6
YORK REGION TRANSIT
VIVA LCD ADVERTISING SCREENS
OPERATION AND MAINTENANCE CONTRACT TERMINATION

The Transportation Services Committee recommends the adoption of the recommendation contained in the following report dated October 16, 2012, from the Commissioner of Transportation and Community Planning.

1. RECOMMENDATION

It is recommended that this report be received for information.

2. PURPOSE

This report informs Council that the LCD screen operations and maintenance contract on-board Viva buses for advertising purposes has been terminated.

3. BACKGROUND

A Request for Proposal (RFP) to place advertising on York Region Transit buses and deploy LCD screens on Viva buses was issued in June 2005

The Region issued an RFP inviting proponents to submit proposals to place conventional vinyl advertising on the exterior of York Region Transit (YRT) buses and included an invitation for the deployment of LCD screens on Viva buses. The intent was to permit electronic advertising that would benefit the Region through receipt of a portion of the revenue as well as the opportunity for free YRT/Viva promotional advertising.

Durham Promotions International (DPI) was selected as the successful proponent for the overall contract. Award of the contract was approved by the Region's Chief Administrative Officer in July 2005. Byte Media Inc. was a sub-contractor to DPI for the deployment of LCD screens on Viva buses.

The Region entered into a contract with DPI on October 1, 2005, for the placement of exterior vinyl advertising on YRT buses and deployment of LCD screens on Viva buses

The contract stipulated that DPI, through its sub-contractor, procure, supply, configure, install and maintain the technical infrastructure required to support the LCD screens and bear all up-front costs associated with these activities. The initial costs associated with the installation of LCD screens were to be recouped by DPI and their sub-contractor through advertising revenue earned. At the end of the contractual term, the Region was required to purchase the technical infrastructure for the cost of purchase and implementation, less any net advertising revenue earned by the contractor.

LCD screens were installed on 85 Viva buses in early 2007.

In December 2007, the LCD screens had to be shut down due to non-compliance with Canadian Standards Association (CSA) guidelines

In December 2007, following inspection and investigation by YRT/Viva staff, the LCD screens were deactivated due to safety concerns as some components were not Canadian Standards Association (CSA)-compliant. At the same time, YRT/Viva staff were dealing with product and service quality issues with DPI on the deployment of traditional vinyl advertising on YRT buses. This led to a complicated dispute between YRT, DPI and Byte Media Inc.

In May 2009, Council approved a revised contractual agreement with Byte Media Inc.

The approval included the following:

- The Region enter into a separate contract with Byte Media Inc.
- The Region purchase and upgrade the existing infrastructure of LCD screens to meet Canadian Standards Association (CSA) guidelines.
- The Region enter into an Operations and Maintenance contract with Byte Media Inc. to operate and maintain the LCD screens for five years and share the revenue on a predetermined formula, 35 per cent of the gross revenue minus commissions paid to bona fide advertising agencies.

Refer to *Private Attachment 1* for Council approval from May 2009. The Region entered into an agreement directly with Byte Media Inc. in March 2010.

4. ANALYSIS AND OPTIONS

The revenue from advertising on Viva LCD screens has fallen short of expectations

Initial projections of the revenue from the LCD screen advertising provided by Byte Media Inc. were that approximately $30,000 per month with an expectation of rising revenue over the life of the contract. Despite the estimates of Byte Media, only $4,333 has been remitted as the Region’s share of revenue (35 per cent of gross sales) since March 2010.

Revenue from the conventional vinyl advertising on YRT buses has been satisfactory

DPI has been remitting the Region's share of revenue consistently since the signing of their contract on October 1, 2009. The Region receives approximately $260,000 annually in revenue from vinyl bus advertising.

Byte Media Inc. has been unable to maintain the Viva LCD screens satisfactorily

Throughout 2011, it became evident that Byte Media Inc. was neither maintaining the LCD screens in a satisfactory condition, nor responding to repeated status requests. In September 2011 the Region conducted a field survey (57 out of a total of 85 buses) and confirmed that 52 (91per cent) of the screens were not working. The operations and maintenance contract requires that no more than five per cent of the screen be inoperable at any point of time.

On October 3, 2011, the Region issued a 30-day notice to Byte Media Inc. to correct the deficiencies with the LCD screens. Byte Media Inc. did not reply to the letter.

On November 15, 2011, after the expiry of the notice period, the Region issued another 30-day notice, giving Byte Media Inc. a second opportunity to respond. Byte Media Inc. responded through an email on November 26, 2011, stating their inability to correct the deficiencies. Byte Media Inc. stated that the expectations of media buyers and the tightening of advertising budgets in the current economy were causing the digital signage business to struggle.

Similar advertising revenue programs in other industries have also failed to be successful

Considering the challenges with the on-board LCD screen program, YRT/Viva's advertising agency, Acart Communications Inc., was retained to research other transit systems on the Region's behalf to find if screens on buses could offer viable revenue dollars from advertising. They found that no other transit systems in Canada offered on-board advertising using LCD screens. Electronic screens that were available were mainly used for transit information at stations and terminals.

Some medical clinics, elevator companies in office buildings and gas stations have, or have had, advertising screens at their locations. Advertising revenues are typically generated based on size and potential viewers as well as the length of time a message can be displayed to the target audience. Advertising revenues are also variable, changing with market conditions and other external factors.

Each 60-foot Viva bus has only one screen at the front of the bus, and the screen can only be seen by a few passengers at any given time.

Considering the challenges which other similar programs have had, it seems that the business plan to support the technical infrastructure of on-board LCD screen program with advertising revenue is not economically viable.

On July 4, 2012, the Region issued a contract termination letter to Byte Media Inc.

It is evident that the program of digital advertising screens on-board Viva buses funded through advertising revenue is not viable from a business perspective. The project provides lessons for similar future initiatives. The current economic downturn which almost coincided with the installation of LCD screens has likely contributed to the possible reason for poor advertising revenue.

Considering the various issues described above, the Region decided to terminate the operations and maintenance contract with Byte Media effective July 4, 2012.

The technical infrastructure is up to five years old and any attempt to maintain it for any internal advertising will be very costly. The Region will remove all LCD screens from Viva buses and dispose of them as per Regional policy. Considering the depreciated value of electronic equipment, originally installed in 2007, it is very unlikely that the sale of equipment will provide any significant recovery of costs by the Region.

5. FINANCIAL IMPLICATIONS

The Region will not receive the estimated revenue from the contract. The Region did not include any projected revenue or costs, from its share of gross revenue, in its 2010, 2011 and 2012 Business Plan and Budgets.

Based on the revised contractual terms approved by Council in May 2009, the Region purchased the infrastructure of LCD screens at an approximate cost of $838,000. The Region will likely receive very little or nothing from their disposal.

The 2009 LCD screen purchase included a mix of funding sources, including some federal gas tax. The amount of federal gas tax applied to the purchase was $73,165. Federal gas tax funding rules contained in the AMO federal gas tax agreement require funding recipients to reimburse funds used based on certain criteria, including early disposal. Based on this criteria, York Region might be required to reimburse 55 per cent of the $73,165 applied to the purchase (as disposal is less than 5 years after purchase); however, as the Region will not realize any revenue from the disposal of the LCD screens, Regional staff will work with the Federal government to request an exemption from the requirement to refund any gas tax revenue.

6. LOCAL MUNICIPAL IMPACT

There is no direct municipal impact as a result of the contract termination and disposal of technical infrastructure.

7. CONCLUSION

It appears that the potential for advertising revenue, estimated by the contractor, to fund the LCD screens on board Viva buses was over-estimated and has not proven to be economically viable.

York Region staff have terminated the agreement with Byte Media Inc. and, as a result, the estimated revenues will not be received. The on-board LCD screens will be removed and disposed of as per Regional policy.

It is recommended that this report be received for information.

For more information on this report, please contact Rajeev Roy, Manager, Transit Management Systems at Ext. 5682.

The Senior Management Group has reviewed this report.

(The private attachment referred to in this clause is enclosed separately with this report.)