
City of Kelowna

MEMORANDUM

DATE: January 30, 2002
FILE: 8501-06
TO: City Manager
FROM: Deputy Director of Finance
RE: AWARD OF TRANSIT ADVERTISING CONTRACT

Report prepared by Financial Planning and Systems Manager

RECOMMENDATION:

THAT Council approve the granting of exclusive permission and rights for the sale of advertising on City owned bus shelters and benches, and on regional transit buses to Obie Media Limited for the period from February 1, 2002 to December 31, 2004, with an extension option to December 31, 2006.

AND THAT the Mayor and City Clerk be authorized to sign the transit advertising franchise agreement with Obie Media Limited.

BACKGROUND:

The City of Kelowna issued a Request for Proposals for a Transit Advertising Franchise on October 30, 2001.

The transit advertising franchise includes advertising rights to the following:

- Bus advertising – inside and outside advertising on 40 in-service buses and 4 spare buses including frame and vinyl advertising products (base proposal includes 1 full bus vinyl, 10 driver side vinyl and 13 full back vinyl),
- Bus shelter advertising – 28 bus shelters totaling 54 advertising faces,
- Bus benches – 87 benches located on arterial and major collector roadways designated as advertising zones.

The proposal call requires the maintenance of all transit shelters and bus benches both within and also outside of the advertising zones. The agreement calls for regular cleaning, trash removal, repairs and maintenance for all shelters, benches and snow removal at shelter locations. Repairs and maintenance include all costs associated with vandalism.

There were two proposals received by the closing date of November 22, 2001, from:

- Obie Media Limited
- Signs Now

The previous contractor, Mediacom, was recently purchased by Viacom Outdoor and declined to submit a proposal for continuing to work in this area.

A review team comprised of the Purchasing Manager, Transportation Traffic Technician and Financial Planning & Systems Manager established criteria for the evaluation and selection of a new proponent. Each proposal was scored based on technical and financial elements that included:

- The proponent's qualifications, relevant experience and success in operating similar advertising franchises
- The proponent's operating, marketing and business plans
- The proponents financial resources and capability to operate an effective advertising franchise service
- The proponents financial proposal including contractual terms and the financial return to the transit partners

Using the above criteria the review team scored the proposal from OBIE Media higher than the proposal from Signs Now.

Obie Media's submission has the best balance between revenue to the City and operating expertise. Obie Media has 42 years of experience in out-of-home advertising including 20 years of transit advertising experience. They are the second largest transit advertising provider in North America and have operated the BC Transit advertising contract since 1998. Obie Media currently has transit advertising displays on nearly 12,000 vehicles, 1,100 benches and 102 shelters across North America. Their operating plan includes the establishment of a local sales office with a District Sales Manager based in Kelowna. They have an aggressive local sales program, a regional client/agency sales program and a strong national sales program. Their national sales team operates from offices in Vancouver, Toronto, New York, Chicago, Los Angeles, San Francisco and Dallas. Their marketing plan includes a strong local direct sales approach that is especially important during periods of slower economic growth. Demographic specialists are used to update their sales force and a newsletter is prepared to keep customers and business partners informed of news, trends and events.

The contract is for a two year and eleven month term with an option available to the City to extend for a further two-year period. Based on the current inventory of buses, shelters and benches, the guaranteed minimum return to the local transit partners is \$518,000 over the complete term of this contract. The guaranteed minimum amount may be supplemented based on the gross advertising revenues generated by Obie Media Limited. The City will receive 40% of the gross advertising revenues (less commissions and production charges) or the minimum annual guarantee, whichever is greater. Expansion potential and the use of innovative new product lines could also increase the return over the contract term.

The previous contract for advertising rights was with Mediacom and expired December 31, 2001. The five-year minimum amount on that contract was \$560,000 and the transit partners actually received \$649,960 based on expansion and new advertising products. That contract was prepared during better economic times, especially for the advertising industry. The new contract was negotiated for a three-year term with a two-year extension, at the City's discretion, in case the market does change significantly by the end of 2004.

Advertising revenues from the buses are shared between the three local transit partners based on the transit revenue sharing splits. Revenues from the shelters and benches are currently only for the City of Kelowna but this may be expanded to include the other partners at a future date. Bus advertising revenues are used to reduce the taxation requirements for the operation of the transit system. The shelter and bench revenues are used exclusively for improvements to the City's transit amenities including upgrading of bus stops to meet accessibility standards, the purchase of new shelters and benches, and other changes made to increase ridership on the transit system.

Contract discussions have been completed and, subject to Council approval, Obie Media Limited is ready to begin operations in Kelowna immediately.

Paul Macklem

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cc. Director of Finance and Corporate Services
Financial Planning and Systems Manager
Purchasing Manager
Transportation Manager