



**METROPOLITAN
TRANSPORTATION
COMMISSION**

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Memorandum

Agenda Item 4

TO: Operation Committee

DATE: October 3, 2014

FR: Executive Director

W.I. 310-2700, 320-1221

RE: Lysol/Costco Clipper[®] Card Branding and Test Distribution: Reckitt Benckiser Inc. (\$175,000)

Overview

This memorandum requests Committee approval to enter into a sole-source contract with Reckitt Benckiser, the distributor of Lysol cleaning products (Lysol). This arrangement is to promote the use of Clipper[®] by offering cards for sale at Costco at a price representing a discount off of the value loaded onto the card. This discount allows MTC to attract customers who might not normally consider using Clipper[®] and test an additional distribution outlet.

Background

MTC has been approached by Costco several times about distributing Clipper[®] cards at Costco stores. However, since there is no way for the Clipper[®] program to fund the discount needed to distribute through Costco, it has been impossible to take advantage of that opportunity. In this instance, Lysol, a Costco vendor, is willing to pay to cover the customer discount, as well as the related Costco fee, in return for a branding opportunity. This is somewhat similar to FasTrak[®]'s distribution model. FasTrak[®] distributes toll tags through various Bay Area Costco stores and has on occasion partnered with American Express in order to offer a deeper discount (in the form of additional value added to the account) to the customer than is normally offered by FasTrak[®].

Taking advantage of this opportunity allows Clipper[®] to test distribution through Costco and may open the door for further partnership opportunities, as the agreement with Lysol would be non-exclusive. It may also introduce Clipper[®] to more casual/infrequent riders who otherwise might not use Clipper[®], but would be incentivized by the discount being offered through Costco.

Summary of Contract

Approval of this arrangement is being requested because, even though MTC will not be out of pocket any funds under this arrangement, MTC will provide an advertising benefit to a private entity in exchange for value. Lysol will use its existing business relationship with Costco to distribute a limited number of Clipper[®] cards at Costco. The cards will be loaded with \$100 in cash value. Lysol will pay MTC for the full amount loaded onto the cards and will distribute them at Costco for \$79.99 apiece. Lysol will cover the cost of the \$20.01 discount received by the customer. Lysol will also pay a \$7.00 fee to Costco for distributing the card. In return for

this distribution opportunity, MTC will allow Lysol to custom print Clipper® cards with Lysol branding (MTC will also absorb the \$3.00 cost of the cards, as it has done for some other Clipper® promotions). The total amount paid by Lysol for this branding opportunity, and the amount MTC would otherwise have to fund in order to have Clipper® cards available at Costco, will be \$27.01 per card, for a total benefit to MTC of approximately \$175,000 (based on the 6,250 cards expected at this point).

The anticipated card design is attached. This same design format has been utilized previously for various promotional partnerships with the Golden State Warriors, the San Jose Sharks and the America's Cup Event Authority. In all such cases, MTC has the opportunity to approve final design.

While typically this type of branding or sponsorship arrangement would be obtained for MTC by a competitively-procured broker, there is a particular challenge with using that model to support Costco distribution of Clipper® cards because, in addition to being willing to cover the per-card costs, the sponsor would need to have or be able to obtain a Costco distribution relationship. Therefore, it is unlikely that MTC, acting alone, would be able to competitively procure a partner willing to make the same financial contribution, in addition to one that already has an established relationship with Costco. Additionally, it is not certain that a MTC-represented broker could find potential sponsors that would meet Costco's requirements. Depending on the outcome of this Lysol-Costco pilot, MTC may determine that it would be advantageous to procure assistance of a broker to create more of a market for these types of partnership opportunities.

Recommendation

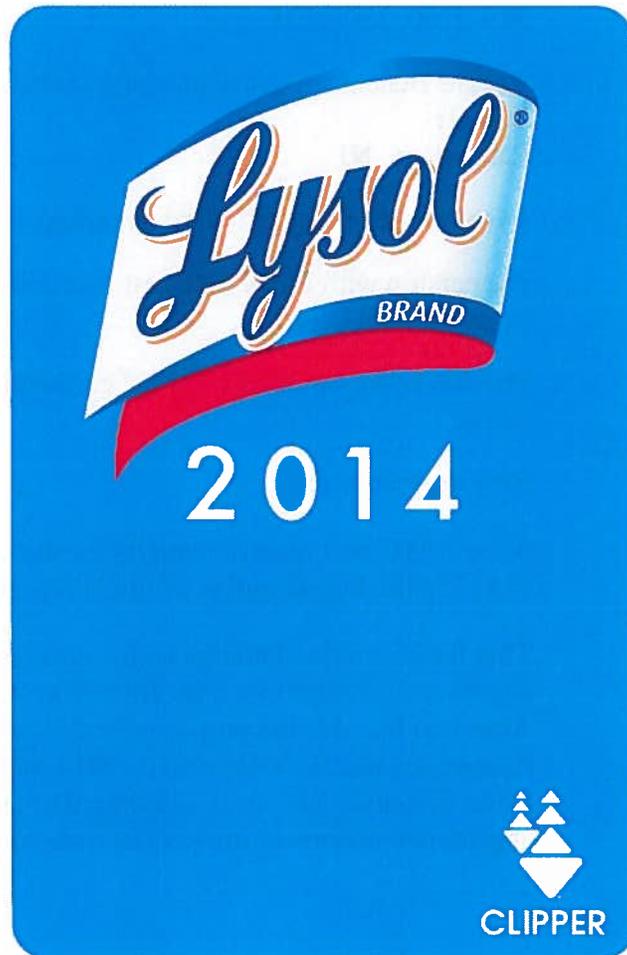
Staff requests that the Operations Committee authorize the Executive Director or his designee to negotiate and enter into a sole-source contract with Lysol for the above-described Costco distribution arrangement with Lysol, providing Lysol with a limited Clipper® branding opportunity in exchange for payments by Lysol of up to \$175,000 to benefit the Clipper® program.



Steve Heminger

SH: JW:jl

Anticipated Lysol/Clipper® Card Artwork



Summary of Proposed Contract

Work Item No.: 310-2700, 320-1221

Contractor: Reckitt Benckiser, distributor of Lysol cleaning products (Lysol)
Parsippany, NJ

Project Title: Lysol/Costco Clipper[®] Card Branding Test Distribution

Purpose of Sole-Source Contract: Partnership with Lysol for a test distribution of Clipper cards through Costco.

Brief Scope of Work: Provide Lysol-branded Clipper[®] cards for sale at Costco stores.

Funding Source: Reckitt Benckiser

Fiscal Impact: None. MTC will receive benefits for the Clipper[®] program of up to \$175,000, but no outlay of funds is required.

Motion by Committee: That the Executive Director or his designee is authorized to negotiate and enter into a contract with Reckitt Benckiser (North America) Inc., for the purposes described herein and in the Executive Director's October 3, 2014 memorandum, and the Chief Financial Officer is authorized to take all necessary and appropriate actions to implement such contract.

Operations Committee:

Jake Mackenzie, Chair

Approved: Date: October 10, 2014