



Management, Development, Selling and Maintenance of SPT Advertising Space

Committee Operations

Date of meeting 10 March 2017

Date of report 09 March 2017

Report by Assistant Chief Executive (Operations)

1. Object of report

To recommend the committee approves the award of contract for the management, development, selling and maintenance of advertising space across SPT's estate.

2. Background

2.1 Current Advertising Contract

To support the cost of operating the Glasgow Subway and our Bus operations, SPT has determined it requires to sell the advertising and promotional spaces that it has available on its trains, stations and bus facilities. In particular, the Subway is a very attractive advertising proposition with passengers exposed to local and national content for their full journey time and in an environment conducive to influencing the public in their leisure and buying habits.

This revenue is vital to supplement ticket sale revenues generated annually and is a significant contribution to SPT's overall income required to support our annual operating costs. Over recent years SPT has had significant influence in stimulating the digital advertising arena in Glasgow with the launch of the digital screens in our stations, which is now common place in many public transport arenas, including city centre bus shelters and the likes. A contributing factor to the advance of the digital platform was the construction activity in our stations as part of the Subway Modernisation Programme. Digital advertising was implemented as a positive alternative to counter balance the potential of lost sales, where our traditional advertising sites were temporarily removed during the station refurbishment and over a lengthy period.

The basis of that contract was for the advertising contractor to pay a guaranteed amount (Minimum Guarantee) to SPT annually and thereafter, net of service costs, to share the additional revenues earned on a 50/50 share basis. Over the five years of the current advertising contract, SPT has been paid a Minimum Guaranteed sum of £4.25 million. In addition, with the introduction of additional digital advertising screens and the significant collaborative exercise of creating alternative sites across Subway and Bus Stations, during Subway Station refurbishments, a further £500,297 (net of disruption costs) has been paid to SPT over the past five years. It is undeniable that the Glasgow Commonwealth 2014 Games also aided revenue growth. In the current financial climate SPT must maintain strong focus on continuing to protect and develop these revenue

Agenda 8

generating opportunities.

2.2 Needs Summary

The current advertising contract was awarded to Primesight in April 2012 for an initial period of three years with a subsequent two year extension that will expire at the end of March 2017.

SPT requires to establish a new advertising contract with a market leading advertising contractor that will allow SPT to continue to innovate in this revenue area and seek out further advertising growth generation opportunities wherever possible.

To that end, SPT considers that digital advertising has an important role to play going forward, not only as a growth area but to align with our enhancement to our key customer environments, such as the on-going refurbishment of the Subway Stations under the Subway Modernisation Programme.

Any new contract must take cognisance of SPTs wider growth and enhancement plans for our operational assets, and reference has been made in the new contract tender documentation including: the continuation of station refurbishments, introduction of new rolling stock, platform screen doors and further development of our smart ticketing solutions. From these planned developments, there will most likely be a requirement for the successful contractor to re-assess advertising opportunities throughout the duration of the contract to maximise revenue returns as each new or developed asset is introduced.

Whilst guaranteed revenue generation is a key factor of the contract, SPT also requires the successful contractor to deliver the service with a high level of quality and professionalism in order to align with SPTs service standards and to ensure we continue to meet the needs and expectations of our customers.

In the past few years SPT has also explored other areas of its property portfolio and after approaching Glasgow City Council, planning permission has been approved for various roadside locations situated on or near its operations.

3. Outline of Proposals

3.1 Scope of Services

It is proposed to contract with a market leading advertising contractor to lease advertising space available within SPTs operations facilities and adjacent environs to maximise and fully exploit revenue generation opportunities available in these highly visible and heavily trafficked public environments.

The contract has been separated into two lots:

Lot 1: Subway Stations, Train Car Advertising and Bus Stations.

Lot 2: Roadside Advertising.

Details of the two lots are as follows:

Agenda 8

3.1.1 Lot 1

This is one of the few contracts where SPT is the recipient of income rather than having to pay for services and therefore the construction of the contract scope and availability of the advertising space is absolutely vital. This puts a very significant obligation on SPTs Operations Teams to incorporate advertising into the design, build and on-going operation of our Subway and Bus assets. It is incumbent upon SPT to share with the prospective market place the current advertising assets, the opportunity for digital development, the on-going modernisation programme recognising the changes to SPTs Subway Station operations; namely the continuation with station modernisation, new rolling stock/driverless trains, platform screen doors and smarter ticketing solutions. There will possibly be a requirement for the contractor to re-assess advertising opportunities at platform levels across all stations. Whilst this is a revenue generating contract and SPT wishes to maximise its revenue return we still retain a degree of control over advertisements to ensure a quality dimension is maintained with regard to equalities, politics, sectarianism and taste. We do expect that the contractor understands the marketplace and take cognisance of issues which may be quite local in complexity and in all cases must pass the Advertising Standards Authority tests. SPT intends to award a five-year contract for this lot, with the option to extend for a further five years at the sole discretion of SPT.

3.1.2 Lot 2

For some time SPT has endeavoured to make use of its property assets to create roadside advertising space. With the planning departments now being more alert to the need of public bodies to maximise any income stream it can access, the planners have recently shown a more accommodating approach to granting permissions to make use of roadside advertising panels, particularly the new type of large format digital screens. On our behalf the contractor will be responsible for identifying other potential sites. This market has a primary focus on road users rather than an audience using a mass transit solution. SPT currently has two roadside displays in a classic 48-Sheet and 96-Sheet formats, both included in this lot. SPT has indicated this lot will be awarded for a minimum period of five years with options up to 10 years.

3.1.3 Overview

SPT expects year on year income growth over the duration of the new contract for both lots and the successful contractor(s) will be expected to analyse and report on advertising trends across the UK market to determine and manage SPTs exploitation expectations and drive a plan to maximise revenue and growth opportunities. For example, Glasgow is currently a pre-eminent conference host location within Europe and SPT has identified various other key events occurring in the years ahead, which should not only increase footfall across stations, but also attract more advertisers. SPT requires an advertising partner(s) to ensure this and other potential is fully realised.

There will be a degree of flexibility when using allocated advertising infrastructure for SPTs own marketing requirements or passenger notifications, to ensure there is no negative affect on revenue potential.

The successful contractor(s) will be responsible for the maintenance of all types of advertising formats, including the monitoring of digital hardware and software. They will also be responsible for all fees, including non-domestic rates. Service Level Agreements (SLAs) will be included in the contract, in line with SPTs digital estate monitoring requirements to ensure any defects are rectified within the desired timescales.

Agenda 8

3.2 Tender Assessment Process

Following completion of a draft strategy, the placement of a Public Information Notice (PIN) on 3rd November 2016 was subsequently followed by an OJEU notice placed on Public Contracts Scotland Tender (PCS-t) web portal on 22nd December 2016 seeking tenders for Management, Development, Selling and Maintenance of SPT Advertising Space based on the two lots previously mentioned.

The tender assessment was based on the most economically advantageous tender against a 60/40 technical/commercial split. Technical quality was given a higher rating as the experience, innovation capability, market knowledge and influence of the advertising contractor will be key to maximising the commercial returns for this contract, and the tender process sought to identify an organisation that not only could guarantee the best revenue generation but would be able to evidence its proactive approach to drive growth for SPT.

The technical quality criteria in the tender submission required tenderers to respond to a set of questions to prove their experience, capability and fully explain their delivery plans, methodology proposals and maintenance service provision; in order to provide a level of confidence in their understanding of their ability to perform and deliver. The questions also allowed tenderers to identify where they considered they could add real value and a quality dimension to the contract.

As part of the tender process, tenderers were invited to attend site visits of a sample of the Subway Stations and Buchanan Bus Station. Eight companies recorded an expression of interest in the tender and four companies attended the site visits. SPT received two compliant tender submissions for each lot. Tenderers for Lot 1 attended a clarification meeting with SPT to explain further their tender submission, following clarification questions raised by the SPT evaluation panel.

3.3 Tender Assessment Results

3.3.1 Lot 1

**Lot 1:
Subway
Stations,
Train Car
Advertising
and Bus
Stations**

This lot is divided into a core and non-core package, will have two separate revenue streams and contains advertising opportunities across all Subway, Bus Stations and Subway Train Fleet. SPT asked tenderers to consider non-core items and provide an estimated income, based on an agreed revenue share, should these be utilised during the term of the contract. As a consequence, Non-Core items did not form part of the formal evaluation.

Specification Specifics

The two compliant tender submissions received for Lot 1 were from:

- Exterior Media
- Primesight Ltd

Agenda 8

Agenda 8

The final scores and Minimum Guaranteed income summaries are set out in the tables below:

Lot 1: Management, Development, Selling and Maintenance of SPT Advertising Space - <u>Core Items</u>				
Commercial (Price) – Technical (Quality) Scores				
Supplier	Commercial (Price Score)	Technical (Quality Score)	Combined Score	Rank
Exterion Media	40	60	100	1
Primesight	28.91	35.82	64.73	2

Lot 1: Management, Development, Selling and Maintenance of SPT Advertising Space						
Tendered Guaranteed Income - <u>Core Items</u>						
Supplier	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Exterion Media	£1,300,000	£1,320,000	£1,340,000	£1,360,000	£1,380,000	£6,700,000
Primesight	£925,000	£946,300	£968,025	£990,186	£1,012,790	£4,842,301

The Committee should note that the cost of maintenance for both classic and digital formats have been taken into account and therefore the revenue listed in the above table is net revenue to be paid to SPT.

Primesight's submission is for a 50/50 revenue share, net of servicing costs, when the overall contract advertising sales income to realise the Guaranteed Minimum, exceeds £2,000,000.

Exterion Media's submission is for a 52/48 revenue share (in favour of SPT), net of servicing costs, when the overall contract advertising sales income to realise the Guaranteed Minimum, exceeds £2,500,000.

Further projected figures were submitted by both tenderers for the non-core package, however not formally evaluated or scored as each area will require a separate business case to be submitted for review and approval by SPT.

Exterion Media received a better technical score as a result of providing a more detailed submission and were able to clearly demonstrate their track record and experience in advertising within the transport marketplace. Their existing Scottish customers will provide a wider client base and also permit their marketing of SPT across all of their other transport advertisers. They have a strong focus on how they will maximise revenue opportunities for SPT and evidenced how their contract management approach will have allocated resource across all the areas of this contract from sales through to local site management. All three contract examples listed in their response were of a transport nature and comprehensive in detail.

Agenda 8

Supporting their higher quality scoring Exterior Media submitted details of how they have a detailed Programme Management Office, with existing proven change and risk management controls. Their submission also highlighted a commitment to introducing a document and Quality Assurance Management Plan.

In Scotland, they manage advertising contracts for Lothian Buses, First, Stagecoach & Abellio ScotRail and reach over 2.8million consumers across Scotland, permitting them to maximise national campaigns creating higher value returns.

Another aspect that enhanced the technical score was their commitment that they will support the SPT contract by employing a telemarketing team dedicated to SPT who will be based from their Glasgow office. In addition, they will promote the new contract with a £30k marketing launch.

In support of their submission, Exterior Media advised they have carried out extensive research into SPT's existing advertising estate, and have already identified potential changes from contract start-up. They do not foresee the introduction of Platform Screen Doors (PSDs) to be a significant impediment to sustainability of this contract, however to mitigate any risk they may propose the installation of alternative sites at a height above that of the existing panels. Exterior Media has first-hand experience on the Transport for London (TfL) Jubilee line, advising that the glass panels closest to the doors can provide an effective canvas for temporary impactful platform takeovers. They have advised that TfL's PSD's have since become a demanding and effective advertising solution and will work with SPT on this opportunity.

3.3.2 Lot 2

Lot 2: Roadside Advertising

This lot is based on the already approved planning permission for roadside locations, for the installation of 48-Sheet digital LED static displays. The prime objective of the tenderer will be to progress with the development of these sites at an agreed rate with SPT, upon contract award. The contractor will also be responsible for identifying other potential sites.

Specification Specifics

The two compliant tender submissions received for Lot 2 were from:

- Forrest Outdoor Media
- Primesight Ltd

The final scores are set out in the summary table below:

Lot 2: Roadside Advertising				
Combined : Commercial (Price) – Technical (Quality) Scores				
Supplier	Commercial (Price Score)	Technical (Quality Score)	Combined Score	Rank
Forrest Outdoor Media	40	60	100	1
Primesight	24.39	46.91	71.30	2

Agenda 8

Lot 2: Roadside Advertising			
Commercial (Price) Scores – Guaranteed Income for a Single Site			
Supplier	Single Site Guaranteed Income over 10 Years Inc. 2% CPI	Score out of 100	Weighted Commercial (Price) Score 40%
Forrest Outdoor Media	£448,938	100	40
Primesight	£273,736	60.97	24.39

For the basis of the evaluation, a contract term of 10 years was used. The table above is based on no capital investment by SPT and is also based on a single site for comparison purposes. It is understood, subject to clarification, that Forrest Outdoor Media would wish to proceed with all of the approved roadside locations on contract award, therefore the forecasted revenue above will be multiplied for increased sites which at present, with planning consent existing is for 5 sites.

Forrest Outdoor Media's proposal was deemed the best technically as it reflected a fully networked large format digital screen offering across several of Glasgow's busiest hubs, delivering strong audience numbers and be sold as a packaged Digital Out Of Home (DOOH) advertising platform. Forrest Outdoor Media's proposal is to market these sites under a new Glasgow Digital network brand.

4. Conclusions

4.1 Lot 1

Following the evaluation process against the core category, the tender submitted by Exterion Media offering a guaranteed sum for five years of £6,700,000 is considered the most financially advantageous to SPT.

It is proposed that Lot 1 of the contract be awarded to Exterion Media. The guaranteed income proposed is significantly higher than that of our current contract. For clarity Exterion Media will provide SPT with an income of £1.8 million above the guaranteed minimum revenue figure offered by the other bidder with a more advantageous revenue share should additional growth be achieved.

4.2 Lot 2

Following the evaluation process against the specification, the tender submitted by Forrest Outdoor Media offers a guaranteed sum for ten years of £448,938 for each developed site commencing immediately with 5 confirmed.

5 Further Information

It is important to acknowledge the potential impact of Subway modernisation on the revenue generating elements of this contract. It is envisaged that there will be the potential to develop new advertising opportunities when designing and installing new infrastructure as part of the modernisation programme, e.g. platform screen doors. By working closely with the successful contractor, the Customer Services Manager, in

Agenda 8

conjunction with SPT's Project Department, has managed to achieve minimal disruption to the number of overall advertising sites available throughout the past five years of station refurbishments. This has been achieved through close working relationships with Projects, Operations and the advertising contractor. A further 6 stations remain to be developed in the modernisation programme.

6 Committee action

6.1 Lot 1

The Committee is recommended to award Lot 1 of the contract to Exterion Media, for an initial period of five years; with an option to extend by up to a further five years, subject to satisfactory performance. SPT will also enter into discussions of the non-core revenue generating opportunities and Exterion Media's proposals of infrastructure improvements throughout various recommended stations detailed within their tender submission.

6.2 Lot 2

The Committee is recommended to award Lot 2 of the contract to Forrest Outdoor Media for a period for 10 years.

7. Consequences

Policy consequences:	<i>None.</i>
Legal consequences:	<i>It should be noted that the award of each lot within the contract is subject to the satisfaction of the requirements of the mandatory standstill period for EU advertised public sector contracts.</i>
Financial consequences:	<i>SPT will receive an increased guaranteed income against the existing advertising contract of £2,450,000 over a 5 year period.</i>
Personnel consequences:	<i>None.</i>
Equalities consequences:	<i>None.</i>
Risk consequences:	<i>None.</i>

Name Eric Stewart
Title Assistant Chief Executive
(Operations)

Name Gordon MacLennan
Title Chief Executive

For further information, please contact *Michael Ferrie, Customer Services Manager (0141 333 3276)*.