



Metro

January 18, 2006

Following is a report on Metro's advertising revenue and customer communications policies and activities.

Advertising Revenue

In March 2000, the Board adopted a comprehensive advertising policy permitting Metro to enter into contracts with outside vendors to sell and display advertising on buses, trains and transit facilities. The policy outlines content restrictions which include the prohibition of alcohol and tobacco advertising, the prohibition of non-commercial advertising, and the prohibition of obscenity and profanity. It also prohibits the display of advertising of any kind on the exteriors of rail vehicles, Bus Rapid Transit vehicles or any other new types of transit. The Board amended the policy in December 2004 to permit ads on exteriors of Metro Rapid vehicles. The full policy is attached.

Metro currently has two revenue-generating contracts for advertising:

- A contract with CBS Outdoor (formerly Viacom Outdoor Group) for advertising on exteriors and interiors of Metro buses
- A contract with Transit Television Network for the installation, operation and sale of advertising on TV monitors on Metro buses

CBS Outdoor

The following represents a review and current market analysis regarding this contract:

1. Metro has just begun the fourth year of a five-year contract with CBS Outdoor (Contract No. PS-02-7140-1106, License to Sell and Display Advertising on Metro Buses, expiring on December 31, 2007). Annual revenues by calendar year guaranteed by this contract are:

2003 - \$13,000,000
2004 - \$13,500,000
2005 - \$14,000,000
2006 - \$14,500,000
2007 - \$15,000,000

2. To date, the vendor has performed satisfactorily, and all payments due Metro have been received in a timely manner.
3. Increases in the number of peak-hour buses that accept advertising during the life of this contract have triggered two 10% increases in CBS' monthly payments to Metro. The first increase took effect in January 2005 and was prompted by additional bus service launched in the December 2004 shake-up. The second increase took effect in May 2005 and was the result of a policy change allowing advertising on Metro Rapid vehicles. As a result of these two increases, Metro's total bus advertising revenue for FY05 was \$14,683,332 or \$933,332 over the original contract amount.
4. Metro is guaranteed a minimum of \$29,500,000 in bus advertising revenue during the remaining two calendar years of the contract (2006 & 2007). If the number of peak-hour buses that accept advertising remains as is and the two 10% payment increases remain in effect, Metro's revenue during this period would increase by \$5,900,000 to a total of \$35,400,000.
5. According to a 2004 report released by the Transit Cooperative Research Program (TCRP), Metro ranks 4th in the nation among major transit agencies for annual advertising revenue.
6. According to TCRP, some transit agencies experienced large declines in bus advertising revenue in 2002 and 2003 because of a decline in the advertising market and the economic recession in general.
7. Due to a series of mergers over the past eight years, the number of advertising sales contractors has been reduced, and there is now less competition for transit agency sales contracts. In TCRP's survey, 36% of RFPs issued in 2001 and 2002 received only one bid and 45% received just two bids, whereas none of the RFPs issued between 1997 and 2000 received only one bid and 63% received three bids or more.
8. When Metro's current advertising contract was procured, two bids were received. The successful bid, which totaled \$70,000,000 in guaranteed revenue over five years, represented an increase of \$4.5 million in total revenues over the previous bus advertising contract. The other bid totaled \$42,000,000 or 40% less than CBS' bid.
9. According to TCRP, reduced competition raises the question of whether transit agencies will continue to see significant increases in their advertising revenue as contracts come up for renewal. Some transit agencies that have had to renegotiate their contracts have experienced sharp revenue declines. For example, in 2003, advertising revenues for transit agencies in San Jose and Seattle were less than half those received in 2002.

10. Although the primary purpose of this contract is to generate revenue, Metro also receives an allotment of exterior and interior space to promote transit services. Posting of these ads is included at no charge.

Note: In March 2000, the Executive Management Committee asked staff to investigate the feasibility of administering Metro's bus advertising program in-house rather than through an outside vendor. Staff subsequently conducted a review and analysis which concluded an in-house advertising program would generate significantly lower revenues and, unlike an agreement with an outside vendor, offer no revenue guarantee.

Transit Television Network

In May 2003, Metro released a Request for Proposals soliciting vendors to create revenue-generating displays on Metro bus vehicles, rail vehicles, and/or passenger facilities. Three proposals were received and reviewed extensively, resulting in a 10-year contract award by the Board in January 2005 to Transit Television Network to install, operate, maintain and sell advertising on small video screens on Metro's bus fleet.

This is a revenue contract and is guaranteed to generate a minimum of \$100,000 in new revenues annually at no cost to the agency. In addition to bearing all costs of installation, maintenance and operation, Transit TV will pay Metro a minimum of \$100,000 per year or 10% of each year's gross advertising revenues (whichever is greater) during the first five years of the contract, and a minimum of \$100,000 per year or 10% to 40% of gross advertising revenues (whichever is greater) on a sliding scale in years 6 to 10. Based on TTN's revenue projection models and the revenue sharing formula negotiated, Metro's projected revenues from this contract could total approximately \$10.3 million through the first five years, and may reach approximately \$67 million over the proposed ten-year life of this contract. However, only the minimum of \$100,000 per year is guaranteed.

The Transit TV system provides riders with news headlines, trivia questions and entertainment features, accompanied by rider announcements and advertisements. Fleet-wide installation of the system began in June 2005. Over 1,000 buses currently have the monitors, with approximately 40 more vehicles being installed each week. Transit TV expects to complete installation by Summer 2006.

Transit agencies in Orlando, Milwaukee, Chicago and Atlanta have similar systems; Metro will be the largest US transit agency to have this type of system in full revenue operation.

In Metro's most recent semi-annual Customer Satisfaction Survey, conducted in October 2005, 83% of our riders said they have noticed the Transit TV monitors on-board. Of those, 86% indicated that they prefer being on a bus with the TVs.

Rail Advertising

Metro has made various attempts to solicit revenue generating advertising proposals on its rail system over the years. As projected revenue levels have been low, and the proposals have offered no other benefit to Metro or its riders, no such contracts have been established.

- In 1997, Metro solicited bids asking vendors to create an infrastructure to display advertising on the rail system and then sell the advertising on it. No proposals were received.
- In early 1999, Metro released a revised version of the above solicitation that sought to reduce but not eliminate the need for an investment from the vendor. It produced one proposal which offered Metro approximately \$39,000 a year, which staff deemed too low to warrant a contract award recommendation.
- In late 1999, the Board declined to award a two-year contract for advertising on the rail system (derived from another revised version of the above solicitation which required no investment from the vendor) because it included placement of ads on the exteriors of rail cars. The revenue offered in the contract averaged \$437,500 per year.
- In 2002, Metro solicited bids for the right to sell and display advertising on Metro Rail in approximately half of the existing interior car frames and station display cases for a period of five years. This solicitation required no investment from the vendor. The highest bid received averaged \$118,000 per year, which staff deemed too low to warrant a contract award recommendation.
- In November 2005, staff reviewed an unsolicited proposal from a vendor to install "animated" advertisements inside the subway tunnels. The proposal offered Metro \$60,000 a year per installation, and was based on doing two installations. As extensive time would be required from rail operations to accommodate installation and maintenance, staff deemed the proposed revenue too low to justify further consideration.
- CBS Outdoor, Metro's current bus advertising vendor, has expressed interest in selling "station domination" displays (vinyl graphics which cover many wall surfaces of a single station advertising a single product) and other large-scale displays in select Red Line stations. Such displays could generate an estimated \$30,000 per installation for Metro. However, no proposals have been received to date.

Other Advertising Revenue

Staff has pursued various other methods to generate revenue through advertising and sponsorships over the years. All of these projects have produced a small monetary return, and in some cases were conducted as much to provide a service to the advertiser as to generate revenue.

- Staff sold advertising space in a printed directory of Pass and Token Outlets from 1998 to 2002. Ads were sold primarily to check cashing chains that carry Metro's fare media. Annual revenues ranged from \$2,370 to \$12,225.
- Staff created sponsorship arrangements to offset printing costs of the Metro Bus & Metro Rail System map, first with Carl's Jr. in 1999 and then with Nix Check Cashing from 2000–2003. The arrangement called for including the sponsor's logo on the cover and showing their outlets on the map. The sponsors paid approximately \$17,000 per year towards printing costs.
- From 1999 to 2001, staff created cross-promotions with the Pantages Theater and Universal Studios that included paid ad space in two Hollywood rail stations for occasional periods. Total revenues were approximately \$35,000.
- Staff has investigated placement of paid advertising on Metro Passes on several occasions, and offered such opportunities to potential advertisers such as theater chains, sports venues, tv stations and fast food restaurants. No interest has been expressed, in part because of the long production process of Metro Passes (4-5 months from design to distribution), the visual quality of the counterfeit-resistant printing process, and limited space. However, the TAP card (Universal Fare System's stored value card) may have potential to offer sponsorship and advertising capabilities when implemented.

Staff continues to actively seek partnerships with major events and destinations in order to promote the use of the Metro System in accordance with the cross-promotion provisions of the advertising policy. Recent partners have included the Latino Film Festival, LA Avengers Arena Football at Staples Center, the Hollywood Christmas Parade, and the Chinese Food Festival. Such partnerships also provide Metro with opportunities to provide information to local communities and diverse populations. Staff has not sought to include the type of revenue generation listed above in these recent arrangements, but can return to doing so if desired. Staff also is always open to investigating new ideas or revisiting previous ones for generating revenue.

Customer Communications

Since 2002, Metro has aggressively sought to reach existing and potential customers throughout Los Angeles County with an extensive marketing and communications program conducted through multiple languages and varied media outlets. Among efforts taken:

- Over the past few years Metro has promoted virtually every route in the system, including individual promotions of every route requested by the Sectors as well as extensive promotions of all Metro Rapid lines, Metro Express Lines 450X and 577X, the Metro Orange Line, the Metro Gold Line, and new products such as the Metro Day Pass. These outreach efforts have made use of billboards, bus shelters, bus benches, radio, direct mail packages, self-mailers, newspaper ads, magazine ads, press events, websites, e-mail blasts, bus exterior ads, bus and rail interior cards, banners, posters, brochures, postcards, and mall and airport kiosks. Virtually all of these materials are produced in English and Spanish; in some cases they have been produced in Chinese and Korean. Informational materials in Braille and on audiotape also have been produced. Metro offers to make information available in any alternative language or format on request.
- In 2002, Metro established a monthly series of informational ads called Metro Briefs. These ads report news about Metro projects, promote specific routes and services, encourage attendance at local Governance Council meetings, and provide messages on safety and other topics. Currently, Metro Briefs appears in 7 languages (Armenian, Chinese, English, Korean, Russian, Spanish, Thai) in a total of 99 separate newspapers, many of which are distributed free in various communities. The publications are segmented geographically according to the five Service Sectors plus a General group; six ad versions are created each month, with content varying geographically. A complete list of the publications is attached.
- Metro established a monthly rider bulletin in 2002 in English and Spanish called Metro News. Distributed on board all buses and trains each month, this publication reports news about bus and rail-related projects, promotes routes and destinations, and provides safety, security and other messages.
- In 2003, Metro implemented a New Resident direct mail program to attract new riders. As people are likely to explore new travel patterns when they move, Metro sends an invitation to try transit along with an offer of a free weekly pass to those who have relocated within Los Angeles County. This program has generated a response rate of 8% to 10%, which is extremely high for direct mail. Surveys of the respondents have revealed that 40% are new to transit in Los Angeles, and 41% have been occasional riders. Only 19% of the respondents indicate that they were already frequent users of our system. This indicates the program is very successful at introducing new riders to Metro's services.
- Metro's current transit campaign theme, "Go Metro," was established in January 2004. It is refreshed every 6-8 weeks, primarily using ad space on Metro vehicles

for which no cost is incurred. Each new ad version promotes the benefits of going Metro for commuting, visitors, shopping, recreation and more. The campaign received a First Place Award in the American Public Transit Association's annual transit marketing competition in 2004. The Metro Day Pass campaign received a First Place Award in the Transportation Marketing & Communications Association's annual competition in 2005.

- To provide a more decentralized approach to meeting external communications needs that are specific to each sector, Communications set aside \$20,000 per sector in FY06 to be used at the discretion of the Sector General Managers to address marketing matters in their areas (see attached memo). To date, none of these funds has been requested.

Market Research

Metro conducts a semi-annual customer satisfaction survey as well as various general public surveys. Following are some of these surveys' findings regarding Metro's marketing and customer communications programs.

- Metro's average weekday ridership has risen by 5.5% since 2002, from 1,296,122 to 1,368,841.
- More specifically, Metro's percentage of "choice" riders – those who could have made their trip in a car – rose from 22% in Fall 2002 to 31% in Spring 2005, dropping back slightly to 28% in Fall 2005.
- A general public survey in 2004 revealed that people who have seen any of Metro's advertising are twice as likely to view Metro as performing well in providing its services than those who have not.
- Among non-riders, the same 2004 survey indicated that people who have seen any of Metro's advertising are nearly twice as likely to state that they plan to ride Metro in the next six months than those who have not.
- The perception of Metro has improved dramatically in recent years among riders and non-riders alike. In a 2004 year-end general public survey, 83% of the respondents indicated that they had a favorable opinion of Metro, up from 70% at the beginning of the year. Among current riders surveyed in Fall 2005, 85% think Metro's image is improving, up from 81% eighteen months earlier.

Language Outreach

In November 2005, the General Accounting Office of the United States published a report on the efforts of transit agencies to reach those of Limited English Proficiency, meaning people who do not speak English at all or do not speak English well. Metro was among 20 agencies whose customer communications programs were reviewed for the report.

Metro rated highly among other agencies in its commitment to multiple language outreach. Among the report's findings:

- Metro had the greatest use of multiple languages, being the only agency to offer information on a regular basis in 7 different languages.
- Metro was one of only 4 transit agencies that provide Spanish language information through eight different means, including radio advertisements, recorded announcements and ticket vending machines.
- Metro was one of 7 transit agencies that provides select materials in languages other than Spanish, and one of only 4 agencies that are able to provide translated materials on request.

Additional

Metro's Communications unit constantly monitors best practices among transit agencies through participation in APTA's Marketing & Steering Committee, the national Transit Cooperative Research Program, and the Regional Marketing Exchange Group, which regularly brings together marketing representatives from the municipal operators in Los Angeles County.

Staff welcomes additional ideas and is always open to new avenues for improving Metro's marketing and customer communications programs.

Attachments

1. Metro System Advertising Policy
2. List of Metro Briefs publications
3. Memo on Decentralized Communications Support for Service Sectors