



## **MARKET SOUNDING QUESTIONNAIRE**

**Ref: TfL 94592**

**for TfL Advertising Concessions for the Rail network (including London Underground) and Bus Shelters**

**Name of Respondent: JCDecaux UK Ltd**

**TO BE RETURNED BY 26th May 2023 to:**

**[REDACTED] [@tube.tfl.gov.uk](mailto:[REDACTED]@tube.tfl.gov.uk)**

## 1.0 Details of Your Organisation

*(Please insert your responses in the white boxes below the questions)*

1.1 Name of the organisation submitting this response:
JCDecaux UK Ltd
1.2 Contact name for enquiries about this submission:
[REDACTED]
1.3 Contact position (Job Title):
Chief Partnership Officer
1.4 Main office address (including postcode):
27 Sale Place London W2 1YR
1.5 Telephone number:
Mob: [REDACTED]
1.6 E-mail address:
[REDACTED]@jcdcaux.com
1.7 Website address:
<a href="http://www.jcdcaux.co.uk">www.jcdcaux.co.uk</a>
1.8 Please provide details of your organisation including its principal business. Please also state your annual turnover and profit / loss after tax for the past 3 financial years, and net assets for the last financial year.
<p>Jean-Claude Decaux established JCDecaux in 1964 in his native France, pioneering street furniture by offering local authorities free bus shelters in return for the right to advertise on them. Today, JCDecaux Group is the world's number one OOH advertising company with a presence in over 80 countries, generating advertising revenues of €3.3bn in 2022, is listed on the Eurolist of Euronext Paris and is part of the Euronext 100 index.</p> <p>JCDecaux Group has a ubiquitous presence in cities transport systems, retail destinations and major thoroughfares worldwide. The group is in more than 80 countries, 3,573 Cities, 153 airports and 205 transport networks worldwide. It employs 11,200 employees and has over 1m advertising panels.</p> <p>JCDecaux UK Ltd. was created in 1982 and is the British company of JCDecaux S.E. The UK is now one of the Group's largest markets, marketing and selling over 27,000 advertising frames across rail, roadside, retail and airport environments. The Company's expertise and commitment to quality are industry recognised as it continues to invest in and evolve its product proposition and grow the OOH market.</p>

In the UK, JCDecaux has established national, multi-format OOH concession contracts with a variety of public and private landlords: Transport for London (TfL), Transport for Greater Manchester (TfGM) and the City of Edinburgh Council in street furniture; Tesco and Waitrose in the supermarket advertising sector; Landsec and Unibail-Rodamco-Westfield in mall retail and Network Rail, Heathrow Airport and Edinburgh Airport in the transport advertising sector, to name a few.

£000	2022	2021	2020
Turnover	336,922*	256,050	232,444
Profit/(loss)	7,608*	-3,325	-27,507
Net Assets	13,929*	6,321	9,646

*\*Preliminary Figures*

1.9 If applicable, please provide full details of your ultimate parent company/ holding organisation. You should also attach an organisational chart showing the organisation structure.

JCDecaux UK is a wholly owned subsidiary of JCDecaux S.E. based at 17 Rue Soyer Neuilly-Sur-Seine, 92200 Paris, France

The organisational structure is linear.

## 2.0 Scope of the Consultation

### 1. CAPEX COSTS

It is envisaged that TfL will meet the up-front capital costs associated with all asset refreshes and new assets. These costs will be repaid to TfL by the advertising partner on a straight-line basis over a period that is likely to be 5 years. In addition, the advertising partner will pay interest on outstanding capital balances at a rate that is expected to be 6.29%.

What are your thoughts on this mechanism for capital costs as detailed above or would you prefer to fund asset renewals yourselves? Please state the reasons for your answer.

JCDecaux can fund large scale capex projects and this may be through a more favourable cost of capital, which could have an impact on the commercial implications to TfL. As such we would like this to be taken into consideration.

Is the expected rate of interest for TfL investment subject to prevailing charges or fixed?

It is our understanding that any capex expenditure would be deducted from the gross revenue before the share is calculated. Can you please confirm this understanding is correct?

Could you also confirm whether there is any net book value outstanding for capital balances that would be subjected to 6.29%? Or is it your intention that the interest payment would only be applied to installations under the new contract?

Please confirm the estimated refresh capex.

Would TfL consider a 10-year straight line depreciation to encourage long-term investment of quality products which have a longer useful life expectancy and deliver better performance?

### 2. CONTRACT DURATION

**2.1** It is envisaged that the concessions will run for a period of eight years. What is the ideal contract period which you believe will maximise revenues for both parties?

A 10-year contract would be preferable and in line with the requested depreciation period.

**2.2** If you currently operate advertising concessions for Metro / railway authorities and/or street furniture/ bus shelter advertising, what is the usual period of time you contract for? Please give brief details of such contracts below.

The usual contract period is between 7-10 years. We have listed below a number of examples of such contracts relevant to this tenure:

- Bus Shelters
  - o Transport for London
  - o Transport for Greater Manchester
  - o City of Edinburgh Council
  - o Camden Borough Council
  - o The Royal Borough of Kensington and Chelsea
  - o Hillingdon Council
- Rail
  - o Network Rail
  - o Chiltern
  - o First Group
  - o HS1
  - o Merseyrail
  - o C2C
- Metro
  - o Madrid
  - o Sao Paolo
  - o Shanghai

### **3. COMMERCIAL TERMS**

**3.1** What commercial model(s) do you think would best maximise gross revenues? (Please state your reasons)

A commercial model that supports the principle of a partnership would be our model of choice and one that would be a continuation of the partnership we have developed with Transport for London over the last 7 years.

In the main however a high minimum guarantee is likely to bring a lower revenue share which could arrest your ability to enjoy upside in potential revenues.

A revenue share only model does attract higher revenue share but can also bring risk as it is not underpinned with the comfort of a minimum guarantee. This however could be varied to incorporate a percentage of the previous payment to TfL, thus guaranteeing some level of minimum payment.

An alternative could be to explore a profit-share model which would ensure that both parties took a similar risk but similar benefits during high revenue periods.

**3.2** Are there any commercial models which you believe would risk maximising revenues? (Please state your reasons)

A model that did not allow for flexibility on the definition of Gross revenue thereby excluding it from potential incremental revenue streams which can be applied by DSPs (Digital Selling Platforms). We believe the Gross revenue definition should be explored so that it only captures revenue received by the operator.

#### **4. CRITICAL FACTORS**

**4.1** Are there any critical factors that would **deter** or prevent you from bidding for these concessions?

Unrestricted advertising exclusions thereby giving TfL the ability to prohibit categories from the contract without a recourse to commercial adjustments.

No mechanisms for commercial alterations because of a Pandemic or similar long-term large-scale disruptions.

**4.2** Are there any specific **technical challenges** that may pose concern at this stage? If so, what mitigating action do you think can be taken by TfL to minimise these risks?

The Underground specifically will bring many technical challenges which could pose concern and potentially undermine a planned rollout.

There are some alterations proposed to the existing bus shelter contract which may impact development and replacements.

It is our understanding that the procurement of new assets will rest with the operator.

Mitigating factors:

- Early disclosure of planned investment programmes including all replacement programmes
- A full understanding of investment opportunities and potential scale/restrictions of investment
- Capex phasing plans
- A dedicated internal team Project Management/development for both parties with office space allocated
- Safety requirements
- Sight of existing documentation associated with installed assets
- Sight of asset inspection documentation
- Confirmation of ownership of media players
- Media players capabilities in relation to programmatic

We are aware of certain unique posting solutions that have been developed specifically for the London Underground such as 3M Dry Posting. Could TfL provide technical details and confirmation that they own the rights to the 3M product and surety of supply?

**4.3** Are there any **critical or long lead time items** that may impact on the successful delivery of these concessions? If so, what mitigating action do you think can be taken by TfL to minimise these risks?

- An early understanding of systems deployed to accelerate installations
- An early understanding of TUPE requirements & information
- Requirements for planned & responsive maintenance
- Understanding of processes for access
- Confirmation of specifications & compliance required for new product installation including:
  - Fire standards
  - Electrical standards
  - Blast testing procedure

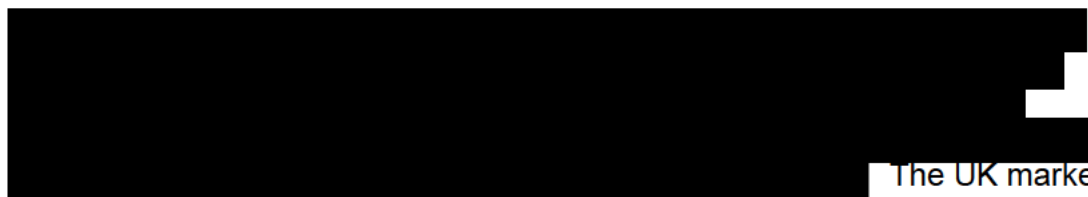
## **5. FUTURE DEVELOPMENTS**

**5.1** To what extent do you believe automated and /or programmatic trading will benefit TfL in real terms over the contract period?

In 2022 digital online accounted for over 75% of all the advertising revenue in the UK. According to a Statista report (January 2023) programmatic will account for £22bn of advertising spend which is close to two thirds of total and 80%+ of digital online. The sector is expected to grow at a CAGR of 10% between now and 2025 to reach £29bn and will account for the vast majority of all UK advertising spend. Being part of this ecosystem will be important to growing future TfL gross revenues as OOH becomes part of the omni-channel planning and trading process. Additionally, revenues in this sector should be incremental to existing revenues as digital planners see the benefit of transferring between digital online and digital OOH for improved impact especially in a cookieless future. However, JCDecaux understands that there is a concern over what the advertising may look like in 10 years' time and how TfL can mitigate risk in a complex and everchanging landscape.

JCDecaux faced exactly this problem a few years ago and spent a year researching the market at a global level. The group board decided that our strategy should be to invest in a world class SSP (Supply Side Platform) to enable our inventory to be traded and planned in the same way as digital online, though mindful it isn't a one-to-one medium and some nuances would exist. This was seen as a crucial step to protecting our revenues in the existing trading infrastructure but also growing our revenues from the digital online world. At the moment we have 156 developers, engineers, product and commercial members of our SSP – VIOOH – representing a significant investment in the future. Stock investors look at the rate of our programmatic

growth as a lead indicator of future success. TfL will need to be present on a premium SSP to ensure that it is trading across the whole advertising ecosystem to grow its gross revenues.

 The UK market is one of the most highly penetrated OOH markets for digital OOH with over two thirds of revenues invested in this area. TfL therefore has a real opportunity to increase gross revenues in real terms by driving revenue into the estate from digital online through the presence on a leading premium SSP connected to the most significant demand side platforms.

**5.2 Would there be advantages for TfL if it were to allow more than one Supply Side Platform access to its digital inventory?**

There is obviously a question whether putting all your eggs in one basket as opposed to playing the market across many SSPs will provide the best outcome for TfL. There is an important aspect however to this question. TfL is a significant premium publisher. Therefore, as a premium publisher, the most important part of connecting to the programmatic ecosystem is the number of connections to Demand side platforms that spend the money. If one SSP has connections to all the DSPs, there is no real need for multiple SSP connections. If that is the case TfL has the best of both worlds. With one SSP there is tight control over the live availability and the protection of premium rates and yields for a premium publisher. And there is access to all the DSPs trading providing the high level of demand. So the question could be looked at into how many DSP connections rather than how many SSP platforms TfL are on.

In some markets inventory has been placed on more than one SSP but this has only been where the SSP can provide connections to DSPs in that territory that are additive. This is rather than opening up the inventory to many SSP's with the same DSP connections for the reasons mentioned above.

**5.3 How would you protect yields on programmatic deals; is TfL potentially devaluing its estate by trading impacts rather than as a brand building, broadcast medium**

In the digital online world, there is a perspective that programmatic is dealing with unsold inventory and is therefore a downward spiral on price. That could be a risk for publishers in this ecosystem. However, the premium publishers command significant price premiums based on the quality of the environment, the quality of their first party data and the limited supply. That is exactly the space that OOH is operating in, and TfL could be operating in.

In the programmatic digital OOH space, the CPMs (Cost per Mille/000's



impacts) trade at a 50%+ premium to traditional outdoor buys. It commands a premium price as it can be targeted, planned with data and event triggered. This all commands a premium. Trade deals using a deal ID have a pre agreed CPM or the use of floor CPMs where real time bidding is in play. This is the protect mechanism for trading in this space.

However, to maintain yields there is a need for strong marketing of the premium nature of the publisher and its inventory. For example, TfL digital bus shelters command an 82% audience premium to the marketplace due to the quality of the location, the pedestrian locations achieving higher attention levels and the size and quality of the screens. This needs to be marketed to the DSPs and is reflecting in the agreed CPM and floor CPMs operated. As noted above the use of a single premium SSP with connections to all DSPs gives tight control on live availabilities to protect rates.

## **6. ANY OTHER COMMENTS**

Are there any other comments you would like to make regarding these tenders?

1) Please confirm the tendering portal used in this process will offer sufficiently large capacity so respondents are able to upload a comprehensive, fully formatted response which will be supported by the inclusion of detailed appendices containing pictures, etc...

2) Specifically in relation to the bus shelter contract: -

To avoid TfL budget challenges which are subject to political changes, we would encourage you to consider a more comprehensive solution for procurement, maintenance, and servicing of your bus shelters. Our traditional bus shelter provision model provides an end-to-end solution which would allow TfL to delegate all aspects of the work involved in operating this facility and provide a coherent, consistent and quality end to end journey for TfL's passengers.

Our R&D department in Plaisir has developed a SmartCity shelter which has many capabilities that would enhance the journeys of the TfL customers.

Smart Shelters offer: -

- Wi-Fi connectivity
- 5G connectivity
- CCTV
- Charging ports
- Air monitoring
- Emergency SOS
- Touch screen (live information)
- Defibrillators

### 3) Forward Order Book

Please could you supply details of the forward order book mechanism and the percentage payment that has been agreed in relation to this.