Customer Service, Operations and Security Committee

Information Item IV-C

July 13, 2017

Revenue Opportunities:
Digital Advertising and Station Naming Rights

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

○ Action ◉ Information	MEAD Number: 201892	Resolution: ○ Yes ◉ No

TITLE:

Digital Advertising & Station Naming

PRESENTATION SUMMARY:

The presentation examines opportunities to increase revenue through creative advertising initiatives, an expanding digital advertising program, and the possibility of selling commercial station naming rights.

PURPOSE:

To update the Board on revenue opportunities through advertising initiatives, digital advertising expansion, and the potential sale of commercial naming rights for Metrorail stations.

DESCRIPTION:

Staff is pursuing opportunities to increase revenue through advertising sales. This includes an expanded digital advertising program and other creative advertising opportunities, such as vehicle wraps and “station domination” advertising at key stations. Commercial station naming may present new revenue opportunities; however, existing Board policy currently prohibits the sale of station naming rights.

Key Highlights:

- Overall, advertising revenue is anticipated to total nearly $24 million in FY18, comprising 1.3 percent of WMATA's annual operating budget. Overall, advertising revenue is anticipated to total $24 million in FY18, comprising 1.3 percent of WMATA’s annual operating budget.
- The ridership decline in recent years has impacted the number of viewers of system advertising, and changes to limit advertising content have adversely impacted advertising revenue.
- Digital advertising displays generate three times the revenue of traditional displays.
- The sale of commercial station naming rights presents an opportunity for new revenue; however the practice is not currently permitted.

Background and History:

<u>Advertising Revenue Overview</u>

The existing advertising contract with OUTFRONT Media was awarded on January

2014 and began July 1, 2014 (FY15) as a five year base with two option years, for a total guaranteed amount of $171 million. Additional inventory introduced with the opening of Silver Line Phase 1 increased the Minimum Annual Guarantee (MAG) by $1,548,768 each year following the Silver Line opening. The revised Minimal Annual Guarantee for each contract year is displayed in the following table.

OUTFRONT Contract Year	Revised Minimum Annual Guarantee	Actual OUTFRONT Advertising Revenue
FY 15, Base Year 1	$19,250,000	$22,322,015
FY 16, Base Year 2	$21,298,768	$21,963,336
FY 17, Base Year 3	$21,798,768	$22,180,811
FY 18, Base Year 4	$22,548,768	
FY 19, Base Year 5	$23,298,768	
FY 20, Option Year 1	$23,798,768	
FY 21, Option Year 2	$24,298,768	

Advertising revenue makes up just 1.3 percent of WMATA's annual operating budget.

A few factors are currently impacting advertising sales in the Metro system:

- The ridership decline in recent years, exacerbated by SafeTrack in 2016, has impacted the number of viewers of system advertising, and is affecting revenue as a result
- The policy change to eliminate advocacy advertising in the system resulted in reduced advertising revenue in FY16 and FY17, as expected. As more advertising has shifted to an advocacy focus post-election, revenue has been further impacted

WMATA's advertising sales total for FY15 was $37,115,600 and $39,000,000 for FY16. A comparison of advertising sales for various transit agencies is displayed in the following table.

Transit Agency	FY15 Advertising Sales	FY16 Advertising Sales
MARTA	$8,727,000	$8,177,000
MIAMI-DADE	$11,285,000	$11,211,000
WMATA	$37,115,600	$39,000,000
LACMTA	$37,000,000	$41,200,000

Digital Advertising Program

Early in 2015, WMATA moved into the arena of digital advertising with a pilot that placed 10 digital panels (72-inch size) in eight stations. These units were unique because they not only offered a platform for digital advertising, but replaced passenger information in the form of Metrorail System maps and Station Area maps with touchscreen wayfinding and system information. The units were installed in the free areas of high volume stations. This pilot was conducted indpendent of WMATA's advertising partner, OUTFRONT Media.

Then, in early 2016, OUTFRONT Media began offering a digital platform, and WMATA added a three-panel array of digital screens at Navy Yard-Ball Park station on the Half and M Streets (Ballpark) side. Working with OUTFRONT Media and internal resources, the digital advertising network was further expanded in 2016, adding 62 additional screens spread out across 22 stations. Locations were strategically chosen based on revenue potential.

The replacement of static ad units with digital panels increases revenue potential threefold by allowing advertisers to purchase 5, 10 and 15 second “flips,” in a 90 second loop, rather than one advertiser purchasing space for 4-week periods.

In FY17, digital ads contributed a significant precentage of WMATA's $22,180,811 of advertising revenue.

Discussion:

Advertising Opportunities

With digital advertising generating three times the revenue of traditional displays, an aggressive digital advertising program is underway to combat other factors impacting ad revenue and to create new, attractive advertising opportunities in the system.

Expansion plans for Q1, FY18 include an additional 67 screens bringing another 23 stations into the Digital Platform Network. Future digital plans include a Fare Information Pilot for Ronald Reagan Washington National Airport Station and Union Station is currently in development, with implementation anticipated in Q2, FY18. These four screens will add to the Digital Mezzanine Network. Silver Line Phase 2 stations and Potomac Yard Station are all planned to include completely digital platforms.

WMATA is also actively in discussion about how to convert the remaining 542 back-lit dioramas into digital platforms in rail stations, as well as reviewing the power requirements to add new inventory at stations where advertising demand is highest.

In addition to digital advertising, WMATA is pursuing other creative advertising opportunities to generate revenue.

WMATA branded merchandise is currently sold online and at a number of retail outlets in the District of Columbia. Additionally, third-party licenses for umbrellas, shower curtains, canteen bottles, toy trains and buses sell Metro merchandise through Amazon, Target and Bed, Bath & Beyond. WMATA generates royalties at 10 percent of sales, with online gift store gross sales averaging approximately $50,000 annually.

Train wraps are another advertising opportunity WMATA is pursuing to generate revenue. Under WMATA’s advertising guidelines, commercial entities have the opportunity to purchase exterior rail car ads. While WMATA is not able to guarantee certain rail lines, advertisers choose the number of rail cars to wrap. For example, McDonalds and Cirque de Soleil have completed “wrapped train” campaigns, which consists of two railcars fully wrapped, while Red Bull wrapped a single rail car for one of its advertising campaigns.

The advertiser is required to pay for the vinyl full wrap of each car, installation and removal of the ads and the space cost for one four week period. The value of train wraps to WMATA is 68% of the space value.

Finally, Station Dominations provide an opportunity for advertisers to prominently display their advertisements and generate significant revenue. According to OUTFRONT Media, "A station domination allows an advertiser to completely dominate the consumer landscape at key, high traffic commuter centers – transforming commuters' daily ride into a total "brand experience," delivering multiple campaign messages."

Station Dominations are currently offered at 12 stations:

- Capitol South
- Farragut North
- Federal Triangle
- Gallery Place
- L'Enfant Plaza
- Metro Center
- Mt Vernon Square
- Navy Yard-Ballpark
- Pentagon
- Ronald Reagan Washington National Airport
- Tysons Corner
- Union Station

The specific media and cost for a station domination varies by station, with station domination space costing from $60,000 to $100,000 for a given 4-week period. The one station domination that currently sells out months in advance is Pentagon Station, which sells at least six months at a time. Station dominations are also popular at Gallery Place and other high traffic, transfer stations.

Commercial Station Naming Opportunities

Consistent with the General Manager's plan to Keep Metro Safe, Reliable and Affordable, staff is reviewing innovative revenue options that would help offset the costs of transit service. Fully leveraging our real estate assets would include examining the marketplace to determine the potential revenue for commercial station naming, which has generated millions of dollars in non-fare revenue for other transit properties.

For example, New York City's Metropolitan Transit Authority signed a contract with a developer to rename Atlantic Avenue Station as Atlantic Avenue-Barclays Center Station. The contract is set at $200,000 per year for 20 years ($4 million total).

In Philadelphia, SEPTA reached a $5 million deal over 5 years to rename Pattison Station as AT&T Station. SEPTA also concluded a $4 million deal over 5 years with the Jefferson Health System to rename Market East Station as Jefferson Station.

Other transit systems have explored, but not completed, the sale of commercial naming rights for stations. In 2014, the Massachusetts Bay Transportation Authority (MBTA)

developed a Corporate Sponsorship Program and solicited interest for naming rights at nine stations and the option for firms to add their name to multiple lines. However, MBTA did not receive any proposals that met the minimum bid requirement.

In 2016, the Los Angeles County Metropolitan Transportation Authority approved a Corporate Sponsorship/Naming Rights program to sell naming rights for various LA Metro assets, including stations. However, in February 2017, LA Metro repealed the policy due to legal concerns.

WMATA staff believes there may be potential station naming opportunities for WMATA at Gallery Place, Navy Yard-Ballpark, Metro Center and L'Enfant Plaza stations due to location, proximity to venues and ridership density.

Existing policy prohibits sale of commercial naming rights. The following guidelines regarding commercial naming rights were incorporated into WMATA's Station Naming Policy following passage of Board Resolution 2012-20:

- Continue current practice of not selling commercial naming rights
- Promote station domination and other opportunities to grow revenue outside of changing station names.

The next step in considering the sale of station naming rights is for the Committee to discuss policy changes needed for staff to move forward with a market valuation of commercial station naming.

FUNDING IMPACT:

No impact on funding	
Project Manager:	Lynn Bowersox
Project Department/Office:	Customer Service, Communications, and Marketing (CSCM)

TIMELINE:

Previous Actions	July 2012: Board Resolution 2012-20 states WMATA will "continue current practice of not selling commercial naming rights."
Anticipated actions after presentation	July – October 2017: Digital Advertising expansion in Metrorail stations

Commercial Revenue Opportunities: Digital Advertising and Station Naming Rights

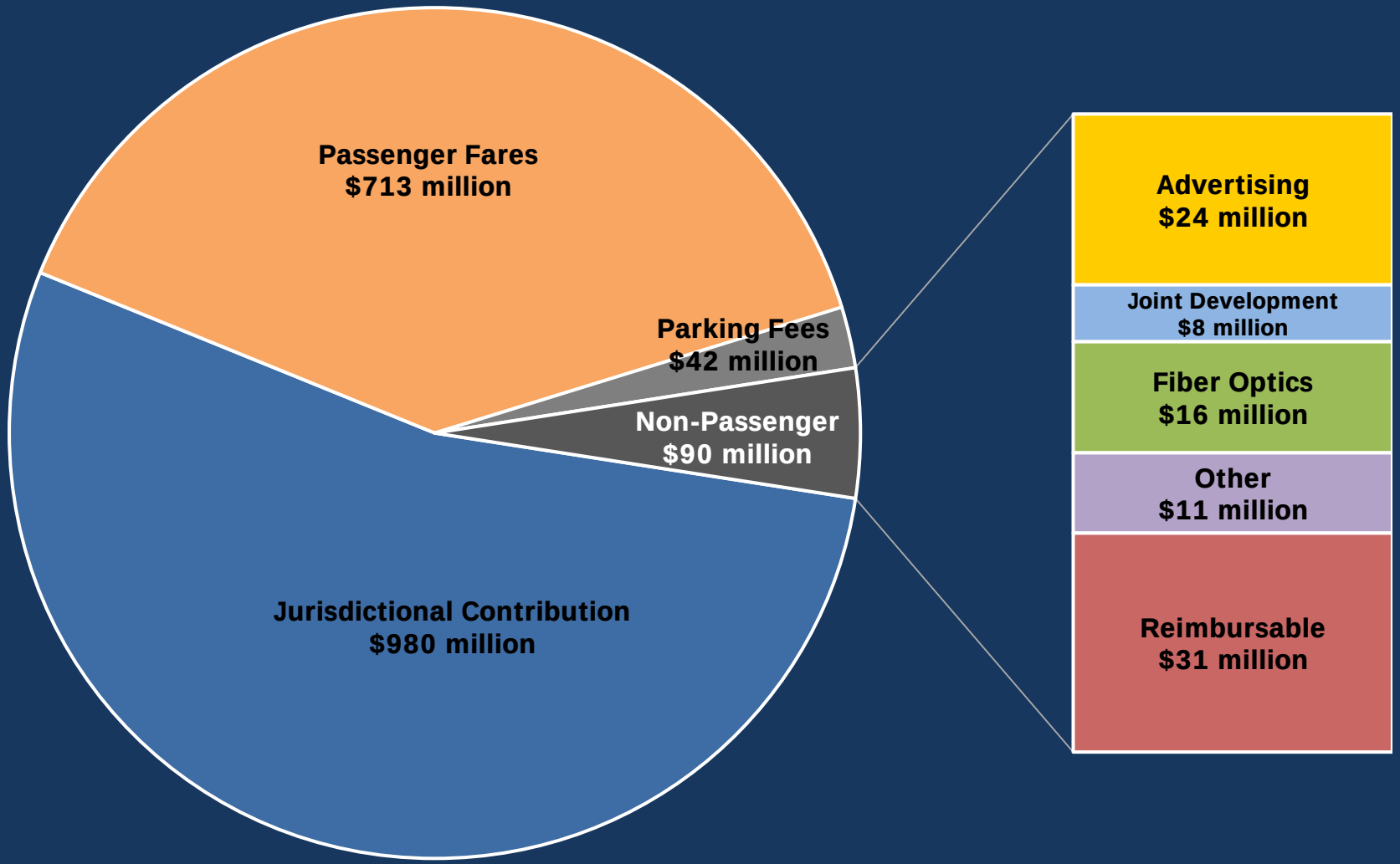
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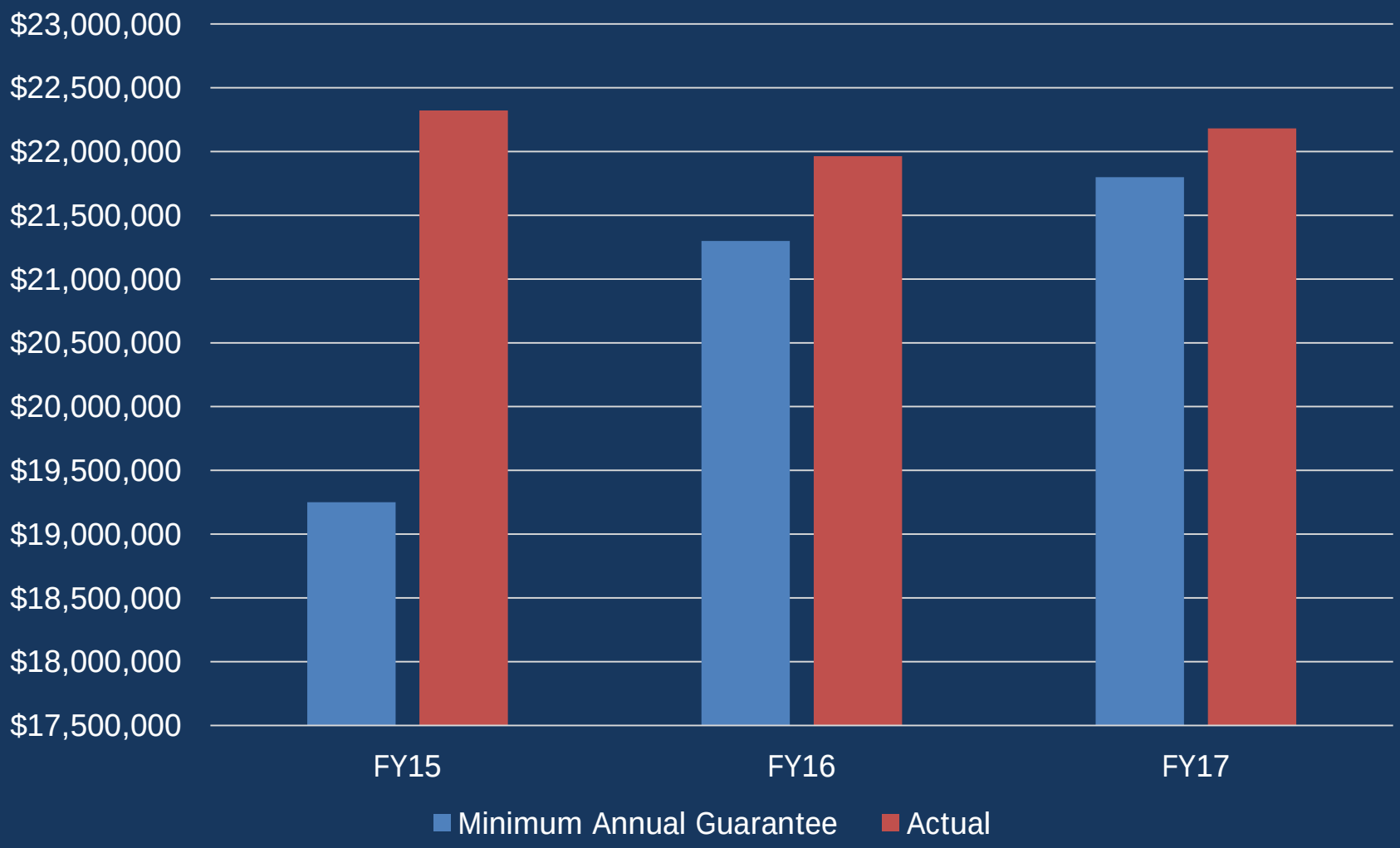
Purpose

To update the Board on commercial revenue opportunities through digital advertising and the potential sale of station naming rights

FY18 Revenue Breakdown



Advertising Revenue Performance



Advertising Sales Comparison

Agency	FY15	FY16
MARTA	$8,727,000	$8,177,000
MIAMI-DADE	$11,285,000	$11,211,000
WMATA	$37,115,600	$39,000,000
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Vehicle Wraps

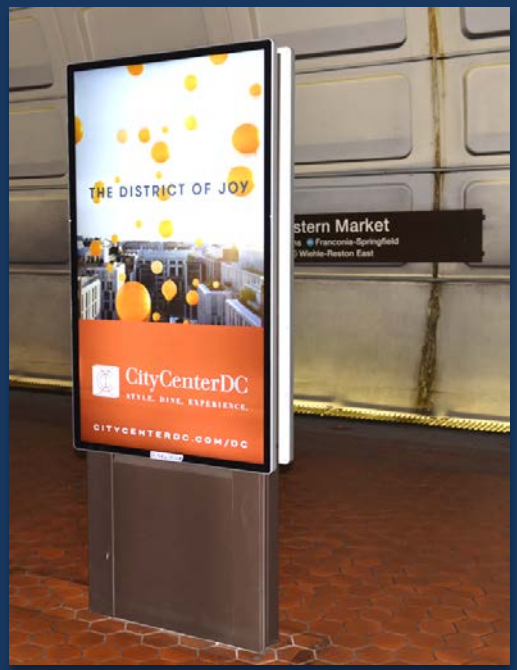




Digital Advertising Expansion

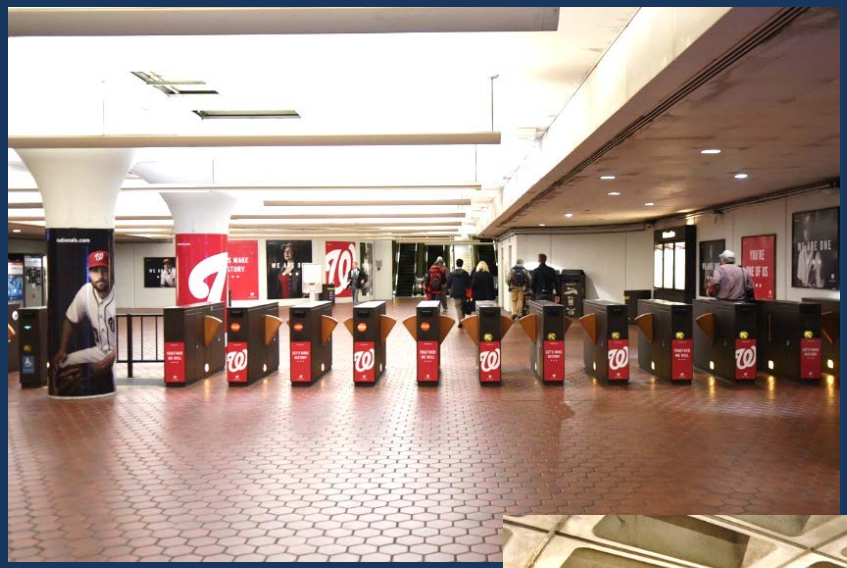
- 75 digital screens system-wide
- 67 additional screens expected in Q1, FY18
- Working with contractor to plan next phase of digital conversion beyond these 142 screens

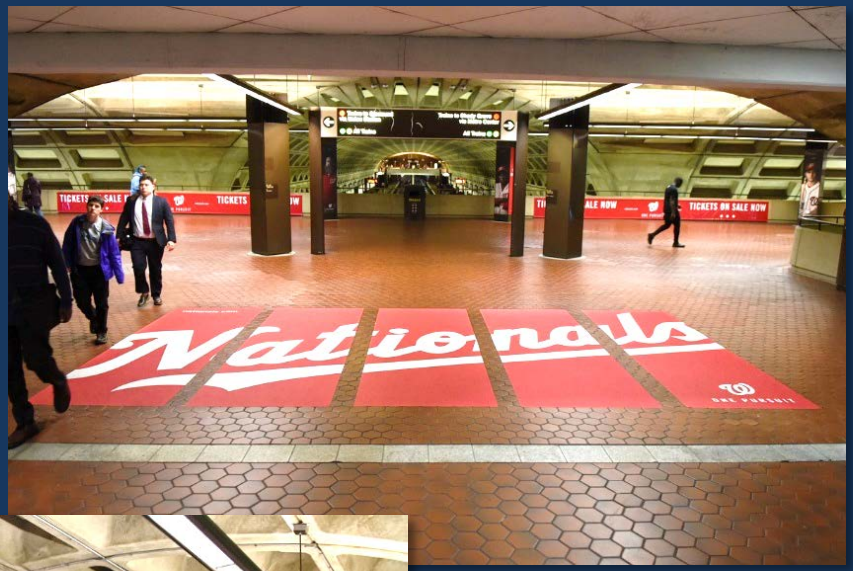






Station Dominations







Current Station Naming Policy

July 26, 2012 – Board Resolution 2012-20:

- “Continue current practice of not selling commercial naming rights”
- “Promote station domination and other opportunities to grow revenue outside of changing station names”

2012 Station Naming Discussion

- Majority of customers opposed commercial station naming
- Riders prefer brief location names that serve users as wayfinders
- Concerns about brand association with historic landmarks/icons
- Largely untried by other transit properties

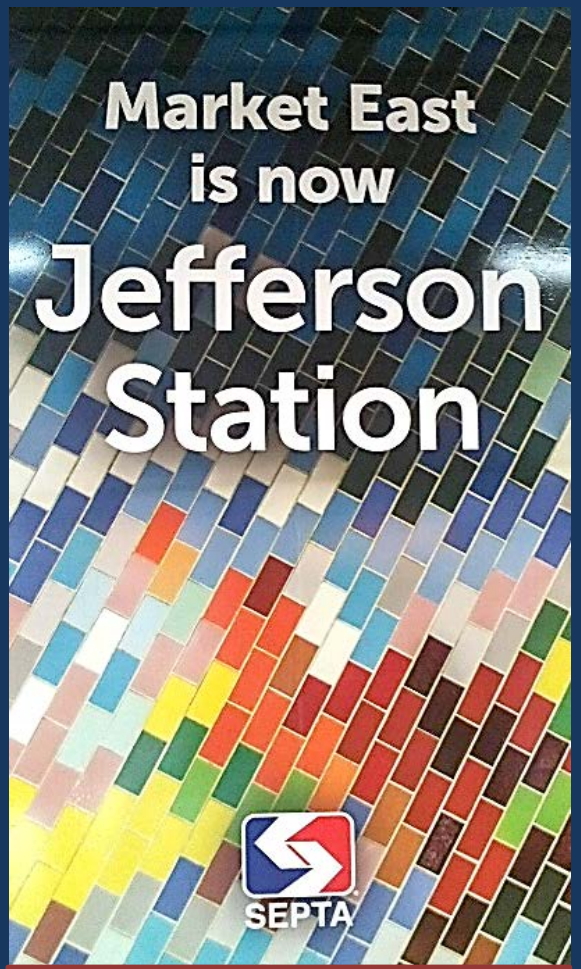
Industry Examples



Philadelphia:
$5 million over 5 years



New York City:
$4 million over 20 years



Philadelphia:
$4 million over 5 years

Next Steps

- Board guidance on reconsideration of the policy
- Required for staff to explore market potential of naming rights revenue