

## REVIEW OF CALGARY TRANSIT ADVERTISING CONTRACTS

---

### EXECUTIVE SUMMARY

In response to a Notice of Motion arising from Council's approval of the Calgary Transit Fare Strategy and Structure in 2014 March, Calgary Transit engaged the consulting firm Denneen and Company to conduct a review of the contracts that provide revenue to Calgary Transit from the sale of advertising space within Calgary Transit vehicles and facilities. These contracts are multi-year agreements with three separate companies that sell advertising 1) Bus, LRT and billboards, 2) transit shelters, and 3) bus stop benches. These contracts provide guaranteed minimum payments that in 2014 contributed about \$8.5 million in revenue. As well, the shelter and bench contracts provide and maintain important customer-focused infrastructure.

The purpose of this review is to benchmark these contracts against the practices at other similar transit systems in Canada and the United States and to determine if there were opportunities to increase revenues. The report concluded that Calgary Transit's advertising contracts were generally in line with industry experience and in some areas Calgary's agreements surpass what is realized in other cities. The report also indicates some opportunities to improve revenues both from the existing agreements and to further improve outcomes with future contracts. Calgary Transit will be pursuing these recommendations during the current business plan cycle, including the development of an enhanced street furniture program and releasing an RFP for a CTrain station digital advertising and information network.

### ADMINISTRATION RECOMMENDATION(S)

That the SPC on Transportation and Transit recommend that Council receive this report for information.

### RECOMMENDATION OF THE SPC ON TRANSPORTATION AND TRANSIT, DATED 2015 MARCH 18:

---

#### That Council:

1. Receive this report for information; and
2. **Direct that Administration prepare a recommended course of action to revise the billboard/outdoor advertizing policies to support additional opportunities in our public transit system and bring this potential work plan to Council in conjunction with this Standing Policy Committee Report.**

## **REVIEW OF CALGARY TRANSIT ADVERTISING CONTRACTS**

---

Excerpt of the Minutes of the Regular Meeting of the SPC on Transportation and Transit, held 2015 March 18:

---

“AMENDMENT, Moved by Councillor Chu, that the Administration Recommendation contained in Report TT2015-0289 be amended by adding a Recommendation 2, as follows:

“2. Direct that Administration prepare a recommended course of action to revise the billboard/outdoor advertizing policies to support additional opportunities in our public transit system and bring this potential work plan to Council in conjunction with this Standing Policy Committee Report.”

Opposed: R. Jones, E. Woolley

CARRIED”

### **PREVIOUS COUNCIL DIRECTION / POLICY**

In 2014 March, during its consideration of the report: TT2014-0135 Calgary Transit Fare Strategy Review, as a Motion Arising, Council directed that Administration: “...conduct an evaluation of the current transit advertising contracts to identify opportunities for increased revenues including the sale of advertising space on City owned lands and report back to the SPC on Transportation and Transit no later than 2014 October.” In 2014 October, the SPC on Transportation and Transit approved the Administration recommendation to “defer the Evaluation of Transit Advertising Contracts to no later than the 2015 March meeting.”

### **BACKGROUND**

Calgary Transit has multi-year agreements with three advertising sales contractors for the sale of advertising:

- On benches at bus stops (FarWest Outdoor with approximately 2,700 benches),
- Inside and outside buses, CTrains, CTrain Stations and billboards on lands within Calgary Transit stewardship (Pattison Outdoor),
- At on-street bus shelters, includes the cleaning and maintenance of all shelters (Outfront Media with approximately 1,600 transit shelters and the provision of 25 new shelters each year).

Collectively, in 2014 these agreements returned approximately \$8.5 million in revenue in addition to services provided (new shelter and bench infrastructure, cleaning and maintenance). Over their entire term, these agreements will return total minimum revenues of \$86.4 million plus services and infrastructure. The agreements will expire at the end of 2016 (bench), 2017 (bus/LRT/billboard) and 2018 (shelters).

In response to Council direction the Administration engaged the consulting firm of Denneen & Company to conduct an audit of these agreements to determine how they compared with other transit systems and other Out-of-Home (OOH) advertising media.

## REVIEW OF CALGARY TRANSIT ADVERTISING CONTRACTS

---

### INVESTIGATION: ALTERNATIVES AND ANALYSIS

Denneen & Company previously conducted a review of transit advertising in the United States in 2009<sup>1</sup>. For the review of Calgary Transit's advertising programs Denneen conducted interviews with other Canadian transit systems, Calgary media planners, Calgary Transit's three advertising contractors and a large US-based transit advertising contractor. Denneen also examined Calgary Transit's three advertising contracts and the Canadian out-of-home advertising revenue trends.

The following is a summary of their findings. Key graphs from the Denneen report are provided in Attachment 1 while Attachment 2 is the full report.

### Transit Advertising in Relation to Out of Home Advertising in Canada

Transit advertising is one type of OOH advertising with the most prevalent types being billboards, posters in airports and supermarkets, and street furniture. Between 2004 and 2013, OOH advertising grew at a compound annual rate of six percent (see Attachment 1, Figure 1) while digital advertising outpaced all advertising media during this time with a 29 percent compound annual growth (CAG). Transit advertising revenue realized by Canada's largest eight transit systems has grown from 21 to 27 percent of all Canadian OOH advertising revenue with a CAG rate of 12.5 percent (see Figure 2).

Calgary Transit's advertising revenue compares favourably with large Canadian cities (Vancouver, Edmonton, Mississauga, Ottawa and Winnipeg) but is certainly well behind the major transit advertising markets in Toronto and Montreal (see Figure 4). In Calgary, for 2013, advertising revenue accounted for about four percent of total transit revenue which is about average among the eight cities examined. Calgary Transit's total 2013 advertising revenue of \$8.1 million was slightly less than Vancouver's, but, as noted above, well short of the revenues earned by Toronto and Montreal which are major markets.

### Attractiveness of Transit Advertising to Advertisers

Media planners in Calgary who purchase advertising space report that Calgary Transit's various advertising media offerings are attractive, well respected and are often recommended to their clients. Space on buses, shelters, and benches is sought mainly by advertisers with local messages while LRT based advertising is sought by advertisers seeking a wider audience. In other cities, billboard advertising is the most sought after outdoor media; however, media planners reported that in Calgary billboards are far less prevalent due to the City's restrictions on billboard placement. As a consequence, advertising on transit in Calgary has taken on a somewhat higher level of importance. Denneen noted that Calgary Transit revenues would benefit significantly if more billboards and large format displays could be placed at LRT stations and park and ride lots.

---

<sup>1</sup> "Practical Measures to Increase Transit Advertising Revenues", TCRP Report 133, Jane Alpers, Denneen & Company, Boston MA for Transportation Research Board, Federal Transit Administration, 2009.

## **REVIEW OF CALGARY TRANSIT ADVERTISING CONTRACTS**

---

In comparison to other forms of advertising, media planners provided the following thoughts on pluses and minuses of Calgary Transit based advertising:

### Pluses:

- Accesses unique audiences, particularly the downtown.
- Provides access to many markets including residential and industrial areas.
- Allows for immersive advertising – e.g. total station or vehicle domination.
- It is mobile which provides city coverage and movement generates attention.
- Can generate mass awareness.
- Has multiple formats that can be bundled.

### Minuses:

- Has long lead time to plan, produce and display.
- Installation costs (mostly labour and vinyl materials) are increasing.
- Vehicles – buses & CTrains are, at times, not readily available.
- Slow response time for approvals of unusual requests.
- High risk of having ‘unique’ advertising campaigns being removed due to negative public opinion.

Overall, media planners were satisfied with their relationship with the three advertising contractors based on prices, ease of doing business, attentiveness, and communications. Media planners felt they would benefit from having more media ‘bundling’ choices that are not available when they have to deal separately with three contractors (i.e. vehicles, stations, shelters and benches).

### **Calgary Transit Advertising Sales and Revenue**

In Attachment 1, Figures 6 and 7 show total advertising sales by the contractors and the revenues paid to Calgary Transit, respectively. These graphs also show the breakdown of revenues by advertising type – bus/LRT, billboard, benches and shelters which are reflective of the contract terms and performance of each advertising contractor. Figures 9, 10 and 11 provide information regarding sales and revenue paid to Calgary Transit by each advertising contractor.

Each advertising contract has guaranteed minimum annual payment requirements plus an allowance for a share of revenues earned in excess of the agreed minimums. The Pattison contract is somewhat unique since it only allows ‘bonus revenue’ payments to be made only at the end of the contract or if special conditions are met. The other contracts make these payments annually if they are available.

## **REVIEW OF CALGARY TRANSIT ADVERTISING CONTRACTS**

---

### Advertising Sales and Calgary Transit Advertising Revenue Trends – 2006 to 2014:

- Total sales by the three advertising contractors have increased by 54 percent.
- Calgary Transit's revenue share from advertising sales has increased from 46 to 57 percent of total sales – an increase of 90 percent or \$4 million due to escalating minimum guarantees and a share of higher sales when they exceed the minimum guarantee amounts, as per contract provisions.

### Since 2009:

- Bench and shelter ad sales revenue has grown by 48 and 28 percent, respectively.
- Bus & LRT ad sales revenue has grown by less than 3 percent and billboard revenues are static.
- Calgary's Transit advertising revenue annual growth rate of 4.9 percent is lagging behind the Canadian average of 12.5 percent during this period mainly due to significant increases in revenue experienced by Toronto since 2012 and Vancouver's 2010 revenues during the Olympic Winter Games.

## **Performance of Calgary Transit Advertising Contractors**

### Bus/LRT/Billboard – Pattison Outdoor Advertising

- This contract expires at the end of 2017 and has provisions for placement of advertising inside and outside buses and CTrains, in and around CTrain stations including billboards at station bus terminals and park and ride lots.
- The largest of the three contracts, it is valued at \$50 million over the term of the contract with an aggressive (by comparative standards) compound annual growth in the minimum annual guarantee of 9.3 percent. Calgary Transit receives 65 percent of advertising sales revenue from buses, LRT and stations and 35 percent of billboard sales.
- Has returned revenue in excess of the minimum guarantee in all but the past three years. However, excess revenues are retained by Pattison until the end of the contract except when the cumulative annual surplus exceeds \$4 million.
- Sales have not grown in comparison to Canadian averages or to Calgary's shelter or bench advertising.
- Advertising sales growth has been constrained by the loss of 14 billboard locations, lack of digital advertising media, a perceived "stale media" and difficulties experienced with vehicle installations.
- Vacant advertising space in and on vehicles reflects a lack of demand by advertisers.
- Positive Contract Aspects:
  - Minimum annual guarantee is comparable or exceeds other similar transit contracts and escalates at an aggressive annual rate.
  - Percent revenue share is slightly higher than the industry norm.
  - Inclusion of billboards – Pattison owns about 70 percent of all billboards in Calgary so there is no significant competition for this media where available.

## **REVIEW OF CALGARY TRANSIT ADVERTISING CONTRACTS**

---

- Aspects to Improve:
  - Reconciliation period should be annual not cumulative.
  - Need to offer more variety in advertising space and media.
  - Need to address installation and execution challenges.

### **Bus Shelters – Outfront Media (formerly CBS Outdoor)**

- This contract expires at the end of 2018.
- Shelter advertising has paid revenues in excess of the Minimum Annual Guarantee (MAG) in only two years (2006 & 2007). The MAG in this contract escalates with an annual growth in the minimum annual guarantee of 6.7 percent.
- Calgary Transit receives 20 percent of Outfront's total sales revenue. The revenue share paid to Calgary Transit is considerably lower than the other two contracts since consideration is made for the additional value provided by Outfront Media on the cost of installing 25 new shelters annually plus cleaning, maintenance and repair / replacement costs. These costs are conservatively valued at just over \$1 million annually. The ability of Outfront Media to return higher than minimum guarantees has been affected by high costs associated with vandalism. Vandalism may also be impacting advertising sales.
- Shelter advertising revenues have been constrained by a lack of new advertising shelter locations being included within the 25 growth shelters.
- Positive Contract Aspects:
  - Provision of 25 growth shelters annually – in high demand by transit customers.
  - Provision of cleaning and maintenance services.
- Aspect to Improve:
  - Growth shelters should provide for advertising locations.
  - Shelter design options are limited and a vandal resistant design is yet to be found.
  - Quality of cleaning and maintenance is not meeting expectations.
  - The escalating cost related to vandalism is well beyond reasonable expectations and is being addressed.

### **Bus Benches**

- This contract expires at the end of 2016.
- Calgary Transit's share of bench advertising revenue is 45 percent with an annual growth in the minimum annual guarantee of 4.3 percent.
- Bench advertising has returned revenues in excess of the minimum annual guarantee (MAG) in seven of 10 years. In the last three years Calgary Transit has received payments totalling \$861,000 in excess of the MAG.
- Total bench advertising sales are similar to shelter sales but this contract has a higher total revenue contribution.

## **REVIEW OF CALGARY TRANSIT ADVERTISING CONTRACTS**

---

- Positive Contract Aspects:
  - A valuable amenity to customers. An attractive and relatively low cost media for local businesses.
  - Revenues paid in excess of MAG.
  - No limits on the quantity of benches provided.
- Aspect to Improve:
  - Quality of the benches and maintenance.

### **Possible New Street Furniture Contract**

Consideration is being given to adding a new street furniture contract to provide a higher quality of street furniture (benches, shelters, garbage / recycling, newspaper boxes) in high pedestrian locations. Denneen commented that this type of furniture, supported by advertising revenue would be most attractive to local advertisers trying to reach a downtown audience. It was cautioned that such a new contract could jeopardize the current bench contract or it may lead to an overall market growth for this type of advertising. Given this uncertainty, it was recommended that a new street furniture contract should be introduced slowly so as not to over-saturate the market.

### **Opportunities to Increase Advertising Revenue**

The Denneen report identifies several opportunities for increasing Calgary Transit's advertising revenue.

#### **For Calgary Transit:**

- Increase the number of billboards on Calgary Transit lands – explore revising City of Calgary restrictions. Media planners generally feel that the current inventory in Calgary should be increased by at least 50 percent.
- Improve the collaboration between Calgary Transit and its advertising contractors including designing amenities to better facilitate advertising and establishing a staff position dedicated to coordinating the business aspects related to supporting the advertising contracts.
- Add digital media opportunities (note: Calgary Transit will soon be releasing an RFP for a contractor to supply and maintain a digital advertising and information network on all CTrain station platforms).
- Increase the number of large format opportunities in addition to billboards such as bus and CTrain wraps, station interiors and exteriors, station dominations.
- Keep vacant advertising space on buses and CTrains full using Calgary Transit advertising (note: Calgary Transit is allowed up to 10 percent of advertising space for its own ads but this can be increased when there is unused space).
- Conduct more regular communications with advertising contractors and other transit agencies to explore opportunities and concepts.

## REVIEW OF CALGARY TRANSIT ADVERTISING CONTRACTS

---

### For Advertising Contractors:

- Maintain appropriate staffing levels to adequately pursue market opportunities, develop new media and better communicate with Calgary Transit and media buyers.
- Pursue digital media opportunities.
- Refresh existing inventory and add new products – e.g. stair risers, station floors, etc.
- Keep bus sides full.

### **Stakeholder Engagement, Research and Communication**

In carrying out this research, Denneen consulted with Calgary media buyers, the three advertising contractors, major Canadian transit systems, and Titan Outdoor, a major sales contractor for U.S. transit systems. As well, they reviewed advertising revenue data supplied to the Canadian Urban Transit Association (CUTA) by Canadian transit systems, consulted four Canadian Transit systems and examined Canadian out-of-home advertising trends.

### **Strategic Alignment**

“Increasing revenues from other existing sources of revenue such as advertising, parking, and special services....” is one of four key elements of Calgary Transit’s “funding philosophy” approved by Council in 2014 March. This strategy relies mainly on revenue from transit fares and municipal taxes to achieve the approved Revenue/Cost ratio of 50 to 55 percent. By increasing revenue from other sources the amount required from taxpayers and fares can be minimized.

### **Social, Environmental, Economic (External)**

Revenue from advertising helps Calgary Transit to maintain transit fares at reasonable levels.

### **Financial Capacity**

#### **Current and Future Operating and Capital Budget:**

None associated with the recommendations of this report.

### **Risk Assessment**

There is significant interest by advertisers in the various Calgary Transit advertising opportunities. Calgary Transit has an opportunity to expand upon its advertising revenue potential within its current contracts and in the future when RFPs are released seeking new contracts during the next four years. However, care must be taken to take a strategic approach by working with advertising contractors as valued partners in order to maximize benefits. New contract expectations must be reasonable and the ability for the advertising revenue potential to be realized must be tempered by not over-saturating the market or over-stating expectations.

### **REASON(S) FOR RECOMMENDATION(S):**

The Denneen report is provided for information so that Calgary Transit can begin to act on the various findings of the report within the context of the existing advertising contracts and to begin developing strategies for future contracts such as street furniture and digital CTrain platform initiatives.



## **REVIEW OF CALGARY TRANSIT ADVERTISING CONTRACTS**

---

### **ATTACHMENTS**

1. Key Figures from "Review of Calgary Transit Advertising Program", Denneen & Company, February 2015, Boston MA.
2. "Review of Calgary Transit Advertising Program", Denneen & Company, February 2015, Boston MA.