attendance:* John McArthur

### *Meeting was Held:*

*February 14, 2006 at 9:30 a.m., in the ABC Commission Room, 5<sup>th</sup> Floor  
Administration Building, 116 West Jones Street, Raleigh.*

---

## **I. Introduction and Opening**

- Dr. Sanders called the meeting to order. He spoke of his, and the Commission's, firm commitment that funds raised by the North Carolina Education Lottery would be truly supplemental and used for purposes defined by statute.

## **II. Approval of Minutes**

- Mr. Farris made a motion to approve the minutes from the January 30 meeting.
- Dr. Woodward seconded the motion.
- The minutes were approved.

## **III. North Carolina Legislative Black Caucus**

- Dr. Sanders noted that due to unforeseen schedule changes, Beverly Earle, Chair, North Carolina Legislative Black Caucus was unable to attend. He hopes to have her speak at a meeting in the near future.

## **IV. Introductions**

- Tom Shaheen, Executive Director, introduced Carla Archie, new General Legal Counsel, hired by the North Carolina Education Lottery as Deputy Executive Director Legal/Security. In addition he introduced Robin Diehl,

Deputy Executive Director of Finance/Administration and Jim Knight, Director of Finance both of whom will be part of a later agenda item.

**V. Advertising RFP**

- Mr. Shaheen stated that the North Carolina Education Lottery had received four submissions in response to the Advertising RFP. He explained the process used in evaluating the submissions and the following negotiations. He recommended that the commission award the Advertising Contract to Howard Merrell pending submission of a payment bond. *(report attached)*
- A discussion followed among commissioners regarding minority participation from the vendor. Mr. Shaheen noted that the vendor's current work force consists of 73% minorities (as defined by North Carolina law and consists of 71% women, 6% Asian, and 3% African American). In addition, the vendor plans to institute a minority student internship program involving colleges within the state, as well as, meeting with representatives from HUB and joining at least one minority business association within the first several weeks of being awarded the Contract.
- Mr. Farris moved that Howard Merrell be awarded the Advertising contract pending receipt of the payment bond.
- Mr. Appleton seconded the motion.
- The motion passed.

**VI. Office Locations**

Mr. Shaheen introduced Bonnie Jones from State Property to address the commission regarding the locations of offices. Ms. Jones noted that the Council of State had approved all of the office locations on February 7, 2006. She discussed the criteria for the searches and the methods she used to procure the space. The lottery headquarters will be located at 2100 Yonkers Road, Raleigh, in a building owned by the College Foundation. Below are the regional offices and yearly lease expenses. These offices will be available by March 24, 2006.

Greenville	2790. Dickerson Ave.	4000 ft <sup>2</sup>	\$12.07 ft <sup>2</sup>	\$47,000 yr.
Asheville	16G Regent Park Blvd.	3600 ft <sup>2</sup> / 825 ft <sup>2</sup> Warehouse	\$20.71 ft <sup>2</sup>	\$92,000 yr.
Greensboro	3711 Farmington Drive	4962 ft <sup>2</sup>	\$22.89 ft <sup>2</sup>	\$113,599 yr
Wilmington	5214 Market Street	1500 ft <sup>2</sup>	\$31.49 ft <sup>2</sup>	\$47,000. yr.
Charlotte	400 Clanton road	5000 ft <sup>2</sup>	\$24.42 ft <sup>2</sup>	\$122,100 yr.

Raleigh (located within headquarters)	2100 Yonkers Road	35,163 ft <sup>2</sup>	\$10.98 ft <sup>2</sup>	\$386,018 yr.
---	-------------------	------------------------	-------------------------	---------------

## **VII. Vehicle Purchases**

- Mr. Shaheen noted that the additional vehicle purchase request was due to the increased number of retailers that will require more sales representatives to service their stores. He is requesting an additional twenty-three (23) Dodge Caravans in addition to the thirty-five (35) requested previously. He added that there was also a request for two (2) cargo vans for the promotional department. *(details attached)*
- Dr. Woodward made the motion that the purchase of twenty-three (23) additional Dodge Caravans and two (2) Dodge Cargo vans be approved.
- Ms. Hampden seconded the motion.
- The commission approved the purchase.

## **VIII. Paid Time Off**

- Dr. Sanders noted that previously there was a lengthy discussion concerning the policy. He stated that Mr. Cogburn had offered to research the subject.
- Mr. Shaheen invited Margaret Bode, Director of Human Resources to join the discussion. He stated that the commission had requested a comparison of other agencies.
- Mr. Cogburn questioned why the policy should be different than the State's plan. He explained his time off while working with the Attorney General's office.
- Ms. Bode explained the comparisons that she had compiled.
- A discussion followed. Sec. Beatty would like the Office of State Personnel to prepare a comparison and the impact on the retirement system. Mr. Shaheen stated that the Office of State Personnel has played an integral part in drafting the policy but we would go back to them for further input addressing these requests.
- It was decided that Ms. Bode will work with Office of State Personnel to draft a summary report to present to the Commission.

- Dr. Sanders indicated that he will invite Thom Wright, Director, Office of State Personnel to speak at a NCEL Commission meeting in the near future.

#### **IX. Purchasing and Signing Authority**

- Mr. Shaheen requested that his purchasing authority be increased, while added authority for Ms. Diehl and Mr. Knight be granted. Mr. Shaheen's authority will increase from \$25,000 to \$50,000; Ms. Diehl will be authorized for \$15,000 and Mr. Knight be authorized for \$10,000. (*Purchasing and Signing Authority attached*)
- Mr. Shaheen stated that soon there will be a permanent purchasing policy for the commission to approve.
- Sec. Beatty moved to increase Mr. Shaheen's signing authority and to grant authority to Ms. Diehl and Mr. Knight.
- Mr. Farris seconded the motion.
- The signing authorities were granted.

#### **X. Other Business**

- Mr. Shaheen stated that GTECH Corporation now has a warehouse in Raleigh and has begun the lottery terminal and satellite communication installation process. They have been given a list of 1000 retail locations from the North Carolina Education Lottery to date. He also noted that GTECH will be contacting retailers for training in March.
- Mr. Shaheen discussed approving retailers that haven't yet submitted fingerprint cards but have passed all other phases of the background checks. This approval would be based on the fingerprint cards being submitted in the future. If the fingerprint cards are not submitted in a timely manner, or do not pass the background check, approval to sell lottery tickets would be withdrawn. Sec. Beatty requested a time limit of thirty (30) days be allowed to submit the card. The Commission concurred.

The meeting was adjourned.

ATTACHMENTS

**NORTH CAROLINA  
EDUCATION LOTTERY**

**Final Report & Recommendation**

**Professional Advertising and Related  
Services RFP  
Evaluation Committee**

**February 14, 2006**

## EXECUTIVE SUMMARY

The North Carolina Education Lottery (the “**NCEL**”) issued a Request for Proposals for Professional Advertising and Related Services on January 11, 2005 (the “**RFP**”) to provide quality professional advertising and related services for the NCEL for a period of three (3) years with the possibility of three (3) additional one-year renewals.

The NCEL received four (4) proposals on January 27, 2006 (each a “**Proposal**”, and together, the “**Proposals**”) from the following vendors (the “**Vendors**”):

- (i) Howard, Merrell & Partners, Inc. (“**Howard Merrell**”)
- (ii) Long Haymes Carr, Inc. d/b/a Mullen Advertising, Inc. (“**LHC/Mullen**”)
- (iii) Wray/Ward/Laseter Advertising Limited Partnership (“**Wray Ward Laseter**”)
- (iv) Douglas Displays (“**Douglas Displays**”)

Tom Shaheen as the Executive Director of the NCEL (the “**Director**”) selected the members of the Evaluation Committee (the “**Evaluation Committee**”), which has reviewed and evaluated the information contained in the Proposals and ensured that the Vendors were treated equally and fairly throughout the evaluation process.

The Evaluation Committee had 800 technical points (representing 80%) and 200 pricing points (representing 20%) available for scoring. The final score assessed by the Evaluation Committee is as follows:

	<u>Howard Merrell</u>	<u>LHC/Mullen</u>	<u>Wray Ward Laseter</u>	<u>Douglas Displays</u>
Technical Points	697	671.07	687.52	87.5 <sup>1</sup>
Price Points	200	193.94	89.29	n/a
<b>Total Points</b>	<b>897</b>	<b>865.01</b>	<b>776.81</b>	<b>87.5<sup>1</sup></b>

**HOWARD MERRELL** earned the highest total points. Therefore, it is the unanimous final recommendation (the “**Final Recommendation**”) of the

---

<sup>1</sup> Since Douglas Displays was not one of the Vendors with the three (3) top technical evaluation scores at the end of the Rated Criteria Phase, it did not advance to the Final Competition. Thus this score represents only its score at the end of the Rated Criteria Phase, whereas the other three (3) Finalist Vendors’ scores also include the scores each Finalist Vendor earned during the Final Competition Phase and the Price Points.

Evaluation Committee that the Director designate **HOWARD MERRELL** as the apparent successful vendor (the "***Apparent Successful Vendor***").

## INTRODUCTION AND BACKGROUND

The Director selected the members of the Evaluation Committee, which consisted of three (3) NCEL employees to review and evaluate proposals submitted in response to the RFP and to make a recommendation to the Director as to which of the Proposals best meets the needs of the NCEL as set forth in the RFP. Support personnel were provided to the Evaluation Committee, which included legal counsel from the law firm of McGuireWoods, LLP and financial and security counsel from the NCEL. The Evaluation Committee members include: Lou Ann Russell, Deputy Executive Director of Marketing/Advertising for the NCEL; Alice Garland, Deputy Executive Director of Legislative/Corporate Communications for the NCEL; and Sam Hammett, Deputy Executive Director of Sales. Legal counsel was provided by Bill Marianes of McGuireWoods, LLP. The Evaluation Committee was also provided financial counsel from Jim Knight, Finance Director for the NCEL and security counsel from Jerry Carter, Security Director of the NCEL. All capitalized terms not defined herein shall have the meanings set forth in the RFP.

## OBJECTIVES

The NCEL outlined the following objectives in the RFP to guide the Evaluation Committee's selection process for the provision, implementation and operation of advertising and related services:

- To conduct advertising and related programs in such a manner as to promote the positive image and integrity of the NCEL and the programs funded with lottery proceeds;
- To market effectively and efficiently the NCEL products in accordance with the North Carolina State Lottery Act (the "**Act**") and within any rules, regulations, procedures or policies officially adopted by the NCEL;
- To increase annually revenue to the North Carolina State Lottery Fund (the "**Education Lottery Fund**"), and meet the Act's requirement to transfer at least thirty-five percent (35%) of total annual revenues to the Education Lottery Fund;
- To market high quality products that provide entertainment and customer satisfaction;
- To ensure that the lottery receives services from vendors who are financially sound and experienced and who maintain favorable reputations within the lottery industry for proper ethics and contract performance;
- To ensure that the Successful Vendor is capable of providing the services called for in this RFP, and that the Successful Vendor will be capable of

- continuing to provide these services during the term of the Contract (as defined in the RFP);
- To ensure meaningful minority representation and a commitment to nondiscrimination, in accordance with the Act and applicable North Carolina laws;
  - To provide for innovation and the ability to respond to changes in the industry and the demands of the marketplace;
  - To obtain the highest quality advertising and related services at competitive prices; and
  - To start-up and operate the NCEL as one of the most successful lotteries in the world, while maintaining its security and integrity.

### **RFP PROCESS/TIMELINE**

January 11, 2006. The NCEL issued the RFP.

January 17, 2006. Vendors submitted initial questions to the NCEL regarding the RFP.

January 23, 2006. The NCEL issued its official answers to the questions submitted by vendors.

January 27, 2006. The Proposals in response to the RFP were submitted by the Vendors prior to the deadline.

January 27, 2006. A section of the NCEL Headquarters was secured for the Evaluation Committee and the Proposals (excluding the cost portions of the Proposals) were distributed to the Evaluation Committee. A brief meeting was held by the Evaluation Committee to discuss the evaluation process.

January 27-February 1, 2006. The Evaluation Committee reviewed the Proposals, completed individual evaluation sheets and developed preliminary scoring for the Rated Criteria Phase technical scoring, excluding the Final Competition finalist case study and presentation.

February 1, 2006. The Evaluation Committee contacted the three (3) Finalist Vendors and provided schedules for the Final Competition.

February 9, 2006. The Final Competition was held at the NCEL headquarters.

February 9-10, 2006. The Evaluation Committee finalized the preliminary technical scoring. Following the finalization of the preliminary technical scoring on February 10th, the cost proposals were delivered to the Evaluation

Committee, opened, reviewed and evaluated. The pricing scores were then added to the technical scores thereby producing the preliminary final scores for each of the finalist Vendors.

February 10, 2006. The Evaluation Committee presented its Preliminary Recommendation (as defined herein) in an oral presentation to the Director.

February 10-13, 2006. The Director considered the Preliminary Recommendation and conducted negotiations with the Apparent Successful Vendor preliminarily recommended by the Evaluation Committee.

### **EVALUATION PROCESS**

The Evaluation Committee was given the Proposals in a secure section of the NCEL Headquarters on January 27, 2006. The members of the Evaluation Committee were restricted from making contact with the Director, the Vendors or any representative of the Vendors and any other individuals or parties having an interest in influencing the recommendation of the Evaluation Committee or the evaluation process.

There were ten (10) evaluation categories identified as scoring areas that the Evaluation Committee agreed to use and a weight value was assigned to each. The first nine (9) categories were scored collectively by the Evaluation Committee members. The tenth (10<sup>th</sup>) category was the price. The categories and points assigned to each category were as follows:

<b>Evaluation Category</b>	<b>Weight</b>
<b>Part 1 Technical (Rated Criteria Phase):</b>	
Experience, including providing advertising services in connection with the start-up of a lottery	30
Integrity & Background	30
Personnel	30
Case Studies	150
Samples of Work	100
Marketing Plan	50
Financial Viability & Ability to Perform the Contract As Required & Proposed	40
The Extent to Which The Vendor Proposes to Achieve or Exceed the State of North Carolina's Minority-Owned Business Participation Goals	70
<b>TOTAL PART 1 TECHNICAL</b>	<b>500</b>

<b>Part 2 Finalist Case Study &amp; Presentation</b>	<b>300</b>
<b>TOTAL TECHNICAL (PART 1 AND 2)</b>	<b>800</b>
<b>Part 3 Cost/Price and Value to the NCEL</b>	<b>200</b>
<b>TOTAL POINTS</b>	<b>1000</b>

Each of the Evaluation Committee members was instructed to review each Proposal and to verify its compliance with the RFP. To facilitate the review, a PMIQ (Plus, Minus, Interesting, Questions) sheet was developed which individually itemized each paragraph of the RFP. As the Proposals were reviewed, each member of the Evaluation Committee checked a plus for compliance, a minus for non-compliance, added a note of interest (if applicable) and/or a question if one was to be brought to the Evaluation Committee or asked of the Vendors.

As needed, the Evaluation Committee would meet to review the progress, ask and answer questions, and discuss the material that had been reviewed.

At several logical break points, the Evaluation Committee met to discuss each member's own PMIQ sheet. The Evaluation Committee scored the sections that had been reviewed using the PMIQ sheets as a guide.

The scoring was initiated with each member of the Evaluation Committee independently establishing a score for each of the Vendors for an individual scoring category. The scores were then shared with the full Evaluation Committee, which discussed the results and ultimately developed a consensus that became the preliminary score for each Vendor for each category. The score percentages for each category were then multiplied by the points allocated to such category providing the point scores listed in the evaluation table provided herein.

This process was conducted until all point categories had been scored. At no point in the process was there any significant disagreement or lack of consensus.

The Evaluation Committee selected the three (3) Finalist Vendors based on the total scores of the Rated Criteria Phase Part 1 of the technical portion of the evaluation. The Vendors with the three highest scores were invited to the Final Competition held on February 9, 2006 at the NCEL headquarters.

Once the technical solution scores for both the Part 1 Rated Criteria Phase and Part 2 Final Competition Phase for each Vendor had been finalized, the cost portions of the Proposals were then opened by the NCEL security manager and

distributed to the Evaluation Committee. Up until this time, the cost portions of each of the Proposals had been secured by the NCEL security manager and were outside of the possession or review of the Evaluation Committee.

The cost percentages for each Finalist Vendor were entered into the price category of the scoring spreadsheet. Points were then awarded to each Finalist Vendor based on the Finalist Vendor with the lowest cost percentage receiving all of the points permitted for the price category. The Finalist Vendors with the higher cost percentage received a percentage of the total price points based on the Finalist Vendor's cost percentage relationship to the Finalist Vendor with the lowest cost percentage. The points awarded in the price category were then added to the points awarded for the other nine (9) categories and the Preliminary Apparent Successful Vendor was identified (the "**Preliminary Apparent Successful Vendor**").

**The total preliminary evaluation result is as follows:**

<b>Evaluation Category</b>	<b>Weight (max total points)</b>	<b>Howard Merrell &amp; Partners</b>	<b>LHC/Mullen</b>	<b>Wray Ward Laseter</b>	<b>Douglas Displays</b>
<b>Part 1 Technical- Rated Criteria Phase</b>					
Experience, including providing advertising services in connection with the start-up of a lottery	30	25.50	25.50	25.20	1.50
Integrity & Background	30	27.00	26.40	25.50	1.50
Personnel	30	22.50	24.60	25.80	1.50
Case Studies	150	138.00	129.00	112.50	37.50
Samples of Work	100	92.00	89.00	83.00	17.00
Marketing Plan	50	45.50	44.50	40.00	2.00
Financial Viability & Ability to Perform the Contract as Required & Proposed	40	28.00	34.00	30.00	16.00
The Extent to Which the Vendor Proposes to Achieve or Exceed the State of North Carolina's Minority-Owned Business Participation Goals	70	59.50	64.40	68.60	10.50
<b>Total Part 1 Technical Rated Criteria Phase</b>	<b>500</b>	<b>438.00</b>	<b>437.40</b>	<b>410.60</b>	<b>87.50</b>
<b>Total Part 2 Finalist Case Study &amp; Presentation Final Competition Phase</b>	<b>300</b>	<b>259</b>	<b>233.67</b>	<b>276.92</b>	<b>n/a</b>
<b>SUB-TOTAL TECHNICAL (Part 1 and Part 2)</b>	<b>800</b>	<b>697</b>	<b>671.07</b>	<b>687.52</b>	<b>n/a</b>
<b>Cost/Price and value to the NCEL</b>	<b>200</b>	<b>191.30</b>	<b>200</b>	<b>92.09</b>	<b>n/a</b>

<b>PRELIMINARY TOTAL POINTS</b>	<b>1000</b>	<b>888.30</b>	<b>871.07</b>	<b>779.61</b>	<b>87.5</b>
---------------------------------	-------------	---------------	---------------	---------------	-------------

After the Preliminary Apparent Successful Vendor was identified and reported to the Director, the Director, as part of negotiations, invited the Apparent Successful Vendor to offer any additional information that could be provided to the Evaluation Committee for its Final Recommendation. The Evaluation Committee reviewed its Preliminary Recommendation in light of the new information offered by the Apparent Successful Vendor. Based on the additional information, the Evaluation Committee determined whether any changes needed to be made to any scoring category affected.

### **PRELIMINARY ANALYSIS OF THE TECHNICAL SCORING**

During the evaluation of the Proposals, the Evaluation Committee conducted a thorough review of what information might be missing or inadequate from any Proposal in addition to evaluating each Proposal for the NCEL. Because the schedule did not permit a Vendor's conference to provide further clarification or answer questions, additional information or clarification was obtained by representatives of the NCEL other than the Evaluation Committee members. The NCEL representatives then gave such obtained information to the Evaluation Committee so that there was no contact between the Vendors and the Evaluation Committee during this phase. For example, the Evaluation Committee concluded that additional financial information would be helpful or appropriate from Vendors. It was concluded that none of the items requiring further clarification merited disqualification of any Vendor.

Below is a brief, summary analysis of each of the scoring categories:

#### **Experience, including providing advertising services in connection with the start-up of a lottery**

All of the Vendors had experience with consumer goods and entertainment and have accounts in the state of North Carolina. None of the Vendors had any direct experience with a lottery. Howard Merrell had two (2) state accounts. Douglas Displays had state accounts for out-of-home<sup>2</sup> only. LHC/Mullen had experience in promoting its clients through sports sponsorships.

Douglas Displays' Proposal did not provide the capabilities to offer all services for the start-up of a lottery. The Evaluation Committee concluded that Douglas Displays is only an out-of-home media company and not a full service advertising agency.

---

<sup>2</sup> For purposes of this evaluation, the phrase "out-of-home" advertising refers primarily to billboards, transportation vehicle signs and other forms of advertising that does not reach a consumer's home, and it excludes traditional radio, television and print advertising mediums.

Howard Merrell has retained its largest account for eleven (11) years. Douglas Displays has several long term North Carolina accounts, dating back to 1980. LHC/Mullen began representing Wachovia in 1966, which is now its largest account. Wray Ward Laseter's largest and oldest account has been with Wray Ward Laseter since 1977.

The Vendors have been in business for the following number of years: LHC/Mullen, 56 years; Howard Merrell, 37 years; Wray Ward Laseter, 29 years; and Douglas Displays, 33 years.

Wray Ward Laseter produces more print advertising (including newspaper and magazine) than broadcast. Howard Merrell and LHC/Mullen both have strong broadcast clients. LHC/Mullen claims to be the largest media buying company in North Carolina. Douglas Displays only purchases out-of-home media.

The Evaluation Committee compared the size of the NCEL account with the other accounts serviced by the Vendors. The NCEL account would be comparable to Howard Merrell's largest account and equal in size to its typical account. The NCEL would be a relatively small account for LHC/Mullen. The NCEL account would be Wray Ward Laseter's largest account (2 ½ times larger than its current largest account). The NCEL would also be the largest account with Douglas Displays, based on anticipated out-of-home expenditures for the NCEL.

### **Integrity & Background**

Howard Merrell did extensive research to become familiar with the lottery business. The Proposals by Howard Merrell and LHC/Mullen also identified lottery consultants for future involvement. LHC/Mullen has staff with previous lottery experience and is also the largest buyer of media in the State of North Carolina. Wray Ward Laseter seemed to have more experience with print media than broadcast media and had one staff member with previous lottery experience that would be dedicated to NCEL work. Douglas Displays' Proposal did not provide a full-service capabilities background and this Vendor only has direct experience in out-of-home advertising and not other mediums. LHC/Mullen indicated in its Proposal that it is currently litigating two (2) relatively minor civil suits. None of the other Vendor's Proposals indicated any current litigation.

### **Personnel**

All of the Vendors provided an organizational chart that identified various levels of advertising expertise to support the NCEL account. LHC/Mullen identified various employees with lottery experience, but it was unclear to the Evaluation Committee whether those employees worked with LHC/Mullen in North Carolina. Of the two staff members with lottery experience who obviously work in Winston-

Salem, their assignment to the NCEL account was proposed at a less than desirable level.

LHC/Mullen has 206 years of advertising experience and its staff with lottery experience has approximately 28 years of advertising experience. LHC/Mullen's Proposal did not address financial staffing. LHC/Mullen's Proposal provided staff with less experience to fill the required dedicated positions to the NCEL account.

Howard Merrell's Proposals provided for an advisory team of lottery agencies. Howard Merrell does not have staff with lottery experience, but its Proposal provided a staffing plan that included hiring four (4) new employees with lottery experience. Howard Merrell's Proposal also provided a strong financial staffing plan. The Howard Merrell staff has a total of 314 years of advertising experience.

Douglas Displays staff has 96 years of advertising experience. Douglas Displays' Proposal did not indicate it had any staff with lottery experience. Douglas Displays' Proposal did not address financial staffing for the NCEL account.

Wray Ward Laseter's Proposal provided all senior level personnel for the three (3) dedicated NCEL staff members. Wray Ward Laseter's staff with lottery experience has 26 years of experience. Two staff members have lottery experience; one will be dedicated to the NCEL 100%, the other only 50%. Wray Ward Laseter's Proposal did not address financial staffing for the NCEL account. The staff of Wray Ward Laseter has 249 years of advertising experience.

## **Case Studies**

The case studies provided the Evaluation Committee information on the marketing capabilities of the Vendors. Only three of the Vendor's case studies fulfilled the established requirements.

Douglas Displays only provided out-of-home case studies. Therefore, the Evaluation Committee concluded that the Douglas Displays' case studies were deficient since the RFP identified requirements for print, TV and radio capabilities, as well as out-of-home.

The Proposals from LHC/Mullen and Howard Merrell did an excellent job with regard to case studies. Both of the Proposals included media strategies that were well developed and integrated. The production qualities proposed by LHC/Mullen and Howard Merrell were considered better than the other two Vendors. Howard Merrell's overall approach to the marketing challenge gave the Evaluation Committee a clear understanding of what Howard Merrell was trying to accomplish.

Wray Ward Laseter provided a decent strategy for a start-up account, but the campaign was less effectively executed.

### **Samples of Work**

The samples of work provided by both Howard Merrell and LHC/Mullen included high levels of production quality and creativity. Specifically, Howard Merrell's Proposal was extremely creative with its "game boxes" theme that was carried throughout the entire Proposal. Howard Merrell's Proposal included interesting graphic techniques to provide clever tidbits of information about the Vendor. Howard Merrell also included a small budget TV spot which highlighted its abilities to provide good work on a large or small scale.

The LHC/Mullen's team that created the samples of work provided in its Proposal is not comprised of the same individuals who would be assigned to the NCEL account.

Wray Ward Laseter's samples were stronger than its case studies.

Douglas Displays' samples of work were only for out-of-home and some were the same as its case studies, although the RFP specifically indicated the samples should be different from the case study.

### **Marketing Plan**

The Proposals by LHC/Mullen and Howard Merrell incorporated innovative approaches to marketing. The Proposals by LHC/Mullen and Howard Merrell had clearly defined objectives and developed compelling advertising and media strategies. The Proposals by LHC/Mullen and Howard Merrell suggested very efficient media buys and maximized the value of the buys through added value negotiations, creating greater value for its clients.

The work provided in LHC/Mullen's Proposal exhibited a general sloppiness with typographical errors, poor quality photographs and confusion with an employee's name. This reflected generally on its marketing plan.

Douglas Displays' Proposal only provided information on out-of-home media; therefore, the Evaluation Committee concluded that it had no overall marketing plan.

Wray Ward Laseter's Proposal relied more on print media. Wray Ward Laseter's marketing plan was considered weaker than what was proposed by Howard Merrell or LHC/Mullen.

### **Financial Viability & Ability to Perform the Contract as Required & Proposed**

The difference in scores for financial viability reflected varying levels of cash on hand, accounts receivable and current asset ratios. The Proposals of all Vendors included less sophisticated financial statements. However, the parent company of both LHC/Mullen and Howard Merrell provided its fully audited financial statements and a One Million Dollar (\$1,000,000) guarantee of the obligations of each of these Vendors. The Evaluation Committee had concerns regarding Douglas Displays' financial ability to support the needs of the NCEL.

### **Minority Participation**

Wray Ward Laseter's Proposal had the strongest minority participation program, since Wray Ward Laseter was considered a minority company as defined by North Carolina law due to its fifty-one percent (51%) ownership by a woman. Its Proposal did not provide additional evidence of minority outreach to other vendors in the state or a plan for meeting additional non-discrimination and minority participation requirements.

LHC/Mullen's Proposal included a strong minority participation program, by partnering with a minority marketing/communications company and filling all three (3) dedicated NCEL staff positions with minorities. Its Proposal included a detailed list of minority companies throughout the U.S., and provided a response to the additional minority participation requirements.

Howard Merrell's Proposal did a good job of identifying minority companies in North Carolina to fulfill its minority participation goal of ten percent (10%).

Douglas Displays' Proposal stated that it would seek out minority companies if it were selected as the Successful Vendor; however, its Proposal provided no details regarding how Douglas Displays would go about doing so.

## **SELECTION OF FINALIST VENDORS**

In accordance with Section 2.11.5 of the RFP, the Evaluation Committee selected the maximum of three Finalist Vendors based on the total scores in the Rated Criteria Phase of the technical portion of the evaluation. The Vendors with the three highest scores were notified and invited on February 1, 2006 to the Final Competition held on February 9, 2006 at the NCEL headquarters. The Finalist Vendors were Howard Merrell, LHC/Mullen and Wray Ward Laseter.

## **FINAL COMPETITION**

### **Finalist Case Study & Presentation**

All Finalist Vendors presented well defined media strategies. Each presented the challenges and opportunities in buying media throughout North Carolina, and the strategy needed to help meet the NCEL's objectives.

Howard Merrell provided an advertising plan that incorporated "how to play" as part of an overall strategy for both Instant Games and Powerball. This strategy allowed for communicating features of the games or playing techniques. Howard Merrell recognized the importance of the lottery being approachable by those who do not know how to play, and also recognized the importance of jackpot awareness for Powerball, and incorporated excellent techniques for the teaser creative. Howard Merrell recognized the importance of point of sale ("**POS**") and recommended effective POS alternatives. Howard Merrell also demonstrated that it understood the critical importance of retailers and incorporated a retailer recruitment newspaper campaign. Howard Merrell conducted its own survey across 100 counties in North Carolina and compiled a video of interviews with North Carolinians about the lottery. Howard Merrell demonstrated that it also recognized the importance of making efficient media buys and the benefit of negotiating added value to stretch the media dollar. Howard Merrell indicated that it understood that there are skeptics who are not lottery supporters, and it understood the role advertising will play in communicating the educational message to the State of North Carolina to help change some of the opinions of the skeptics.

LHC/Mullen did not believe that the State of North Carolina needed to be taught how to play the lottery because of the fact that we are surrounded by other states with lotteries, and a large percentage of North Carolinians have played some lottery game at least once. LHC/Mullen focused on the emotion and personal relevance of the brand. LHC/Mullen used exaggerated events to play up the possible big wins by lottery players. The Evaluation Committee considers this approach to be inappropriate for the NCEL and the launch of its games. None of LHC/Mullen's dedicated NCEL team members were a part of its presentation, although the dedicated NCEL team members have been identified.

Wray Ward Laseter wowed the Evaluation Committee with its enthusiasm and desire for the NCEL account. Wray Ward Laseter provided an unusual positioning that included dual messaging of both game (fun) and education (beneficiary). Although the Evaluation Committee did not feel this was appropriate for launch, it was a direction that could be explored later. Wray Ward Laseter demonstrated that it understood the importance of winner awareness and retailers. Wray Ward Laseter also seemed to understand the need for a truly integrated approach to marketing, including not only traditional advertising but public relations, special events, media partnerships, etc. The overall Wray Ward Laseter marketing objective was to convey to North Carolina that the lottery is all about education. Wray Ward Laseter took the time to look at the NCEL "competition" and identified creative techniques to help position the NCEL brand.

Wray Ward Laseter delivered the message that it is a North Carolina agency, and it came in to sell Wray Ward Laseter to the NCEL.

### **ANALYSIS OF THE PRELIMINARY PRICE SCORING**

After the technical categories had been evaluated and the scores finalized, the Evaluation Committee requested the pricing portion of the Proposals from the NCEL security. The Finalist Vendors proposed the percentage of total annual advertising budget as described in Section 6.2 of the RFP and were awarded the following price points:

	<u>Howard Merrell</u>	<u>LHC/Mullen</u>	<u>Wray Ward Laseter</u>
Cost percentage	11.50%	11.00%	23.89%
<b>Price Points</b>	<b>191.30</b>	<b>200</b>	<b>92.09</b>

LHC/Mullen initially proposed the lowest cost percentage and was awarded all two hundred (200) price points. The other Vendors with the higher cost percentages received only a percentage of the total price points based on its cost percentage relationship to the Vendor with the lowest cost percentage.

### **PRELIMINARY REPORT TO THE DIRECTOR**

At the conclusion of all scoring, the best overall value for the NCEL was reflected in the preliminary total scores of each of the Vendors. In its preliminary recommendation on February 10, 2006, the Evaluation Committee unanimously recommended **Howard Merrell** (the "***Preliminary Recommendation***") to the Director as the Preliminary Apparent Successful Vendor to supply Professional Advertising and Related Services to the NCEL.

### **ADDITIONAL INFORMATION FROM NEGOTIATIONS WITH THE VENDORS**

After the Evaluation Committee in its Preliminary Recommendation had unanimously recommended Howard Merrell as the Preliminary Apparent Successful Vendor to the Director, as part of negotiations to answer any questions of the Evaluation Committee and negotiate the best deal for the NCEL, the Director invited Howard Merrell to offer additional information and clarifications regarding its Proposal. On February 13, 2006, Howard Merrell negotiated with the Director and NCEL legal counsel for the entire day. The negotiations focused on the four areas where the Evaluation Committee had identified issues or questions in the evaluation of Howard Merrell's Proposal, namely: (1) cost/price; (2) minority participation; (3) staffing; and (4) financial

viability. Over the course of the day, Howard Merrell offered several meaningful concessions and commitments.

In the area of price/cost, it offered to lower its first full year compensation to a fixed percentage of eleven percent (11%), with its compensation decreasing to a fixed percentage of ten and one half percent (10.5%) for each of the remaining two (2) years of the Initial Term, and a to-be negotiated rate of not greater than ten and one half percent (10.5%) for any Renewal Term years.

With respect to its minority business/diversity commitments, Howard Merrell noted that its current work force consisted of 73% minorities (as defined by North Carolina law and consisting of 71% female, 6% Asian and 3% African American). It also committed to initiate a minority student internship program as soon as reasonably possible, but not later than by the summer semester of this year. Initially it will work with colleges and universities that have historically attracted minority-based student populations, including Shaw University, North Carolina Central University, Fayetteville State University and University of North Carolina at Pembroke. In addition, it will be meeting with the representatives from HUB and joining at least one minority business association within the first several weeks or being awarded the Contract. Howard Merrell also shared its corporate policies dealing with minority hiring practices, equal employment opportunity and non-harassment which were positive and progressive.

In the staffing area, Howard Merrell identified three (3) existing employees who would be immediately dedicated 100% to the NCEL and committed to use their best efforts to hire a new account manager and a new copy writer (both preferably with lottery industry experience) by March 12, 2006, and a new account coordinator with lottery experience by March 30, 2006. It identified a media buyer who is expected to accept an offer after Contract signing and be in place within several weeks. Wherever possible, these and other new hires to work for the NCEL will include minority candidates.

Finally, in the area of financial viability, Howard Merrell answered the few questions of the Evaluation Committee and provided a letter of guaranty from its parent company, The Interpublic Group of Companies, Inc (“**Interpublic**”). Through this guaranty, Interpublic guaranteed all of Howard Merrell’s financial obligations under the Contract.

The Evaluation Committee was pleased with the results of the final negotiations and the commitments offered by Howard Merrell. Since many of the staff hiring plans and minority programs were commitments in the future, the Evaluation Committee determined that no changes from their initial scoring were warranted at this time. Similarly, the additional guaranty of Interpublic helped provide financial security, but given the circumstances, no scoring change was deemed appropriate. Of course, because Howard Merrell offered a lower price, and indeed the lowest average price of any Vendor, the Evaluation Team was

required to re-run the previously established formula that allocated the 200 points for the cost/price portion and made the following adjustment.

### ANALYSIS OF THE FINAL PRICE SCORING

After negotiations with the Director and Howard Merrell, the Finalist Vendors proposed cost percentages of the total annual advertising budget as described in Section 6.2 of the RFP and corresponding price points were re-calculated as follows:

	Howard Merrell	LHC/Mullen	Wray Ward Laseter
Cost percentage	11.0% yr 1 10.5% yr 2 10.5% yr 3	11.00%	23.89%
<b>Price Points</b>	<b>200</b>	<b>193.94</b>	<b>89.29</b>

### SUMMARY AND FINAL SCORES

The Finalist Vendors provided sound Proposals. The additional information from negotiations provided to the Evaluation Committee following the negotiations with the Preliminary Apparent Successful Vendor, Howard Merrell, did not change the conclusion and recommendation of Howard Merrell as the Apparent Successful Vendor, and the following final scores support this conclusion.

Evaluation Category Part 1 Technical- Rated Criteria Phase	Weight (max total points)	Howard Merrell & Partners	LHC/Mullen	Wray Ward Laseter	Douglas Displays
Experience, including providing advertising services in connection with the start-up of a lottery	30	25.50	25.50	25.20	1.50
Integrity & Background	30	27.00	26.40	25.50	1.50
Personnel	30	22.50	24.60	25.80	1.50
Case Studies	150	138.00	129.00	112.50	37.50
Samples of Work	100	92.00	89.00	83.00	17.00
Marketing Plan	50	45.50	44.50	40.00	2.00
Financial Viability & Ability to Perform the Contract as Required & Proposed	40	28.00	34.00	30.00	16.00
The Extent to Which the Vendor Proposes to Achieve or Exceed the State of North					

Carolina's Minority-Owned Business Participation Goals	70	59.50	64.40	68.60	10.50
<b>Total Part 1 Technical Rated Criteria Phase</b>	<b>500</b>	<b>438.00</b>	<b>437.40</b>	<b>410.60</b>	<b>87.50</b>
<b>Total Part 2 Finalist Case Study &amp; Presentation Final Competition Phase</b>	<b>300</b>	<b>259</b>	<b>233.67</b>	<b>276.92</b>	<b>n/a</b>
<b>SUB-TOTAL TECHNICAL (Part 1 and Part 2)</b>	<b>800</b>	<b>697</b>	<b>671.07</b>	<b>687.52</b>	<b>n/a</b>
<b>Cost/Price and value to the NCEL</b>	<b>200</b>	<b>200</b>	<b>193.94</b>	<b>89.29</b>	<b>n/a</b>
<b>FINAL TOTAL POINTS</b>	<b>1000</b>	<b>897</b>	<b>865.01</b>	<b>776.81</b>	<b>87.5</b>

### RECOMMENDATION

**As its Final Recommendation, the Evaluation Committee unanimously recommends HOWARD MERRELL to the Director as the Apparent Successful Vendor to supply Professional Advertising and Related Services to the NCEL.**

The undersigned respectfully recommend HOWARD, MERRELL & PARTNERS, INC. as the Apparent Successful Vendor to the Director, this 14th day of February, 2006.

---

Lou Ann Russell

---

Alice Garland

---

Sam Hammett

I concur with this recommendation, and hereby recommend to the North Carolina Lottery Commission that HOWARD, MERRELL & PARTNERS, INC. be selected as the Vendor of Professional Advertising and Related Services to the NCEL pursuant to the RFP.

---

Thomas N. Shaheen, Executive Director  
North Carolina Education Lottery

**North Carolina Education Lottery  
Purchasing Authority**

At the December 8, 2005 commission meeting the commission voted to give the Executive Director signature authority for purchases up to \$25,000 in order to start building the North Carolina Education Lottery organization. During that meeting it was determined by the commission that this authority should be reviewed in February, 2006. Because of the tremendous growth that has occurred since December the following signing authority is being granted to the Executive Director, the Deputy Executive Director of Finance, and the Director of Finance in order to ensure this growth continues in an efficient manner in an effort to maximize funds raised for education.

**Executive Director**

Purchases up to \$50,000

All purchase orders, estimates, invoices including those relate to any contract or agreement that has been approved by the commission.

**Deputy Executive Director**

Purchases, purchase orders, estimates, and invoices up to \$15,000 exclusive of those related to contracts approved by the commission.

**Director of Finance**

Purchases, purchase orders, estimates, and invoices up to \$10,000 exclusive of those related to contracts approved by the commission.

---

Charles A. Sanders  
Chairman

---

Date

<b>QTY</b>	<b>Vehicle</b>	<b>Cost</b>	<b>Tax</b>	<b>Total</b>	<b>Deliver Date</b>
2	<i>Ford Cargo Vans V-8, 2006 E250 With safety screens, tinted windows, one right sliding door, two rear panel doors</i>	\$14,789.00	\$428.28	\$ 30,434.56	Apr
			\$		
		<u>\$14,789.00</u>	<u>428.28</u>	<u>\$30,434.56</u>	

NOTE: All vehicle gas, maintenance, repairs, insurance and replacement is provided for the life of all vehicles.  
Normal replacement period is approximately 100,000 or approximately 5 to 8 years  
Vehicle comes with a Voyager gas credit card and an electronic key for use at all State Fuel Locations in 100 counties.

**MILEAGE:**

All vehicles are used for State Business only and mileage must be sent to Motor Fleet Management at the end of every month.  
Minimum mileage charge of 1050 miles per month, or 12,600 miles per year.  
Per mileage charge of 26 cents  
Charges are for the minimum mileage or actual mileage whichever is greater.

**ASSIGNMENTS:**

Vehicle can be Agency assigned or individually assigned.  
These vehicles will be for NCEL's Marketing Office

<b>QTY</b>	<b>Vehicle</b>	<b>Cost</b>	<b>Safety Screen</b>	<b>Tax</b>	<b>Total</b>	<b>D</b>
23	<i>Dodge Caravan CV V-6, E-85, With safety screens, One right sliding door, Two rear panel doors</i>	\$14,259	\$325	427.77	\$345,271	
3	<i>Ford Taurus Sedan Four Door, 6 cylinder</i>	12,378		371	\$ 38,248.02	
		\$		\$		
		<u>26,637</u>	<u>\$325</u>	<u>799.11</u>	<u>\$383,518.73</u>	

NOTE: All vehicle gas, maintenance, repairs, insurance and replacement is provided for the life of all vehicles.  
Normal replacement period is approximately 90,000-100,000

Vehicle comes with a Voyager gas credit card and an electronic key for use at all State Fuel Locations in 100 counties.

**MILEAGE:**

All vehicles are used for State Business only and mileage must be sent to Motor Fleet Management at the end of every month.

Minimum mileage charge of 1050 miles per month, or 12,600 miles per year.

Per mileage charge of 26 cents

Charges are for the minimum mileage or actual mileage whichever is greater.

**ASSIGNMENTS:**

Vehicle can be Agency assigned or individually assigned.

Individually assigned vehicles will be for:

Sedans are for Security

Investigators:

1 Chris Capps

1 Jeremy Mittag

1 Security pool car for travel to draws and warehouses

G.S. 143-341 8 (1) addresses the total function of Motor Fleet Operations