Review of Calgary Transit Advertising Program

February 2015

Denneen & Company

Boston, MA

CONTENTS

Study Purpose

The City of Calgary's Transit Agency (CT) is seeking additional revenue sources to supplement fare box revenue. With out-of-home advertising growing as a share of all advertising, the City of Calgary wants to assess the opportunity for growing transit advertising revenue in its market.

The objective of this study has been to identify potential sources of additional advertising revenue. Our assessments included the following areas:

- Market attractiveness to advertisers
- Attractiveness of transit advertising versus competitive offerings
- Customer satisfaction with existing transit advertising products
- Structure of contracts with advertising sales contractors
- Performance of sales team
- Collaboration between sales team and transit agency.

The study's "data collection" activities included:

- Interviews of managers of marketing activities at four other Canadian transit agencies
- Interviews of marketing managers in leading U.S. markets
- Interviews of Calgary media planners
- Interviews of Calgary Transit's advertising sales contractors: Pattison Outdoor, Outfront Media (formerly CBS Outdoor) and FarWest Outdoor
- Interviews of CEO of Titan Outdoor, one of the largest sales contractors for US transit agencies
- Examination of Calgary Transit's RFP and advertising contracts
- Examination of other transit agencies' RFPs and contracts
- Research of Canadian out-of-home advertising trends.

The Market for Out of Home Advertising

Calgary Economy

According to early 2015 reports, the Alberta economy is expected to "grind to a standstill" due to depressed oil prices. Growth in Alberta is expected to occur at .5% in 2015 and 1.8% in 2016. The national average growth rate is forecasted at 2.0% for 2015 and 2.2% in 2016. *(Source: Provincial Economic Forecast, TD Economics, January 25, 2015.)* This is a reversal from the fall 2014 forecast expecting growth in real GDP of 3.6% annually between 2015 and 2018 for the province and 2.4% annually nationally. (*Source: Fall 2014 edition of "Calgary & Region Economic Outlook 2014-2019," City of Calgary Chief Financial Officer's Department*.) This stagnant economic condition does not support significant growth in the sale of advertising over this period.

Out of Home Advertising Market Growth

Canada Out of Home Advertising: Transit advertising is one type of Out of Home (OOH) advertising. The most prevalent type of OOH advertising is billboards. Other types include placed-based advertising (e.g., airports, stadiums, supermarkets) and street furniture (e.g., kiosks, newspaper vending boxes, trash and recycling bins). The OOH advertising market continues to grow as personal electronic devices spread and as more and more home-related activities can be performed remotely. Consumers no longer need to be in the home to receive a call, adjust their thermostats, or retrieve personal information.

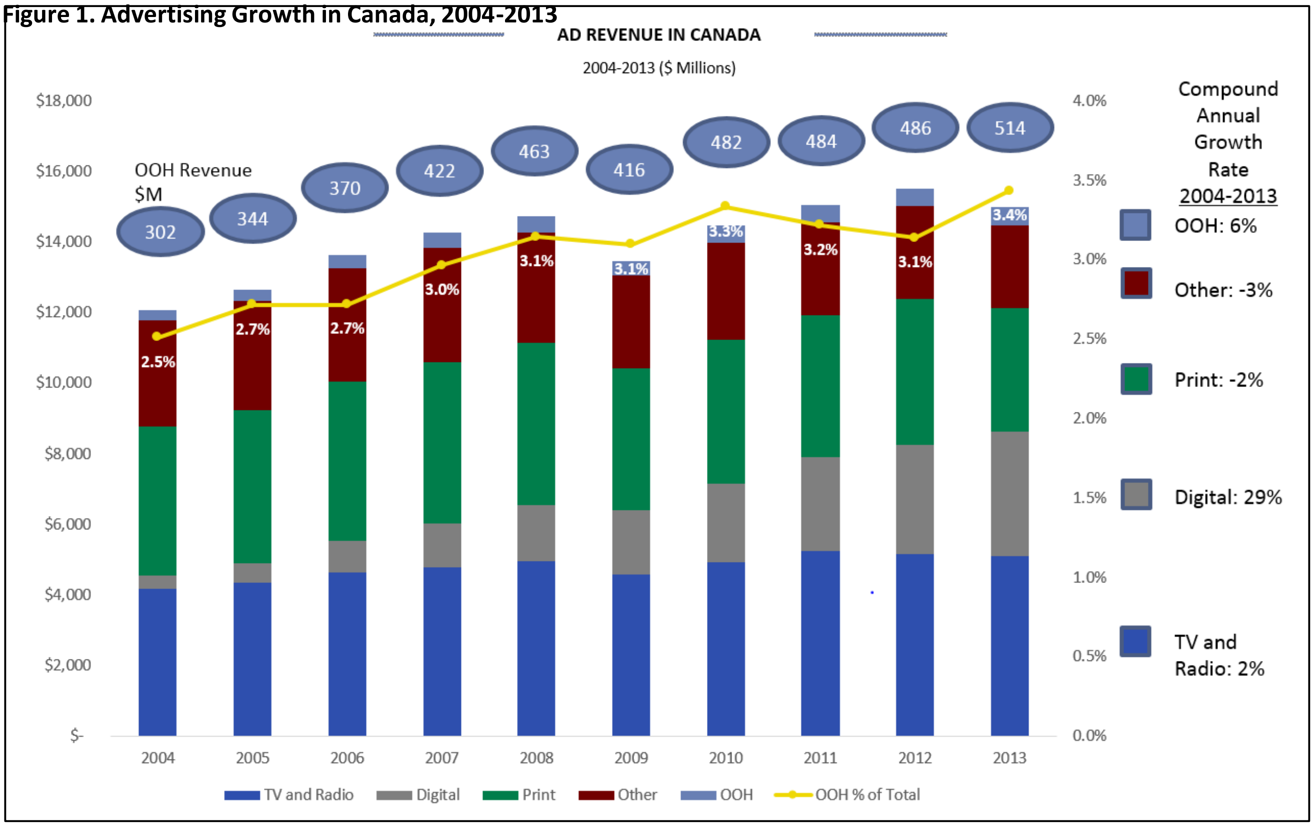
Canada's OOH advertising market revenue grew at a compound annual rate of 6% between 2004 and 2013, as shown in Figure 1 below. Though not nearly as dramatic as digital advertising growth in the same period (nothing can compare to the growth of online digital), OOH advertising's growth is respectable. Note that OOH includes digital billboards, the fastest growing item within OOH.

Canada's OOH advertising market is roughly one-tenth the size of the US OOH advertising market (*2013 figures; Sources: Out of Home Marketing Association of Canada and Outdoor Advertising Association of America.*) OOH's share of Canadian advertising revenue is roughly 4%, slightly smaller than the US's 5%. Of particular interest is the shortage of billboards in Canada compared to the US. The number of OOH panels (all formats) in Canada is 13% of the number in the US; however, the number of billboards ("bulletins" and "spectaculars") in Canada is only 0.5% of the number available in the US. (*OMAC*)

It should be noted that a different OOH market estimate exists than the one shown here. Total 2013 OOH market size estimated by the Out of Home Marketing Association of Canada (OMAC) is $604M, 18% higher than the Television Bureau of Canada's estimates shown in Figure 1.

Because there is no standard definition of media platforms that count as OOH, the two organizations most likely had different measurement protocols. This is a pervasive issue when measuring and comparing OOH volume estimates.

Figure 1. Advertising Growth in Canada, 2004-2013



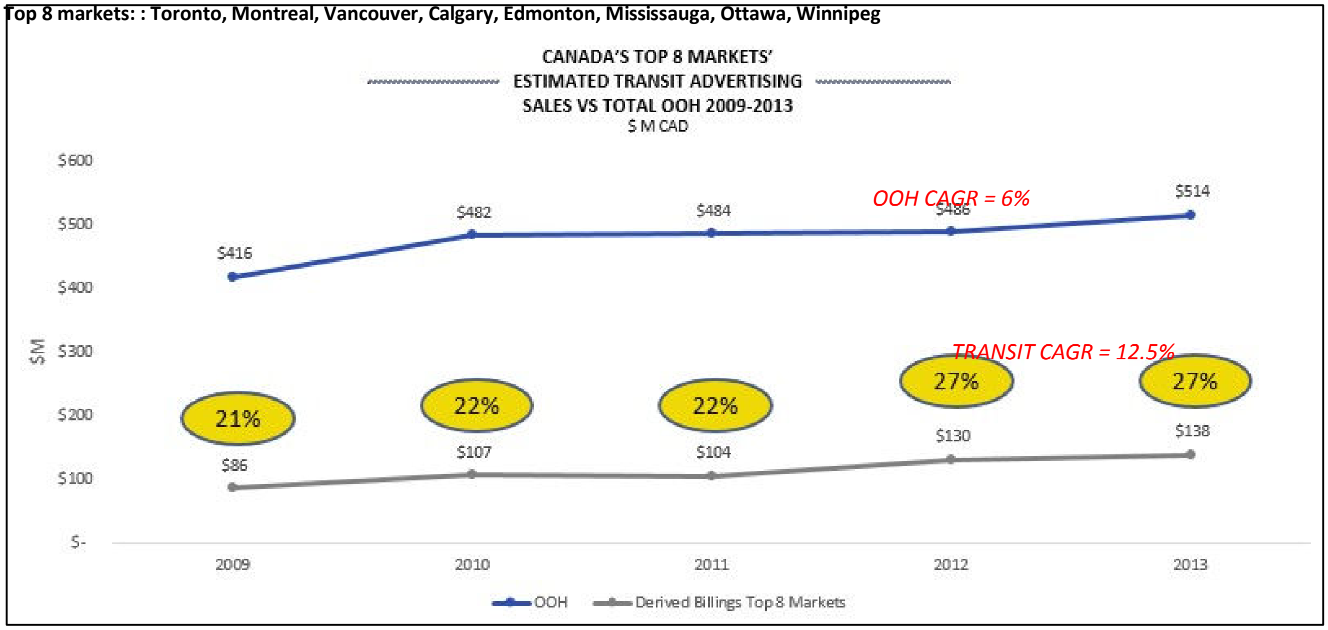
Source: Television Bureau of Canada

<u>Canada Transit Advertising</u>: There is no official accounting of total Canadian transit advertising revenue as there is for Canadian OOH. However, total transit advertising revenue reported to the Canadian Urban Transit Association (CUTA) by Canada's top eight transit agencies has risen at a compound annual growth rate (CAGR) of 12.5% for the most recent five years reported. (Figure 2.) A major contributor to growth is attributable to Toronto Transit Commission's new contract beginning in 2012. As a later figure shows, TTC's realized revenue jumps from the $15M CA level to $25M between 2012 and 2013. If TTC's numbers are excluded, the other seven cities' transit agencies still had a 2009-2013 CAGR of 12.3%.

This analysis also indicates that transit advertising (top-8) represents about one quarter of all OOH advertising, using the Television Bureau's estimate of the total OOH advertising market as the base. In the US, this number was 17% in 2014. If the OMAC market size figure is used, then transit advertising represents 23% of all OOH.

Figure 2: Transit Advertising (Top 8 markets) vs. Total Out of Home Advertising in Canada

Top 8 markets: : Toronto, Montreal, Vancouver, Calgary, Edmonton, Mississauga, Ottawa, Winnipeg



Source of transit agency advertising sales: CUTA
NOTE: Total advertising sales dollars by market (charted) estimated off of actual transit advertising revenue realized , as provided by CUTA.
We assumed that transit agency's reported advertising revenue equalled 60% of total advertising sales in the market.
Television Bureau of Canada; Transit Websites; Transit Annual Reports

<u>Calgary Market Out of Home Advertising</u>: Figures for total OOH advertising sales by market for Canada are not available. Qualitatively, media planners and advertising vendors describe the Calgary market as a "must have" for national advertisers, making the market a prize for advertising contractors. According to OMAC, Calgary is home to the second largest concentration of head offices per capita behind Toronto. It is also very attractive for its fast-growing economy.

Our comparison of types of OOH advertising available across Canada's top five markets (Toronto, Montreal, Vancouver, Calgary and Edmonton) shows that the top three have more billboard types available in digital (as opposed to static) format. (*Source: OMAC.*) Though the data are not available, we suspect significant differences are in the numbers of billboards available.

Calgary is considered unique among major advertising markets in the tightness of its restrictions on building and placement of billboards. Media planners estimate that the current supply of billboards in Calgary is equal to roughly half of demand.

Pattison Outdoor Advertising, CT's vendor for its rolling stock and transit billboard advertising, is the leading seller of billboard advertising in Calgary. Media Planners estimate that Pattison owns 70% of the billboards in Calgary. Pattison had to deactivate some of its own billboards at the same time that fourteen transit billboards were removed by City directive.

Calgary Transit Advertising: Qualitatively, Calgary's transit advertising is appealing to media planners, who often recommend it in situations they see as appropriate. According to media planners, bus, shelter and bench advertising is appealing to advertisers with local messages, e.g., realtors. Light rail advertising is appealing to advertisers who target professionals, e.g., banks, prepared food marketers and professional recruiters.

In some markets, transit advertising is regarded as a poor substitute for billboard. Billboards are usually very large format, which advertisers like. In their elevated position, billboards are rarely obstructed from consumer viewing. Billboards are more likely than street-level ads to remain free of graffiti, dirt and vandalism. While Calgary's transit advertising assets can share these deficiencies with all transit advertising, they seem to be accorded more value in Calgary than in other markets. This is because a somewhat rare situation exists in the Calgary OOH market.

The perspective of several of the media experts interviewed is that Calgary has the tightest restrictions on billboard advertising of any major advertising market. This has resulted in transit advertising being the *only* OOH option for advertisers in whole parts of the City. So unlike in most major cities, transit is a "must have" medium for many advertisers.

There is no question that transit advertising sales have benefited from the City's restrictions on billboards. Later in this discussion, we will address whether transit sales would benefit from a loosening of these restrictions.

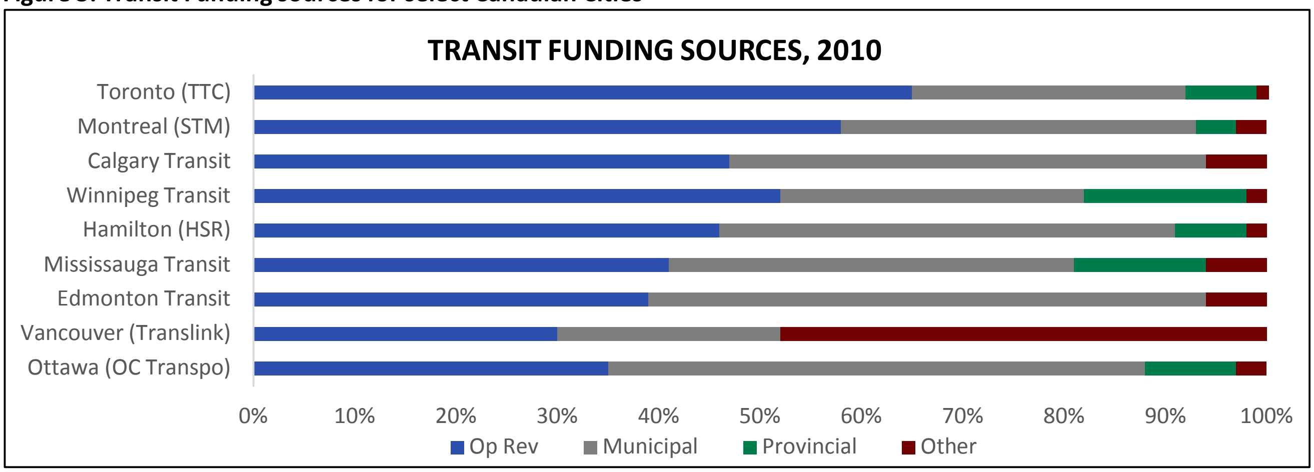
Transit's Importance as a Source of Revenue

The contribution of advertising revenue to an overall transit agency budget is small. Figure 3, borrowed from a CT report on fare strategy, shows that the preponderance of funds in most instances come from operating (fare) revenue and municipal sources. Advertising revenue is counted in the "other" category, along with parking fees and fines. For most agencies, this bar (red) is very short.

In fact, it is rare for advertising revenue to contribute more than 3% of a transit agency's overall budget. Figure 4 below shows the percent of total transit agency revenue contributed by advertising for Canada's top eight cities. According to these data, Calgary's advertising percent of total revenue is most likely in the right range for an agency of its size.

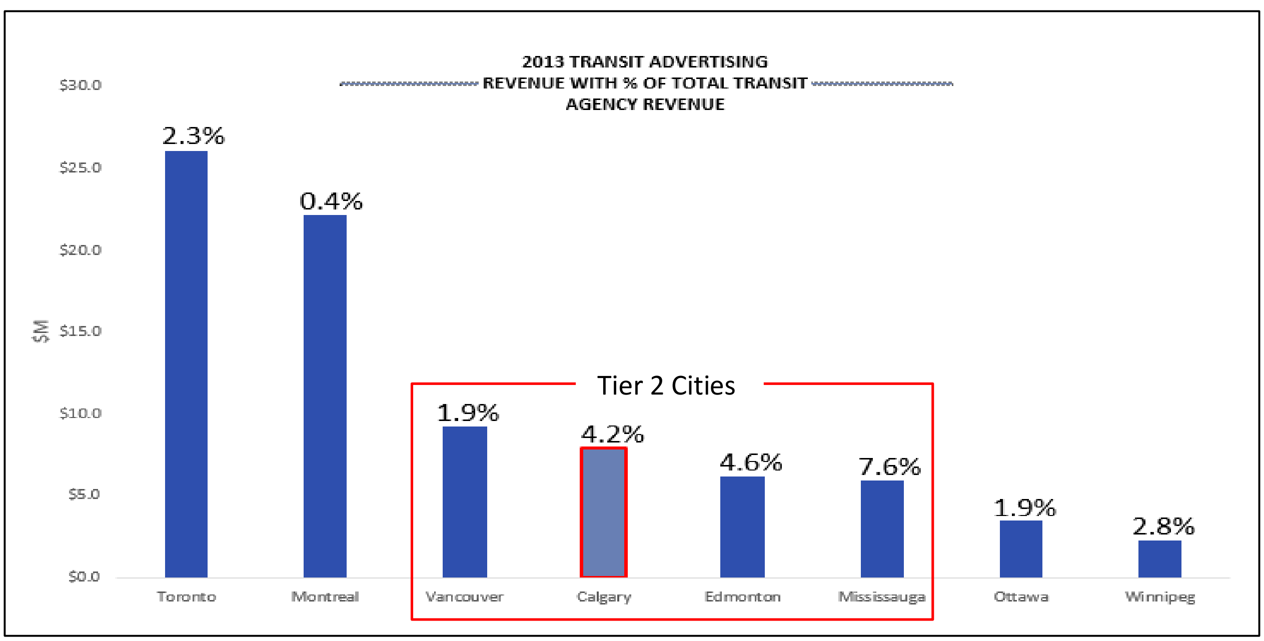
The trend in transit advertising has been to add higher price point items to the inventory mix, e.g., station dominations, vehicle wraps and digital posters and video screens. In addition to raising the average price point of transit advertising, it has helped elevate the image of transit advertising as being more than just interior car cards. It would make sense that transit advertising revenues have risen substantially, and perhaps even represent a higher percentage of total transit agency revenue that it did a decade ago. There has been no formal documentation of this trend at this point.

Figure 3: Transit Funding sources for select Canadian Cities



Source: Calgary Transit and Fare Strategy, 2011 and 2014, Toronto Transit Annual Report 2013, STM (Montreal) Annual Report 2012

Figure 4: 2013 Advertising revenue and transit advertising percent of total transit agency revenue, top 8 Canadian cities



Source: Transit Agency annual reports, CUTA.
Note: We believe CUTA's calculation of Montreal's percent of total agency revenue represented by transit to be significantly understated. Based on STM's own reported transit and total agency revenue for 2013, this number is 3.0%.

Transit's Appeal as an Advertising Medium

As previously stated, media planners enthusiastically recommend transit advertising to their clients. Transit is well respected as a medium, purchased by some of the largest, most prestigious corporations in the country.

A significant point is that Canada has a measurement system for transit advertising, something the US lacks. As our 2007 TCRP study of the US transit[1] market showed, the single largest obstacle to building advertising revenue in the US was the lack of an audience measurement system. Media planners require a way to quantify what their clients receive for their investment of media dollars in terms of consumer impressions. Without measurement of the value of the investment, media planners are extremely hesitant to recommend the medium. The American Public Transportation Association has been working on development of an audience measurement system for public transit media for the last several years.

Along with its positives, transit as an advertising medium has some drawbacks. First, transit media, like all out-of-home, require long commitment lead times. In contrast to newspaper and television advertising, where ads can be submitted shortly before airdate, out-of-home ads take weeks to produce. Consequently, advertisers are not allowed to back out of an out-of-home advertising commitment less than 60-90 days before the airdate because of the low chance of finding an advertiser to replace them on such short notice. Little can be done to address this issue.

The second issue is one that can possibly be addressed. Media planners build their personal success on delivering effective advertising opportunities for their clients. The "holy grail" for a media planner is advertising that generates exceptional notice. Often these ads take a risk by attempting something that has not been seen before. For example, a client may want to add a three-dimensional component to a poster. As perceived by media planners, risk taking in advertising is not typically well received when the advertising assets are owned by a public entity. As it is typically large advertisers

[1] Transit Cooperative Research Program Report 133. "Practical Measures to Increase Transit Advertising Revenues." Transit Research Board of The National Academies. 2009.

making such requests, the media planner is especially frustrated by not being able to deliver.

Another obstacle is installation of ads. Installation on any medium that moves around is a challenge. What several transit agencies have figured out is that, in order for this to NOT be an obstacle, they need to gain the alignment of their operations teams. Several media planners described driving an internal process designed to forge collaboration between the transit operations team and the advertising installation teams. In this process, it is made clear to the operations people that the installation of advertising is a priority of CT management.

Below, in the words of media planners, are some of the plusses and minuses of CT's media:

Plusses	Minuses
+ Transit gets you some unique audiences, e.g., it's great for reaching the downtown core + Gets you residential audiences as well as industrial + Does immersive experience well, e.g., station dominations in which one advertiser takes over all advertising space in one station + It moves -- this generates more attention than non-moving platforms + Can generate mass awareness + Has multiple formats to choose among or bundle	- Longest commitment lead time of all media - LRT installation costs are driving up prices - High advertising production costs for LRT (must be vinyl, not paper) - Slow response time for unusual advertising requests - Highest risk of needing to remove advertising at discretion of medium owner

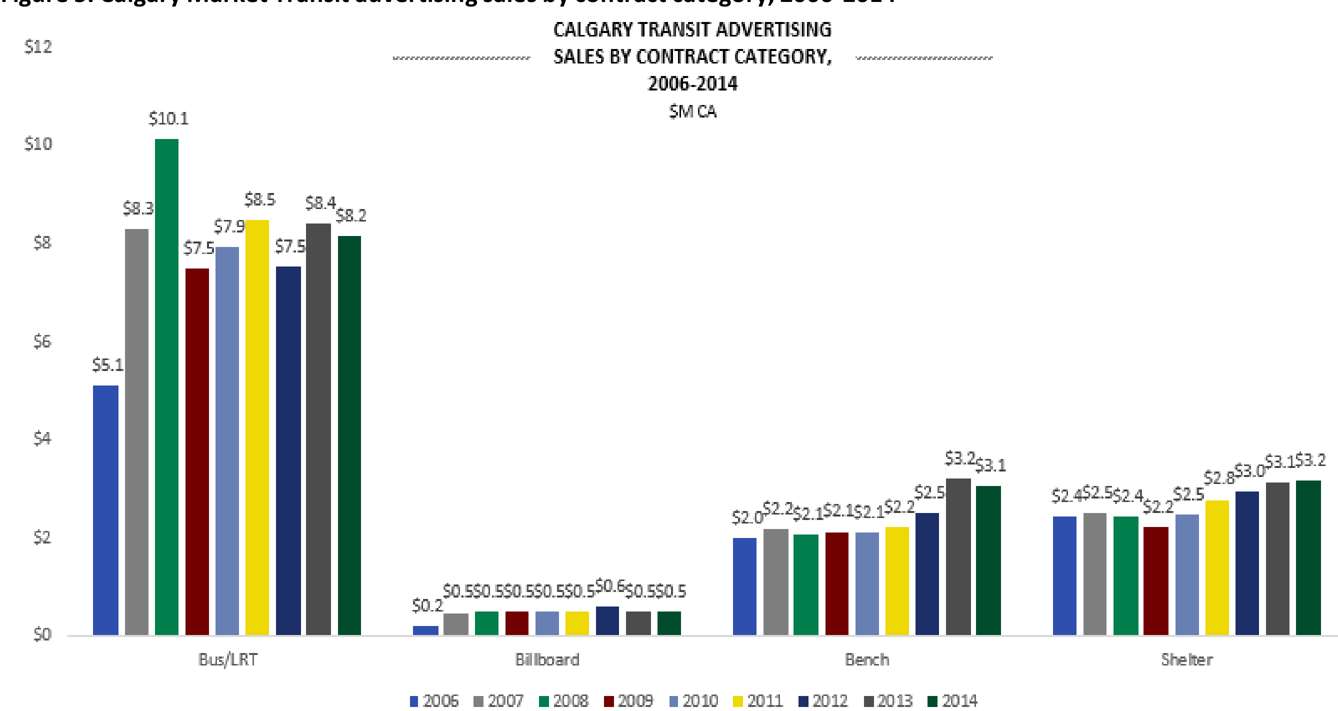
Calgary Market: Transit Advertising Sales Growth

This section looks at transit advertising sales growth in the Calgary market over the past ten years. These figures represent what the sales contractors *actually sell into the marketplace*. Please note that this is not the same as advertising revenue *realized* by Calgary Transit. Discussion of the revenue realized by Calgary Transit is in the section entitled "Performance of Calgary Transit's Sales Contracts."

Transit advertising sales in Calgary have shown decent growth over the last eight years. Beginning with Bus/LRT, which constitutes 55% of total sales, sales have essentially varied between $7.5 and $8.5M over the last six years. (Figure 5.) Sales climbed aggressively from the first year of the contract to over $10M in 2008. Though not sustainable at the time due to the worldwide recession, Bus/LRT sales should be able to reach the $10M mark again under favorable market conditions.

Billboard sales were limited by a very small inventory, which became even smaller after 2008 when the City ordered removal of fourteen boards. Evidently, higher pricing was able to keep billboard revenue steady.

Figure 5. Calgary Market Transit advertising sales by contract category, 2006-2014



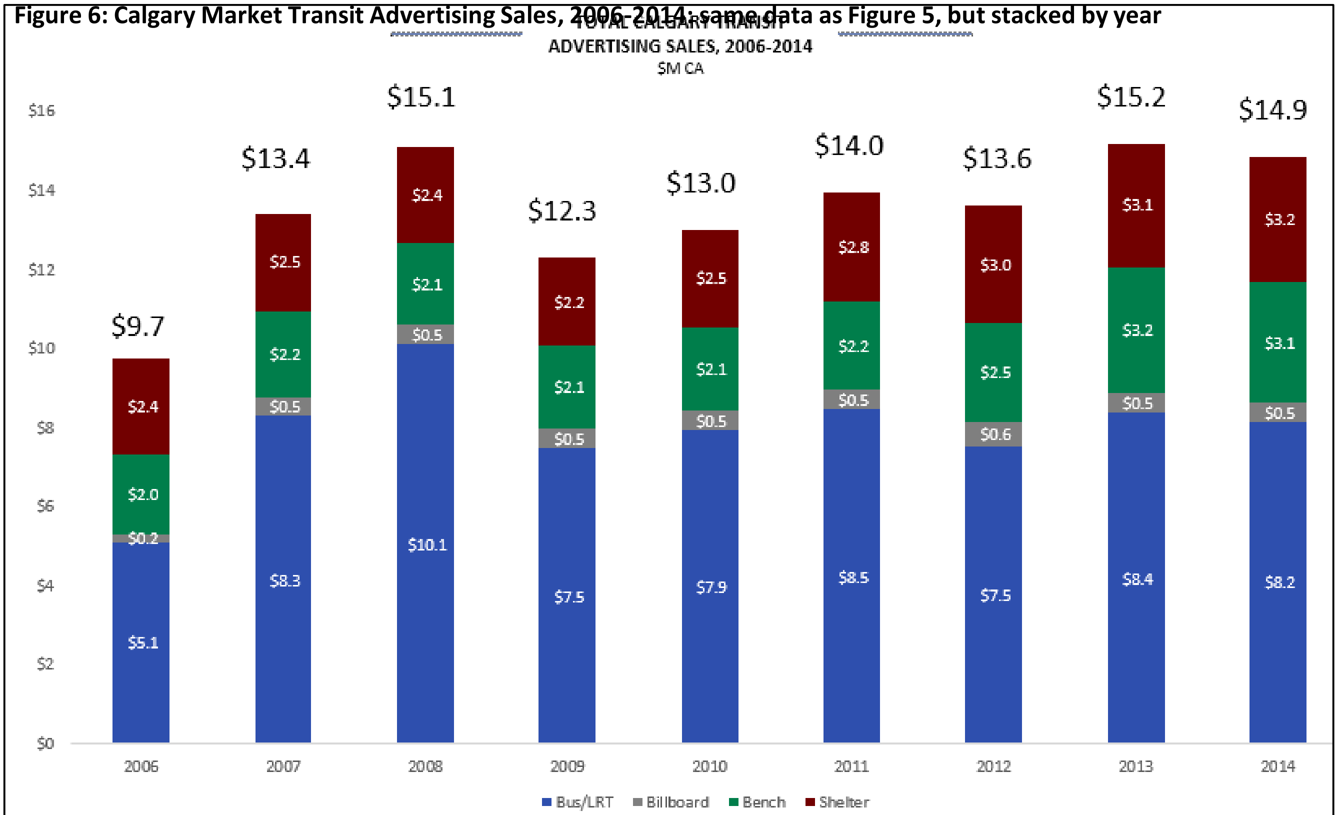
Source: CT Internal data

Bench sales and bus shelter sales are both showing breakout growth over the past three years. Since 2010, these platforms have growth 48% and 28%, respectively. However, none of these growth rates quite matches the transit advertising growth rate for the top eight Canadian markets. As we saw in Figure 2, the compound annual growth rate over the 2009-2014 period for the eight markets combined was estimated to be 12.5%. The comparable Calgary Market Transit CAGRs are as follows:

Advertising Type	2009-2014 CAGR
Bus/LRT	2.9%
Bus Shelter	9.0%
Bench	11.1%
Total Calgary Transit	4.9%

Overall, transit sales in the Calgary market grew 54% between 2006 and 2014. This is a substantial gain in advertising revenue over an eight-year period by any measure. (Figure 6.) However, the 4.9% CAGR for our comparable 2009-2013 period is still weak relative to the Canadian average growth rate of 12.5% (as proxied by the top eight markets). Most recently, the total market revenue in 2013 finally matched 2008's pre-recession performance, thanks largely to bus shelter and bench increases.

Figure 6: Calgary Market Transit Advertising Sales, 2006-2014; same data as Figure 5, but stacked by year



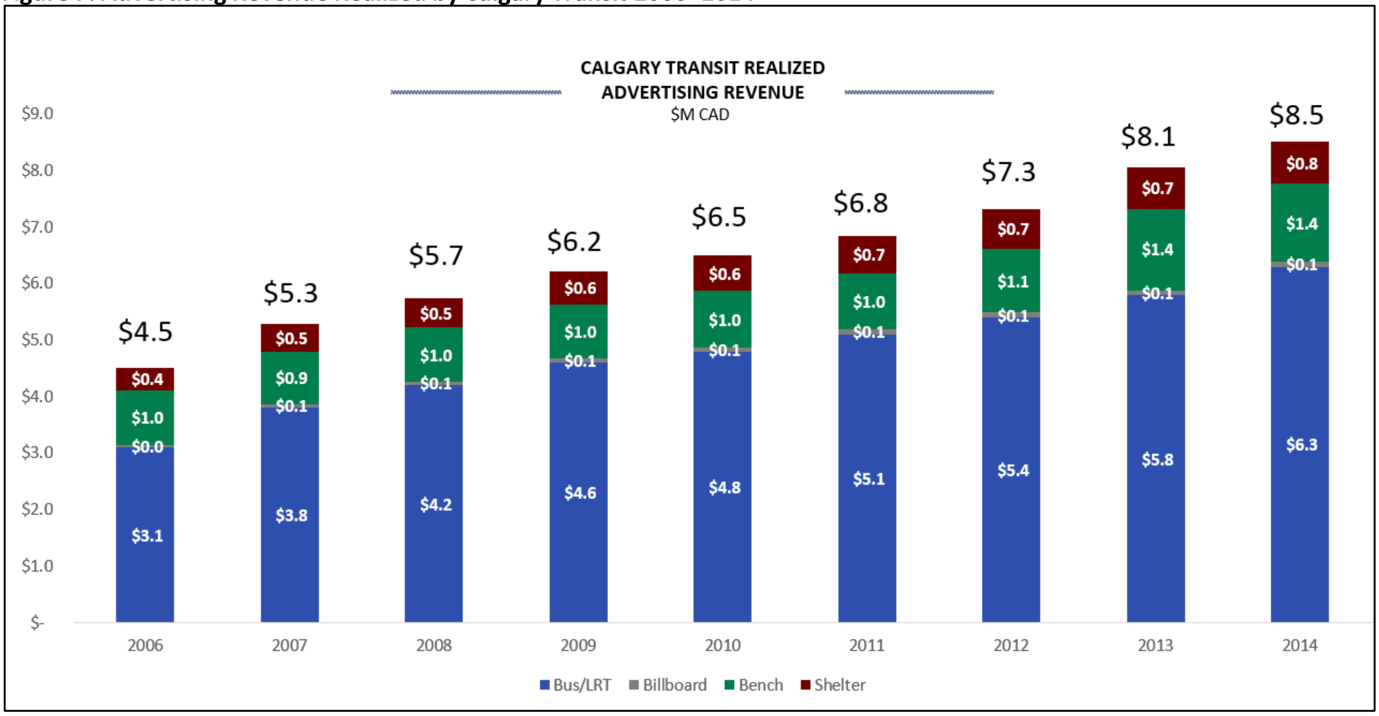
Source: CT Internal data

We were unable to obtain a clear view of how the Calgary transit advertising market performed relative to the Toronto, Montreal, Vancouver and Edmonton markets. Transit advertising sales for Calgary (what the advertising contractors sell) are reported to CT by its sales contractors. These data were not available to us for other cities. The advertising sales numbers that transit agencies *do* report are the advertising revenue they actually realize. Most rolling stock contracts (bus and rail) pay transit agencies somewhere between 60% and 70% of revenue. It was tempting to try to "back out" the total sales achieved by the sales contractors in each city to compare growth rates with Calgary's. However, without knowing whether a given year's realized revenue was the transit agency's percent share or the Minimum Annual Guarantee (MAG), our projections could only replicate the revenue realized by the transit agency. So to avoid confusion, we use the growth rates of the revenue realized by the other transit agencies as points of comparison to Calgary.

Performance of Calgary Transit's Sales Contracts

This section discusses how the current advertising sales contracts are performing for Calgary Transit.

Figure 7: Advertising Revenue Realized by Calgary Transit 2006 -2014



Source: CT Internal data

Figure 7 above shows the advertising revenue *realized (theoretically)* by Calgary Transit over the past nine years. The revenue numbers shown for each year for each type of advertising is the higher of the revenue share amount or the MAG, as per the contract.[2]

---

[2] *In the case of the Bus/LRT/Billboard contract, the annual revenue actually realized by CT is the MAG, per the contract. Typically, contracts of this type "true up" at the end of each calendar year. The agency realizes as revenue the higher of the revenue share amount (for CT, 65% for Bus and LRT, 35% for Billboard) and the MAG. IN CT's case, the contract trues up at the end of the entire contract, at which time the agency might receive a large check, i.e., the accumulation of surplus revenue over MAG. To smooth out the impact of this potential additional revenue coming in 2017, we have chosen to show Calgary Transit revenue realized as though the true up occurred at the end of each calendar year. Note that we have assumed that the contract will continue in a surplus state. It is possible that our numbers will end up having overstated each year's realized revenue – we won't know until the final true up at the end of the contract. Note as well that CT recently implemented a new contract provision requiring*

Between 2006 and 2014, CT's revenue from advertising increased 90%. This is a compound annual growth rate (CAGR) of 8.4%. CT's share of total transit advertising sales (shown in previous section) realized grew from 46% in 2006 to 58% in 2014. This is attributable to both increased sales and higher negotiated Minimum Annual Guarantees.

The Canadian Urban Transit Association referred to previously publishes the only city-to-city comparison of transit advertising revenue currently available. The Calgary data reported are the actual financial results, and so differ substantially from the sales performance report data used in this study. To avoid confusion, we opted to remain consistent with our data reporting.

Sales Contractor Performance

Bus/LRT/Billboard: On its largest contract for $50M minimum over 10 years, CT realized revenue in excess of the MAG in all but the last three years, 2012 - 2014. Of the three advertising contracts, the MAG in this contract escalates at the highest rate: 9.3% per year. Figure 8 below compares the advertising revenue realized by CT (blue bars) to the total sales revenue generated (blue plus gray bars) to the MAG (green line). The gray bar represents the revenue realized by the sales contractor. When the blue bar is above the green line, this means that the transit agency's share of total sales (65% of Bus/LRT sales and 35% of billboard sales) exceeded the MAG. Green arrows point to the amount of sales dollars above the MAG that the transit agency earned that year. When the transit agency's negotiated share of actual sales came in *less* than the MAG in 2012, 2013, and 2014 the amount due to CT is the MAG, represented by the green line. The red arrows point to where the revenue share amount fell below the MAG.

The fact that Pattison's sales in 2012, 2013 and 2014 were not high enough for CT to realize more than the MAG is not necessarily poor performance. The MAG increases every year, per Pattison's schedule of annual sales. (Pattison determined how the total of $50M would be allocated over the ten-year period.) The compounded annual growth rate for the initial ten years of Pattison's 2006 contract is 9.3%. This is the minimum growth that CT is guaranteed over the course of the contract (based on the initial ten year agreement), and it is a very robust rate for advertising revenue sales in general.

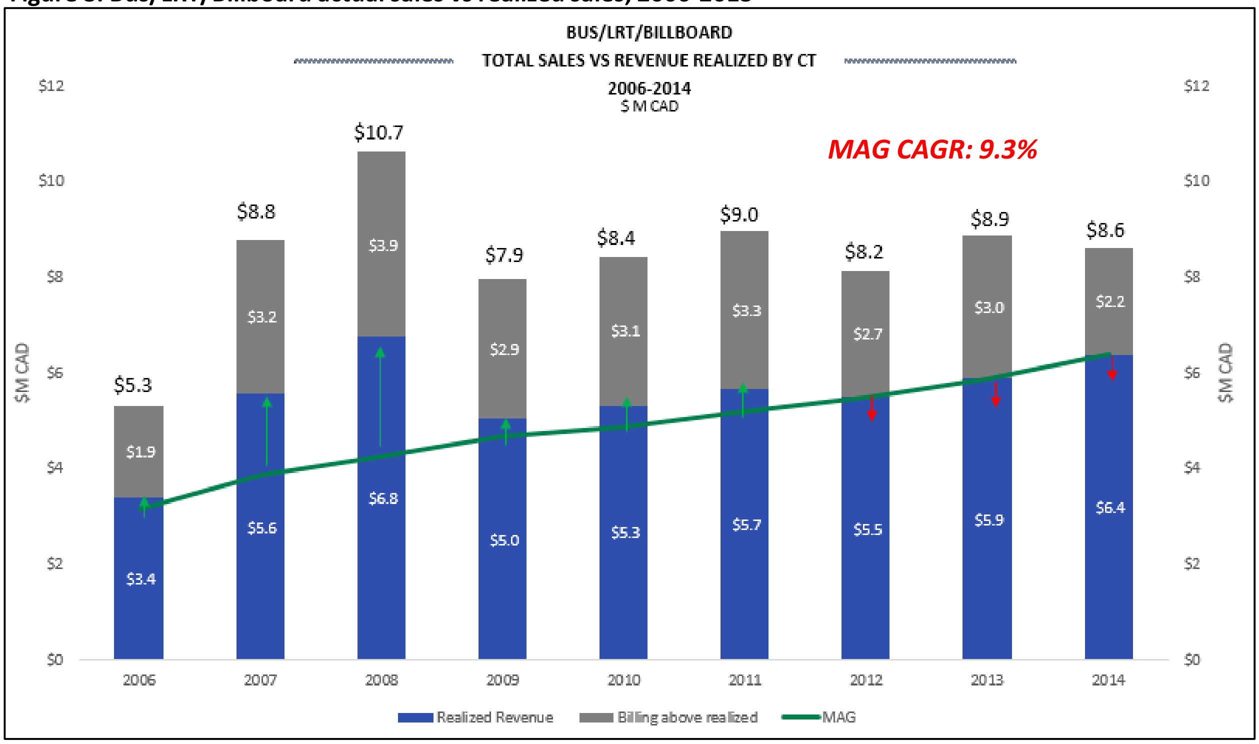
The fact that the "miss" was such a small amount indicates that the sales requirements are a bit of a stretch to achieve, which is what transit agencies want. Transit agencies do not want their revenue requirements to be easy to hit; nor do they want the targets to be so large that the

Pattison to pay out some of the accumulated surplus before 2017 if and when the surplus reaches an agreed to high level.

sales contractor cannot reasonably achieve the targets. In these instances, many vendors will walk away. This is the better alternative to a contractor agreeing to the revenue requirements and then having to re-negotiate its commitments down mid-contract.

The fact remains, however, that the sales generated by Pattison (irrespective of CT's share) have not grown substantially since 2009. Not only have Bus/LRT sales not kept up with the market overall; their growth has also lagged the growth achieved by both bus shelters and

Figure 8: Bus/LRT/Billboard actual sales vs realized sales, 2006-2013



Source: CT Internal Data

benches. There are a number of possible explanations for this sluggish performance, including the following:

- CT renovated all LRT platforms over the past few years, which required taking some of the advertising spaces out of inventory during construction;
- CT has also undergone significant expansion in the last several years; it is possible that the effort required by Pattison to keep up with new station and platform building had a disruptive effect on its selling effort;
- LRT advertising prices have risen as installation costs have gone up (caused by difficulty recruiting installers due to low unemployment);
- Because installation and removal on rolling stock is so logistically challenging, Pattison has narrowed its customer base to those companies that can commit to longer contracts;

- Bus and LRT opportunities have not been refreshed of late; the media may look a little "tired" to media planners and advertisers;
- Digital has been slow to enter the market: a more significant addition of digital platforms would have provided a significant lift to sales;
- The level of collaboration required between sales contractor and transit agency for maximizing sales has not been achieved (this is discussed at length shortly);
- The Pattison vice president in charge of the CT business unexpectedly passed away in early 2014, exacerbating the point above; though he was replaced promptly, some momentum had to have been lost.

Pattison's senior sales manager offered his own perspective on the growth record since 2009:

- With an array of digital platforms now available (Calgary is Pattison's number two market in terms of digital billboard sales), there is increased demand from advertisers for entirely digital campaigns, which omit transit;
- In general, transit advertising assets are seen as stale and in need of a refresh;
- 2010 sales, which reached over $10M, was an anomaly year due to the rise of oil prices and cannot be regarded as a new benchmark.

Some have speculated that the contract provision allowing Pattison to accumulate a "cushion" of funds when the revenue share exceeds the MAG (rather than pay it out annually to CT – this is discussed in the next section). The notion is that the presence of a cushion has relieved some performance pressure on the company's sales reps, and therefore is contributing to the company's somewhat sluggish sales performance and results below MAG for the past three years. We have probed this notion extensively and concluded that it is unfounded for the following reasons:

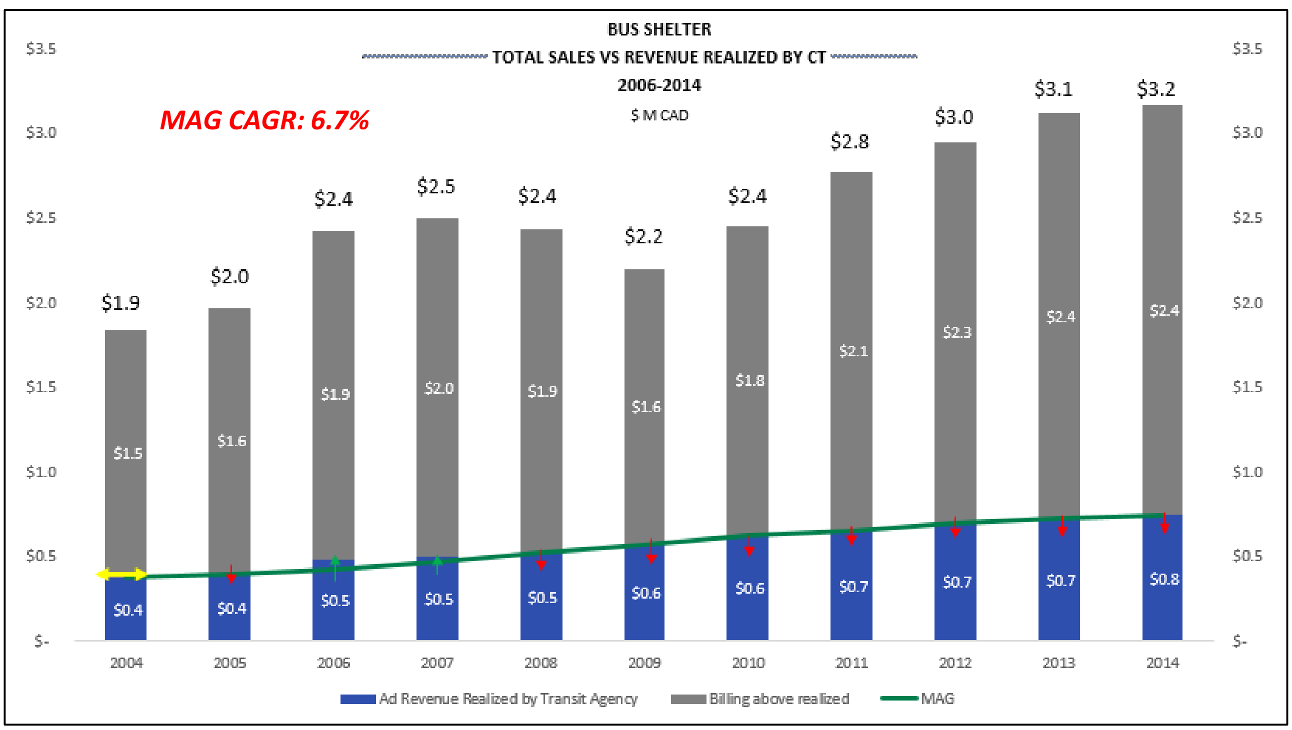
- Pattison has no motivation to sub optimize sales: the contract commits them to an annual average growth of over 9% and is structured so that they more they sell, the more they earn;
- The sales manager in the field who is driving sales performance is never informed, according to the Company, of the presence or absence of a "cushion";
- Pattison implemented special programs at the end of 2009 targeted at boosting transit advertising sales, including:
  - Increasing the commission for transit advertising sales three-to-six times above the commissions associated with any other media their reps sell, including billboards;
  - Establishing a promotional fund to subsidize the cost of vinyl advertising production.

According to Pattison senior managers, the majority of the Company's advertising contracts are written with the reconciliation period extending across the entire term of the contract. They assert that, because out of home advertising sales are volatile from year to year, the long reconciliation period is necessary to manage the risk of their long-term commitment. If they were to reconcile each year, as is the common practice, they would not be able to commit to as high a Minimum Annual Guaranteed amount. This logic makes sense. However, it is incumbent upon the sales contractor to make this point clearly in proposal materials. In fact, a good practice would be to present two options: the total MAG with annual reconciliation and the total Minimum Guarantee (omit "annual") with full-term-of-contract reconciliation. This way, the transit agency can choose which plan better suits its agency's fiscal management.

We believe that the reasons cited above, in particular deficiencies in collaboration between CT and its sales contractors and products in need of updating, are more plausible reasons for the flat sales performance than deficient effort on the part of Pattison. We believe that the recommendations in this report will, if successfully implemented, contribute to substantial future growth.

Bus Shelters: As stated earlier, the market for bus shelter advertising has recently shown decent growth. The market grew 24% since 2010. Growth was driven in part by the addition of advertising inventory resulting from installing 25 new shelters per year (as per the contract).

Figure 9: Bus Shelter actual sales vs realized sales, 2006-2013



Source: CT Internal Data

However, CT's realized revenue grew only 16%, as shown in Figure 9 below. Despite the growth in overall sales, CT's revenue share of 20% has not exceeded the MAG since 2007. CT therefore is paid the MAG. However, the MAG increases at only 16%. This unusual situation means that CT is not fully benefitting from market growth. It also means that the sales contractor's share of total advertising sales is growing as CT's declines. In 2010, Outfront Media received 75% of total shelter advertising sales and 77% in 2013. Because the bus shelters contract includes maintenance as well as heavy capital requirements, it makes sense that such a large share of advertising sales goes to Outfront Media. However, so long as CT's 20% of advertising sales remains under the MAG, CT will not fully benefit from market growth, whereas Outfront Media will.

The alignment between CT and Outfront media is somewhat off in two areas. One involves site selection for the 25 new shelters added each year. In 2014, according to Outfront, not a single new bus shelter was outfitted with advertising frames due to the unattractiveness of the location to advertisers. Outfront says that the site selection is entirely up to CT. CT, however, would like to discuss site selections, and issues its list as a starting point only. It would seem as though advertising opportunities may have been sub-optimized as a result of this misunderstanding.

The most challenging area for both CT and Outfront has been the timely repair of vandalized shelters. The contract states:

> "Where a shelter has been damaged, the Contractor shall remove debris and make safe within 24 hours of notification from Calgary Transit. …the contractor shall make all reasonable efforts to return the shelter site to a like new condition within three days. The City acknowledges that the nature of the damages and the availability of parts may delay the final restoration of the shelter." [5.2(b)]

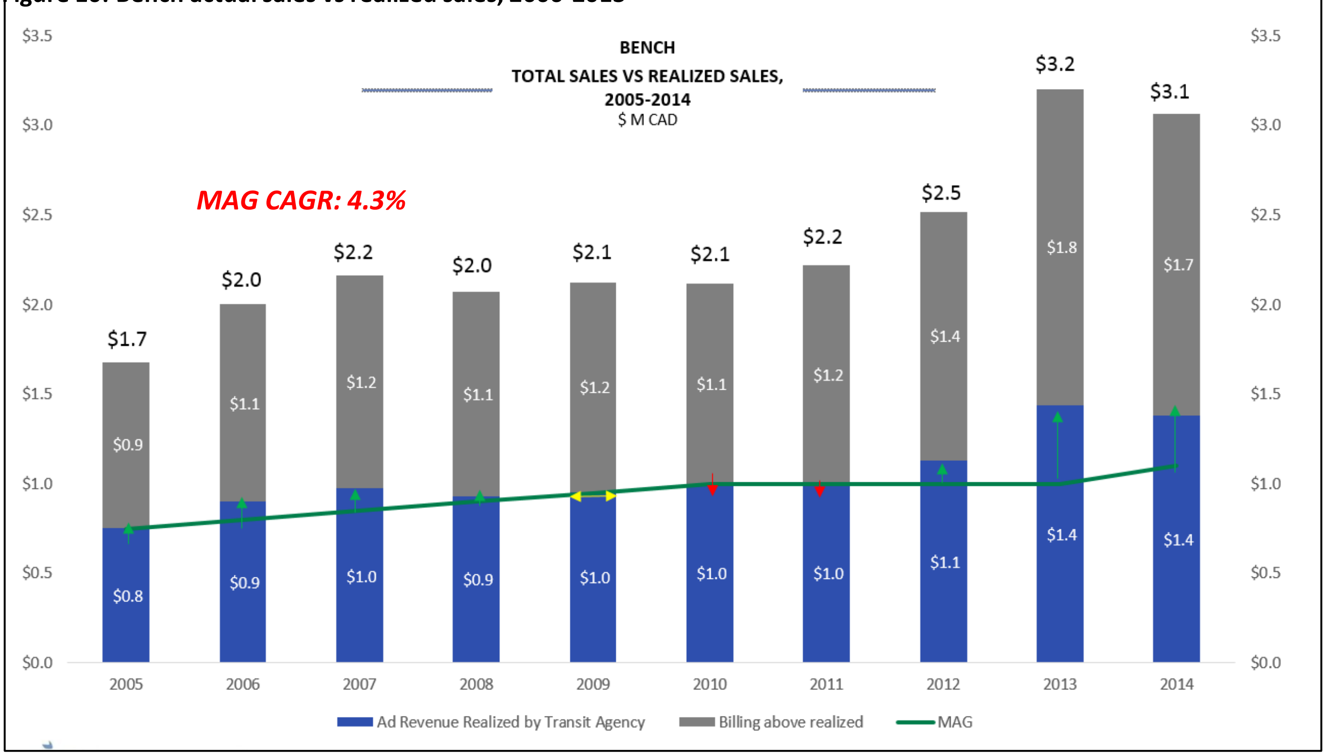
Vandalism has turned out to be a more frequent occurrence than either CT or Outfront envisioned. Notwithstanding, CT reports that many damaged shelters are remaining unrestored for longer than three days. Outdoor's perspective is that while their crews are hardworking and trying to be as responsive as possible to CT's calls, the number of requests is now overwhelming. In addition, the replacement glass expense has become overly burdensome to Outfront due to both the cost of materials and the labor. Outfront's position, as expressed to us, is that:

1. Because bus shelters require such a high level of maintenance, perhaps CT could specify which maintenance tasks are the highest priority, and which could be de-prioritized if not taken off the maintenance list altogether;
2. On glass replacement, a fairer arrangement would specify a fixed spending limit that, once met by the contractor, any additional cost would become the responsibility of the transit agency.

The importance of addressing these "disconnects" is discussed in the upcoming section on contracting practices.

Benches: Sales of advertising on bus benches seem to have taken off in 2012. CT's revenue share in this contract with FarWest Outdoor is 45%. With the exception of the three years after the recession, FarWest's sales have generated revenue for CT in excess of the MAGs. Note that the CAGR of this contract's MAG is the lowest of the three contracts: 4.3% over the initial ten years. Since 2010, total bench advertising revenue increased 45%. In the same period, CT's realized revenue from bench sales increased 40%.

Figure 10: Bench actual sales vs realized sales, 2006-2013



Source: CT Internal Data

CT "pays" FarWest 54% of what it "pays" Pattison (we're comparing the gray bars) for only 25% of the advertising revenue generated by Pattison. Again, productivity is much lower on the smaller contract. However, the bench revenue is growing faster than the shelter contract. In addition, because Farwest exceeds MAG, CT shares in the market growth. So long as growth continues and CT is paid more than the MAG, we see no reason to alter this contract. However, if this growth keeps up, we believe that CT could require a higher revenue share in its next contract.

Media Planners' Perceptions of Sales Contractors

Overall, the media planners interviewed for this study were satisfied with the organizations that are selling them transit advertising. We probed on attributes including pricing, ease of doing business, level of attention received, whether they were kept apprised of market developments and new media opportunities. Comments were mostly about Pattison, as the most significant player. The following are a few specific comments about this vendor:

- "We love a good package! Wish Pattison would do the work for us by putting together some bundles."
- "They should tell us which sites work best for us. I don't have the time to be going through lists of locations myself."
- "Have a good relationship with the Pattison sales rep. Though it is rare that I have the time to sit down to hear about new products."
- "Does the cancellation date have to be so far in advance?"
- "They could do a better job laying out the timeline for when I have to have the advertising delivered for installation."

With regard to FarWest, we heard a few indications of a somewhat tarnished reputation with regard to customer service, e.g., responsiveness to client requests. We recommend addressing this with the contractor.

Specific recommendations for the sales contractors are presented in the report summary.

Contracting Practices and Contract Specifications

Several aspects of Calgary Transit's contracts worked well for the agency in terms of revenue generated. This discussion focuses on the Bus/Rail/Billboards contract entered into with Pattison Outdoor Advertising, which drives 55%% of CT's realized advertising revenue.

WORKING: Minimum Annual Guarantee: In the negotiation for the contract that began in 2006, CT requested and got agreement to a minimum annual guarantee that grows from $3.1M in Year 1 to $6.9M in year 10 for a total of $50M over the ten years, or $5M per year. As Figure 13 below shows, Calgary's $5M per year contract is comparable to Vancouver's $7M contract and Montreal's $6M. The CAGR for minimal (MAG level) performance is 9.3% over the original ten years of the contract.

Figure 13: Minimum Annual Guarantees in Major US Cities

City	Agency	Year 1	Duration	Minimum ANNUAL Guarantee – Rail and Bus
New York City	Metropolitan Transportation Authority	N/A	N/A	$100M US
Los Angeles County	Metropolitan Transportation Authority	2013	5 years	$22M US
Chicago	Chicago Transit Authority	2010	5 years	$16M US
San Francisco	BART	2009	10 years	$14M US
Toronto	Toronto Transit Commission	2012	12 years	$25.2M CAD
Vancouver	Translink	2005	15	$7M CAD
Montreal	STM (Transgesco)	2004	No limit	$6M CAD
Edmonton	Edmonton Transit Authority	2015	Not available	
Ottawa	OC Transpo	2013	10	$2M CAD
Calgary	Calgary Transit	2006	10	$5M CAD

WORKING: Percent of Revenue Share: CT realizes 65% of total advertising sales generated each month, assuming this amount exceeds the Minimum Guarantee. The 65% share of revenue (the sales contractor keeps 35%) is a share level seen almost exclusively in top advertising markets. In the San Francisco market, among the top ten advertising markets in the US, Bay Area Rapid Transit has a 70% share with its sales contractor. A revenue share of 60% is common.

WORKING: Choice of Pattison as Bus/LRT/Billboard sales contractor: Pattison holds the contracts in most of the major Canadian cities. This gives CT a lot of transit sales expertise with local accounts, but also brings Calgary a portion of major national advertising contracts.

Pattison is estimated to own 70% of the billboards in Calgary, a situation that could make them a direct competitor to Calgary Transit. Some sales contractors have been known to motivate their sales force to prioritize their own billboard sales over the less lucrative transit ads. However, I believe this is not the case with Pattison. According to the Pattison sales manager, the sales force's commission on selling transit advertising is higher than the commission on billboards. This decision is driven by the level of exertion required to achieve the escalating Minimum Annual Guarantee in a competitive environment made tougher by the advent of digital.

WORKING: Having Separate Rolling Stock/Station, Bus Shelter and Bench Contracts: Typical bus shelter and bench contracts are different from rolling stock/station contracts in that they require maintenance services and large capital investments associated with new shelter/bench installation. This is the case in Calgary. Because of the different nature of the contracts, it seems to make sense to keep them separate.

Transit systems predominantly run separate contracts for different media groupings. The basic belief here is that the introduction of competition among advertising vendors leads to sharper performance on each vendor's part. Presumably, total revenue to the transit agency is greater because each contractor is devoting its own resources (e.g., sales team) to doing its best, knowing that if it does not perform, a viable alternative is waiting in the wings. It is possible that the sum of the MAGs in the separate contracts is greater than it would be if combined into one. It is not possible to know for certain, as this has not been formally studied.

There is a case to make from a marketing standpoint, however, to combine at least the rolling stock/stations contract with the bus shelter contract. Shelter advertising and Bus/LRT/Billboards advertising both appeal to a single base of customers: the media planners who are purchasing on behalf of mostly large to medium-sized businesses. From the viewpoint of the customer who wants to purchase both buses and bus shelters, it is a significant inconvenience to have to make two separate purchases. Keep in mind that the purchase is not a single transaction: it is just the beginning of a working relationship that extends through production, placement and removal of the ads. To media planners, two vendors essentially doubles their workload.

A single platform sale (i.e., shelters only) potentially puts the vendor at a disadvantage relative to a vendor with multiple platforms. Bus shelter sales contractors often express frustration with having to compete with rolling stock/station vendors. If the advertising budget is a decent size, media planners want a blend of platforms for their client's campaign. One of the prevailing notions of effectiveness in the advertising world is "integration": the simultaneous showing of a campaign in multiple venues and on multiple platforms. In fact, one of Pattison's most effective sales strategies is bundling various platforms into a "package." From the media planner's side, this not only simplifies her purchasing – she also perceives that that she is getting a few extra spots free for her client. From Pattison's side, they are able to get a higher price point than the media planner might have had in mind to begin with. They are also able to include some slower moving items (e.g., bus sides).

In Edmonton Transit's new contract (2015), rolling stock and bus shelters are bundled into one contract with Pattison. The perspective of Bay Area Rapid Transit's marketing manager on why he chose to bundle all advertising vendors into one contract is the following: he got the guaranteed revenue he was looking for from the single vendor, and it was much more efficient for him to manage one contract than multiple contracts.

In Calgary right now, we see: 1.) bus shelters that are subject to vandalism, no doubt diminishing the asset's value in the eyes of media planners and advertisers; 2.) elimination of billboards from the mix of platforms to be sold; and 3.) a noticeably high level of empty bus sides. If bus shelters were available for the rolling stock vendor to sell as part of a package, it seems likely that bus shelter advertising sales would increase. If the bus shelter maintenance issue discussed below remains unresolved, we recommend further evaluation of consolidation of contracts, including sensitivity analysis of volume and sales scenarios.

NOT WORKING: Reconciliation Period Implementation in Pattison Contract: The Pattison contract specifies that CT is to be paid the higher of 65% of revenue (this is for bus and train – the percentages vary by mode of advertising) or the Minimum Annual Guarantee over the entire ten year period. What is different about the Calgary contract from most other contracts is the period of reconciliation. The specific language in the contract is the following:

> "Our minimum Guarantee Payment for Schedule A and B combined, over the term of the agreement is $50,000,000 OR 65% of the Transit Advertising cumulative gross revenues, calculated monthly, whichever is greater. …Terms of the revenue sharing offer are as follows:
>
> 1) For the term of the ten (10) year Agreement, the total percentage of cumulative revenues is to be calculated as the cumulative of sixty-five percent (65%) of Transit Advertising gross revenues achieved for Schedule A and B calculated monthly.
> 2) To clarify, our offer is for a single Guarantee paid in 120 (one hundred and twenty) monthly payments or the cumulative percentage of total revenue from the start of the Agreement over the term of the Agreement, whichever is greater.
> 3) The cumulative total of payments will not be less than the amount shown in the attached payment schedule."

Clause 2 above states that the period of reconciliation is the entire term of the contract. It is common practice in the industry for the reconciliation to occur every year. (CT's other two contracts specify annual reconciliation.) Since the Pattison's contract's inception, this omission has shorted CT roughly $2M in advertising earnings. Here is how: the annual reconciliation process is meant to "true up" the transit agency's cash flow to earnings. Over the course of twelve months, the sales agency pays the transit agency one twelfth of that year's Minimum

Annual Guarantee, so the cash flow during the year is equal to the MAG. However, the transit agency's advertising earnings for that year could be more than the MAG.

When the reconciliation period is one year, the transit agency is paid whatever excess over the MAG was earned in the twelve-month period. When the reconciliation period is extended to ten years, then the transit agency is not paid any annual excesses. Annual excesses in fact do not exist. Should the following twelve months' sales come in significantly under the MAG, then the sales agency, which is holding on to the previous years' excess, is free to cover that year's deficit with the excess that, if reconciliation were annual, would actually belong to the transit agency.

In sum, without annual reconciliation of the MAG cash flow to the actual sales earning, the transit agency forfeits: 1.) the year's excess funds and 2.) interest on those excess funds.

In 2009, CT and Pattison agreed to an addendum to the advertising contract that extends the contract by two years in recognition of the removal of fourteen transit billboards from active inventory. The addendum also requires Pattison to pay CT $1M when the surplus reaches $4M. This payment has been made once so far.

NOT WORKING: Not Specifying New Product Introduction: Refreshing the inventory of advertising assets is critical for staying top of mind with the media planners that drive advertising sales. Media planners succeed when they can bring fresh, new advertising ideas to their clients. For many transit agencies and their sales contractors, commitments to new products are made at the time of contracting, but are often not fulfilled.

Calgary's core contract does not require the sales contractor to bring new advertising products to market. The contract requires Pattison to supply new frames "to accommodate the growth of the system." The contract also requires prompt replacement of broken frames. However, the only mention of new products is to recognize that completely new vendors may show up at CT's door wanting to sell a new self-contained platform, e.g., "Tunnel Vision" (an in-tunnel installation that makes the ad appear to be in motion as the train passes).

To Pattison's credit, they have successfully introduced vinyl products to the Calgary transit advertising market. These are important because they provide some very large format ad space, which is in short supply due to the dearth of billboards. Also to Pattison's credit, they have invested in preliminary development of digital advertising (four static digital posters at Chinook Station) in advance of CT's decision about how to introduce digital throughout the transit system.

There are other large format types of advertising that we believe could be introduced to CT's advertising inventory. For example, stair risers are widely used in transit stations and stadiums. Fare gate posters that appear either on the stand or the gate, itself, have made an appearance in Boston. Vinyl floor posters are another item in frequent use in indoor venues. Introduction of items like these can help refresh the perception of transit media in the short term.

Future contracts should require new product development and introduction by the rolling stock vendor. In order to avoid cannibalization of existing sales for the new products, a separate MAG should be set for the new products. Any growth forecast for existing and new assets at the time of contracting still falls under the original MAG. The original MAG is not adjusted downward (at least not significantly) to accommodate the new products introduced.

NOT WORKING: The Maintenance Portion of the Outfront Media shelter contract: As reviewed in the previous section, the shelter contract's contribution to CT revenue relative to sales is very small (20%) because the contract is inclusive of significant capital investment (installation of twenty-five new shelters per year) as well as full maintenance and repair responsibilities. As discussed, the repair and maintenance services provided are not meeting CT's expectations.

It seems reasonable to establish a spending cap for glass replacement (labor and materials) paid by the contractor. It also seems reasonable to establish maintenance priorities. By negotiating these two items, both parties will approach the relationship with a clearer set of expectations, which could lead to overall better performance, including the contractor achieving advertising sales at a level where CT's revenue share exceeds the MAG.

The alternative is to change the shelter contract so that it covers advertising sales only and sub contract the maintenance and repair to a firm for which maintenance is the primary business.

WORKING AND NOT WORKING: SUMMARY

To summarize, in the contracting realm alone, there are several opportunities to increase significantly CT's realized advertising revenue. These are the following:

1. Move to annual reconciliation of revenue share earnings vs MAG cash flows;
2. Renegotiate shelter maintenance and glass replacement to levels CT can live with, or else decouple maintenance and repair from advertising sales;
3. If 2 doesn't succeed, consider consolidation of bus shelters into the core rolling stock contract;
4. Demand new product introductions and create a separate MAG for the sales.

Possible Addition of Street Furniture

The City of Calgary is currently considering adding a street furniture contract to the mix of existing advertising contracts. Many cities are finding street furniture advertising lucrative. (Toronto's contract with Astral Media assures the transit agency of $428M in advertising revenue over 20 years.) They also recognize it as an opportunity to upgrade outdoor spaces, drawing pedestrians, and with them, an invigorated commercial scene.

Street furniture advertising is typically sold direct to local companies with small advertising budgets that would find value in reaching a mostly downtown (or city center) audience of pedestrians. The media planners we consulted for this study did not mention street furniture among those platforms in high demand among their customers. This is because their clients are typically larger companies looking for broader and deeper advertising exposure than street furniture offers.

Calgary Transit already has a street furniture contract: the Bench contract with FarWest Outdoor Advertising. How might the expansion of the street furniture program affect the bench contract? Some degree of cannibalization of bench advertising sales is sure to occur, since bench and other forms of street furniture (e.g., kiosks, litter and recycling receptacles, multi-publication stands) target the same audience. However, the net effect might actually be to grow the entire market for street furniture advertising. FarWest's advertising sales in Calgary increased 30% between 2011 and 2013. This could be an indication that there is much room for growth in this category. If this is the case, then adding more, and more types, of street furniture could be the significant revenue growth opportunity the City envisions. It all depends on how big the market could get. In the absence of a rigorously developed market potential assessment, it would be wise to add street furniture slowly so as not to oversaturate the market.

Additional Opportunities for Increasing Advertising Revenue

The most significant additional opportunities for increasing CT's advertising revenue are the following:

1. Improve collaboration between the transit agency and its advertising sales contractors;
2. Increase the number of billboards;
3. Add digital media opportunities;
4. Increase the number of large format opportunities in addition to billboards;
5. Increase flexibility and establish guidelines for allowable format exceptions.

1. Improve collaboration between the transit agency and its advertising sales contractors

Advertising sales is an everyday activity requiring manager-level attention from the transit agency. Collaboration between the transit agency and the advertising sales contractor is required for both planning and execution:

- Planning:
    - Can the transit agency give approval to the unique advertising execution requested by the advertiser?
    - What is the next new advertising format CT can introduce to keep its inventory fresh?
    - Are CT personnel aligned with advertising being a priority?
    - Are CT's processes sufficiently transparent so that outside collaborators (media planners, sales contractors) understand what to expect?
    - In designing a new platform or station, has the transit agency considered installation of these recommended new media platforms?
- Execution:
    - Will the cars be available as arranged for installation (and removal) of new ads?
    - Is the operations team prepared to receive the ads when they are due to arrive?
    - Can the cars accommodate this style of ad or this mode of installation?

Today, CT's relationships with its advertising sales contractors are at best weak. The main reason for this is the lack of infrastructure, and in particular, a sales-oriented manager, on the part of CT.

Selling advertising is far from the core of what public transit agencies exist to provide. It is natural that transit agencies hope that the advertising sales effort can be largely “turnkey.” However, many agencies have discovered that not dedicating a management-level resource to this activity to facilitate the work of the sales contractor significantly sub-optimizes advertising sales.

This manager-level resource, often titled director of non-fare revenue, needs to come from the field of sales and/or marketing. He or she needs a “how can I drive sales / grow our advertising business?” mindset. A procurement person, operations person or contract management person by training will not have the necessary orientation to build sales. When, for example, the advertising sales manager calls with an out-of-the-box request that could be very lucrative for CT, we want the internal manager to “jump through hoops” to get to CT top management for immediate approval. One media planner we spoke with said that getting approval for an advertiser’s special request is assumed to be a “losing battle” that is not worth the bother. The perception is that they are “dealing with a huge bureaucracy” for which decision-making proceeds very slowly. This must be addressed.

This individual also requires leadership skills. He or she must harness the internal resources of the transit agency in the interest of advertising sales. This is not easy in an organization that prioritizes smooth operations. The advertising manager in Edmonton described his own yearlong process of bringing together the transit agency’s operations teams and the advertising contractor’s installation teams to hammer out rules of engagement and other policies and procedures.

This individual must also articulate policies so that media planners have greater clarity about what is allowed as well as what they can expect if they make a special request. He or she needs to be the internal voice that says, “Yes, we can do that” to counteract the perceived organizational bias to say “no we can’t.”

A key part of this individual’s job is to hold the sales agencies accountable for their contractual obligations. By instituting and adhering to a regular schedule of business review meetings, the relationship can achieve a level of transparency that will foster greater collaboration. Currently, frustrations rattle both parties: the transit agency wonders whether they are getting the level of attention they expected. Sales contractors chafe at the lack of prompt access to a decision maker.

Finally, this individual should report directly to the transit agency director or someone very close to the director. For advertising revenue to grow, this effort needs to be an area of accountability for someone in top management. This person would also have the ability to authorize requests for unique advertising executions on behalf of CT. Having representation at the top of the organization sends the message to all CT employees that advertising revenue is important. This "air cover" will be extremely useful in the advertising manager's efforts to align the organization, especially the operations teams.

At least one major US transit agency requires the salary of the transit agency's advertising manager to be paid by the sales contractor. In our opinion, the preferred model is for the transit agency to cover the cost of this individual and whatever staff support they may need. This is an important way for the transit agency to express its commitment to supporting – and more importantly, engaging in – the advertising sales initiative.

2. Increase the number of billboards

There is significant latent demand in the Calgary advertising market for more billboards. Some media planners estimate that the inventory of billboards is deficient by about 50%. In other words, the competition for billboard space is so intense that the inventory could double without reaching oversupply.

The City of Calgary's restrictions limiting billboards are regarded as some of the tightest – if not the tightest – restrictions among major advertising cities. Billboards, as this report stated earlier, are the most popular out of home platform. With fourteen billboards removed from inventory, CT's large format opportunities for advertisers declined significantly. However, advertising sales have remained at the same level due to a level of demand that supported much higher pricing. Adding more billboards will probably make the higher price points unsustainable; however, the increased inventory will more than make up for that.

CT has the real estate to build more billboards, for example, at LRT stations in transit bus loops and in Park and Ride lots that are adjacent to major roads or activity centers. If the City were to relax its restrictions and allow more billboards, would this be good or bad for CT advertising sales? The concern with loosening restrictions is that competitor billboard sellers would benefit as well. With billboards, the most highly sought media, would this increased competition from billboards actually have a dampening effect on transit advertising sales? It is worth noting that Pattison Outdoor, CT's main sales contractor, currently owns the majority (by one estimate, ~70%) of Calgary billboards.

We asked this question of the media planners we interviewed. The consistent response was that, without question, Calgary Transit would benefit from increasing its inventory of billboards. It is true, most acknowledged, that transit would lose some sales, especially where transit has been used as the only available substitute for billboards. However, media planners often like to use both billboards and transit media when their clients' budgets permit. Using a mix of platforms increases the size of the audience reached, and enables more frequent viewing of the message.

In addition, having more billboards to sell opens up more opportunities for out-of-home media packages, which media planners find very appealing. Pattison has had much success packaging transit ads along with billboards at discount prices. Each item sold realizes a somewhat smaller margin, but much more inventory is sold this way. It is important to note that Pattison has expressed support for CT adding billboards to its inventory. In fact, it was Pattison's proposal, in the 2006 RFP, to build to new billboards on the rights of way.

3. Add digital media opportunities

Digital media opportunities have exploded onto the advertising scene, particularly over the last ten years. Advertisers like not only the illumination digital platforms provide. They also like the ease of production of digital advertisements and the ability to make changes "in real time." Compared to working in a digital platform, static platforms pose major burdens. The advertising material requires long lead times to produce and install; they are not changeable once they go into production, which is often two to three months before they are viewed by consumers; and they often cost a lot of money to produce. With digital opportunities increasingly available, advertisers' willingness to work with non-digital media declines.

It is noteworthy that Edmonton Transit, in its new rolling stock/stations/platforms contract effective January 2015, required replacement of 100% of its existing static station posters with digital posters over the contract period.

The digital media currently offered by leading transit systems include:

- Large digital screens at the entrances and exits of stations and along internal corridors;
- Digital posters in stations and on platforms that rotate advertising;
- Digital monitors that show bus/train arrival information, public announcements, and news in addition to advertising;
- Digital television screens inside buses and train cars.

CT currently has four vertical digital boards on the Chinook Station platform as well as digital monitors (large format televisions) in four stations. The Agency is currently preparing an RFP for a supplier and operator of an entire digital network, i.e., expanding the four-station trial to the entire CT system. Via a digital network, monitors display information to transit system users as well as advertising.

Most media planners interviewed agreed that digital media platforms would be in high demand. They were particularly favorable on the appeal of ceiling-mounted electronic screens (smaller than posters) on platforms due to their unobstructed lines of sight. Digital platforms are also a considerably more lucrative than static boards. According to Pattison, they can generate five times the revenue of static ads.

On a side note, the media planners interviewed were not aware of CT's new digital boards at Chinook Station. Some offered the fact that they never use public transit as an explanation for their lack of awareness. This is a good reminder than an important part of the media sales role is to apprise customers of new advertising opportunities. Often, media planners will say they don't have time to discuss anything other than contracting and execution planning with their sales rep. It is up to the sales contractors to find a way to get media planners' attention. Several media planners said they would attend an organized market tour that showcases new transit advertising opportunities.

Edmonton Transit was wise to plan the conversion of its static posters to digital. Digital is rapidly becoming not only the preferred, but the dominant format for all advertising. CT is moving in the right direction with its RFP for a digital network. For its next contract, it should also consider requiring the replacement of static posters in stations and on platforms.

4. Increase the number of large format opportunities in addition to billboards

Large format opportunities are in high demand from advertisers because they increase the chances that the ad will "break through the clutter," as they say. Opportunities in which an advertiser can execute an ad that is out-of-the-ordinary take on greater value. Many media planners feel that transit advertising offers many of these opportunities. This is one of the strongest attributes of transit advertising.

Bus tails, vehicle wraps and station dominations are the most common large format platforms available from CT today. Pattison's sense is that demand for wraps, in particular, exceed their and CT's ability to supply them, due to lack of dependability of the installation process. On occasion, installations have not taken place as planned due to the buses or trains not being available as promised. Often, the explanation is that the vehicle was required as an emergency replacement.

This is a prime example of where a closer working relationship between Pattison's installers and CT's operations team will help drive higher advertising sales. (See item 1 above.) If the sales contractor repeatedly runs into these difficulties, they will adapt out of necessity. One adaptation is selling fewer wraps. Another adaptation is requiring advertisers to commit to longer contracts when rolling stock is involved. Although these are reasonable approaches, both sub optimize sales opportunities.

The specific large formats that media planners would like to purchase from CT include:

- 10' x 20' billboards;
- Digital spectaculars (larger than 14' x 48') in indoor stations;
- Platform dominations;
- More larger format posters.

5. Increase flexibility and establish guidelines for allowable format exceptions

In addition to using large formats, advertisers break through the clutter by doing creative things with their ads. An example is adding a three-dimensional element to a two-dimensional poster in a station. Media planners build their businesses by offering their clients (advertisers) exciting advertising opportunities. Often, this means trying something that hasn't been tried before.

The media planners we interviewed expressed a feeling of defeat about gaining approval from CT for even the most reasonable requests. The perceptions they expressed included the following:

- Requests are never responded to, or are responded to after so much time that the interested parties have already move onto the next opportunity;
- Requests are denied for inconsistent reasons;
- Even if approval is obtained, there is still a risk that a very few consumer complaints will move CT to order the entire installation removed.

This third bullet point is a media planner's worst case scenario. Her client's money has been entirely wasted, and she (the media planner) is responsible. This is sufficient deterrent for any media planner wanting to sell an exciting transit media opportunity to her client.

As a public agency, CT does need to enforce appropriate content guidelines and be responsive to consumers. It is not clear, however, that this means always removing ads that a small group of consumers dislike.

We recommend that transit agencies develop policies about ad format changes as rigorously as they develop policies governing content. Starting with examples of out-of-the-ordinary executions in other transit markets, perform whatever due diligence is necessary – safety considerations lead among them – to establish the policy. We urge, as well, that transit agencies develop a review process that specifies its criteria for approving previously untried ideas and commits to a decision period. Making the process transparent, and issuing an approval or two, is likely to re-ignite interest in transit as a medium where attention-getting advertising can happen. Consistent implementation of this request system will be a focus for the new position we recommend in point 1 above.

In general, media planners would find very helpful a clear articulation of the process and timeline for installing advertising on all transit media. This should be the responsibility of the sales contractors, as they are the liaisons to the purchasers. A major complaint is how far in advance of air date the financial commitment to the advertising must be made. Unfortunately, it is problematic to be flexible here. The production time required for most transit media advertising is at least two months; if a commitment to the media were cancelled within that time period, the media would have to remain unsold.

Additional Recommendations

The recommendations outlined above in the "**Performance of Calgary Transit's Sales Contracts**" section and the "**Additional Opportunities for Increasing Advertising Revenue**" section are the items that will have the most significant impact on increasing advertising revenue for CT. In addition, we offer the following items that will contribute to advertising sales, though not to the extent as those outlined above.

Advertising Inventory

1. *Sell bus routes individually*. Some media planners want to target consumers on certain bus routes only. Decoupling the routes from each other may generate a bus sale that would otherwise not take place. Media planners indicate willingness to pay a premium for this ability.
2. *Explore illumination of bus shelter advertising panels*. The Outfront media sales team has wanted to upgrade its bus shelter advertising offer for some time by illuminating the panels. They believe that involvement of the transit agency could greatly increase their chances of success with the City of Calgary's power supplier.
3. *Keep bus sides full*. Displaying unsold inventory diminishes the perceived value of the asset. CT should keep ads for itself in stock to fill any unsold bus sides. Note that this will most likely require use of public service ads or ads for CT, itself.
4. *Add frames to station interiors*. Westbrook station, one of the few indoor stations in the CT system, has a large lobby, but very little advertising.

Management

1. *Meet with sales vendors regularly*. The agenda includes: sales performance tracking and forecasting; installation and maintenance performance tracking; review of product and pricing mix; current challenges or obstacles; new platform and/or product development progress.
2. *Conduct a semi-annual conference call among all Canadian transit agencies served by Pattison*. With so many of the top Canadian transit agencies working with Pattison, a rare opportunity exists to compare notes on performance, share best contracting practices, hear about new platforms or products, and troubleshoot challenges.

Conclusions

Overall, Calgary Transit's advertising business is in good, but not excellent, shape. Revenue has been growing, as it should be, given the positive economic climate and the growth of the category. Unlocking superior growth requires the changes in the advertising products offered, contracting terms, and internal management on the part of CT. These adjustments are now more urgent given Alberta's current economic slowdown.

As discussed in this report, Canadian transit agencies are demanding big numbers from their advertising contractors. The market will let the transit agency know if it has overestimated the value of its advertising. Bidders will fail to submit proposals, as witnessed by Edmonton on their recent shelter RFP. It is difficult to overstate the importance of maintaining the advertising assets in top form to sustain, let alone grow, demand. Although transit advertising is better positioned in Calgary than in some markets due to its exclusive reach into some high demand areas of the city, most of the advertising products have been around for a while. Just as consumer products need periodic updates to generate attention, so do advertising products.

CT's sales contractors are bullish on the advertising opportunity for CT. We asked the Pattison sales executive whether 30% market growth might be a possibility. He confirmed that it could be possible with the introduction of digital, increased advocacy from CT and the other adjustments recommended in this report.

Summary of Recommendations

CALGARY TRANSIT

1. **Negotiate looser restrictions on billboards**
    a. Recommission the 14 boards that were removed
    b. Build new billboards on CT properties adjacent to major roadways
    c. Go for big formats and digital technology (not rotating billboards – these are universally disliked by media planners because of the wear and tear they cause to creative)
2. **Introduce more large format posters at major bus terminal and new stations that were not outfitted with frames to begin with (e.g., Westbrook Station)**
3. **Hire an non-fare revenue manager who can lead internal alignment and change**
4. **Assign accountability for transit advertising growth to a member of top management to whom the Advertising Manager reports**
5. **Get clarity on the extent to which CT is willing to be flexible in allowing out-of-the- box advertising executions**
6. **Pursue digital monitors for stations and platforms**
7. **Assist Outfront Media with bringing ENMAX to the table to understand what is required for bringing power to bus shelters**
8. **Further analyze options around bus shelter maintenance and sales**
9. **Further analyze potential of street furniture and possible new contract's impact on FarWest bench contract, in particular**

ADVERTISING SALES CONTRACTORS

1. **Develop a proposal for introducing digital screens to replace some static screens in stations**
2. **Refresh existing inventory with stair risers, floor vinyls, and other low-tech but high impact formats**
3. **Make it a priority to keep bus sides full**
4. **Make appropriate investment in keeping media planners apprised of new inventory, e.g, digital boards at Chinook**
5. **Provide appropriate staffing levels (admin and sales) to ensure the best performance possible for CT**
6. **Keep CT apprised of marketplace trends that are accelerating and/or decelerating transit advertising sales**