



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: William F. Sherry, A.A.E

SUBJECT: Agreements for Airport
Air Service Marketing
and Communications
Consulting Services

DATE: June 6, 2011

Approved

Date

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

- (a) Approve master consultant agreements with Hoffman|Lewis, Inc. and with Barnestorming Advertising to provide marketing and communications support services to Mineta San José International Airport for two-year terms beginning July 1, 2011, through June 30, 2013, in a total amount for each agreement not to exceed \$520,000, and the total expenditures for both agreements together not to exceed \$520,000; and
- (b) Adopt a resolution authorizing the City Manager to exercise up to two (2) one-year options to extend the terms of each agreement on a fiscal-year basis through June 30, 2015, in amounts not to exceed a total of \$260,000 per year for each agreement, for a total four-year contract amount for each agreement not to exceed \$1,040,000, and the total expenditures for both agreements together not to exceed \$1,040,000, subject to the annual appropriation of funds by the City Council.

OUTCOME

Approval of the proposed master agreements will allow the Airport to continue to conduct marketing and communications to support air service recruitment, customer services, community outreach, and related activities with the flexibility, support, and expertise of marketing and communications consultants as needed.

BACKGROUND

Mineta San José International Airport (SJC) has retained consulting services to assist staff with the development and implementation of marketing and communications strategies and materials for decades. Barnestorming Advertising has provided these support services to SJC pursuant to

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multi-year contracts competitively awarded by Council in 2004 and again in 2008. The current contract with Barnestorming is in its first option year that expires June 30, 2011. All expenditures associated with Airport marketing are paid from the Airport enterprise fund or the Concession Marketing Fund, and not from the General Fund.

With the completion of the new airport, its marketing efforts are now principally focused on recruiting air service. The new airport provides excellent services and benefits for both airlines and passengers, but both the number of daily flights and level of passenger activity at SJC have decreased substantially since 2007. Flights have declined by more than 35% in this period, and passenger activity by approximately 25%, due to the economic recession, higher airline fuel costs, airport construction impacts, and competition by airlines for market share at nearby airports. Despite strong market demand from Silicon Valley businesses, travelers, and communities for more SJC service and the positive passenger reception for the new airport, airlines in general have been slow to restore flights to SJC. Choices available for both domestic and international destinations and schedules are limited, thus constraining growth in passenger activity.

At the same time, the Airport has aggressively reduced its budget in order to keep its costs to airlines competitive compared to airports across the nation. Over the past two years Airport staffing has been cut from 400 positions to about 200. This has included a reduction in marketing, communications, and customer service staff positions from 15 in 2007 to six today.

Although passenger activity in recent months has been increasing and is on track to grow by approximately 2% this fiscal year compared to last year, the overall number of flights has not increased. As a result, flights serving SJC have become increasingly full, with load factors for some carriers averaging more than 90% year round. In order to increase passengers and Airport revenue, SJC therefore needs more flights and carriers, and it needs to direct its marketing more to influence airline decision makers than to attract passengers to already full airplanes.

ANALYSIS

As Council is well-aware, the critical issue facing the Airport is keeping its costs to airlines competitive as measured by "cost per enplanement" (CPE). The Airport is now at essentially minimum staffing levels and has taken all practical measures to significantly reduce its costs. Council approved the outsourcing of Airport custodial services last year, and it is currently considering outsourcing all public safety services to keep the Airport's CPE at competitive levels. At this point the most effective way to keep the CPE at competitive targets is to increase enplanements, which means growing the number of flights. This is the context for the recommended marketing and communications consultant services needed to support and enhance staff capacity for air service development as well as for other communications and marketing activities.

The Airport's marketing focus over the past several years has been on project-related issues and construction impacts and airport development. Today the emphasis has shifted to recruiting more flights, routes, and carriers that will lead to growth in passenger activity and Airport

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revenues. Council has already approved an aggressive incentive program to help recruit flights that waives Airport rents and fees for new routes to designated unserved or underserved destinations and offers collaborative advertising support. Although these incentives will cost the Airport more than \$1 million per eligible route in waived revenue, more service clearly benefits Silicon Valley businesses and travelers by providing more choices from SJC, and increased passenger traffic would increase other non-airline revenues from concessions, parking, and rental cars. Ultimately more enplanements also will favorably change the equation for the Airport's CPE.

Over the next several years the Airport's marketing efforts will aim more at achieving positive airline decisions regarding air service, rather than on encouraging passengers to choose SJC since flights are now essentially full. As part of this effort, the Airport and the Mayor's Office is working with Silicon Valley business, travel, and community leadership to engage their active support to encourage airlines to increase air service at SJC.

In addition, under the terms of the Airport's Master Concession Agreements, the concessionaires are required to dedicate one-half percent of concession sales to a concession marketing fund. On February 23, 2010, the City Council approved an amendment to the Airport's agreement with Barnestorming to increase its scope of work and funding to work with the Airport concessions on a concession marketing program. In the coming year the estimated amount that would be collected for concession marketing is approximately \$75,000.

Finally, marketing and communications methods have radically changed in recent years with the availability of new media technology, including social media, and mobile communications. In light of these changes, the Airport decided to seek marketing and communications consulting services that could provide effective support using both traditional approaches and those more suitable for this new operating and communications environment.

The Airport is a self-supporting enterprise that depends entirely on its customers and tenants for all its revenue, with no support from the General Fund, and it also faces direct competition from all airports in the nation for air service. An example of this competition can be seen here in the Bay Area, where San Francisco International Airport currently is also seeking similar marketing and communications consulting services. SFO's two RFQs for these services are valued at a total of \$11 million over the next seven years to aid that airport's efforts to increase the number of its flights. This is six times larger than the proposed SJC agreements. Although SFO is one of only a few airports in the nation to see growth in enplanements during the recession, it clearly is not complacent about investing in marketing efforts to continue its growth.

Procurement process

The Airport issued a Request for Qualifications (RFQ) on March 28, 2011, to solicit statements of qualifications from potential firms that could provide the nature and quality of marketing and communications services needed by the Airport. Unlike a Request for Proposals for a specific project or program that includes specific deliverables, the RFQ sought consultant capabilities that could enhance and extend the Airport's capacity. More than 100 firms viewed and/or

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downloaded the RFQ from the City's Bid Line, and notification of the RFQ was also emailed to a list of Bay Area marketing and advertising companies compiled with assistance from other local public agencies and City departments that have recently solicited similar services.

Scope of Work

As outlined in the RFQ, the scope of work for the Airport marketing and communications consultants includes these principal areas of support:

1. ***Marketing Program Development*** to help prepare long-term and short-term plans to support strategic air service development; aviation industry communications; customer services; community and business outreach; collaborative programs with Airport airlines and tenants; revenue-generating programs; and to support the airport master concessionaires increase sales and awareness of the airport restaurants and shops. This will include the use of traditional and non-traditional media as well as social media and on-line channels to meet rapidly changing conditions and needs of the Airport, aviation industry, and the public.
2. ***Planning, Research, and Performance Evaluation*** to assess current marketing efforts, opportunities for new programs and methods, areas for improvement, and ways to use limited resources effectively to achieve Airport goals.
3. ***Marketing Services Support*** including a wide range of creative and design assistance, advertising production for on-line, television and radio, print, outdoor, and other media; production of marketing materials suitable for specific channels and audiences, and support for Airport special events as needed.
4. ***Consultation*** to provide guidance in the selection of providers for marketing, communications, and advertising services such as graphic production, social media, web services, advertising channels and materials, and audio/video production. This would also include assistance in identifying and securing potential partnership opportunities with other private- and public-sector organizations to reach specific target audiences, reduce outreach cost, and/or generate revenues.

Marketing outcomes

Principal marketing and communications projects planned in the coming year are listed below. By expanding staff capacity to undertake these measures, the work to be done by the marketing consultants will both support the goal of increasing flights at SJC and contribute to the SJC's positive reputation among airlines and airport customers.

1. *Assist the Airport in developing an updated overall marketing strategy that reflects current goals, resources, new media and other communications methods, and priorities, including appropriate measures for specific aspects of the plan. This will include activities that would help strengthen the effective identification of SJC as "Silicon Valley's airport."*

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The Airport's marketing needs today have changed as the result of the recent completion of the \$1.3 billion modernization program and the severe loss of passengers and flights due to the recession. Its focus has now shifted from project-related issues to supporting air service development that will lead to growth in passenger activity and Airport revenues. The first priority for the Airport's marketing team of staff and consultants therefore is to prepare an overall marketing strategy in the first two months that will better support efforts to recruit carriers and flights for Silicon Valley's airport and identify benchmarks and allocations of time and resources that will serve to measure progress toward goals. Since specific projects and activities will be revised, added, or eliminated over the course of the strategy's implementation, and as opportunities become available, the Airport will review these plans on an ongoing basis with the Communications Working Group established by the Mayor's Office.

2. *Assist with the development and implementation of a sustainable Airport social media strategy to support of both air service development and customer services, and within this strategy develop and execute specific marketing campaigns using social and digital media.*

Travelers and businesses increasingly expect to be able to use various and changing social media platforms to engage with institutions such as airports. SJC needs a strategy to meet this expectation that it can sustain within its limited resources as well as to stay competitive with other airports that have already actively embraced social media and social marketing. The Airport does not have sufficient expertise and experience in this area, and the marketing consultants will assist the Airport in developing a strategy for using social media effectively for communications and marketing. Although the primary goal of social media will be to provide responsive customer service and establish an SJC community of travelers, it will also be used to engage the public and travelers in the Airport's efforts to communicate with airlines about adding service at SJC. In addition, the tools of social media have emerged as critical elements for crisis communications, and a goal of this strategy will be to enhance the Airport's ability to respond to potential emergencies.

3. *Provide graphic design and production support for updated collateral materials and create advertising as needed related to Airport projects, facilities, and services affecting customers, partners, and the community.*

With the completion of the new airport, SJC's informational toolkit needs to be updated. Because of deep reductions in staffing levels and resources at the Airport over the past two years, much of this effort has been deferred, and materials do not reflect the comprehensive changes to the Airport. Over the two-year period of the agreements, the marketing consultants will work with Airport staff to create collateral material that include fact sheets about the Airport and its facilities, the Silicon Valley market, customer services and amenities, Airport projects such as the proposed Non-Terminal Area Improvement Program, environmental and community protection programs, and construction or facility changes. This material also will be used for updating the Airport's website and social media activities, as well as serving to respond to news media inquiries, business in-reach and community outreach meetings.

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- 4. Develop a presentation framework and produce updated materials for use at the Routes international air service conference in Berlin in September, as well as for other airline presentations.*

The Airport regularly attends air service development conferences two to three times a year, and it meets with airline route planners and corporate executives both at airline corporate offices and at SJC. The route conferences can involve hundreds of carriers and hundreds of airports from around the world, and it is essential for SJC to have high-quality and effective presentation materials that can stand out in the crowd. The marketing consultants will develop new materials that demonstrate the Airport's competitive advantages and its unique assets as Silicon Valley's airport. These will include presentation templates, airline-specific case studies, and visual materials and video, including print and digital formats.

- 5. In collaboration with carriers, create advertising and provide marketing support as needed for new service launches eligible under the Airport's incentive program.*

When carriers launch new routes at SJC that are eligible for the Airport's incentive program, the Airport also will support these routes with advertising developed in collaboration with the carrier. The Airport follows the lead of carriers in these situations as they know their customers and markets better, but there can be opportunities for the Airport to provide other direct marketing support activities, coordinate launch events, and engage the community or potential customers. The marketing consultants will work with the Airport and carriers to develop and implement plans as needed, since they are contingent on new routes and will vary depending on the route and carrier needs.

- 6. Develop and execute marketing campaigns aimed at in-terminal passengers to increase customer traffic and sales at Airport shops and restaurants.*

Under the Airport's Master Concession Agreements, the concessionaires are required to dedicate one-half percent of concession sales to a concession marketing fund, which is estimated to be approximately \$75,000 in the coming year. Using these earmarked funds, the proposed marketing and communications consultants will work with the three master concessionaires and the Airport to develop a strategy and create campaigns to increase sales at Airport concessions. Although the principal driver of sales is the overall level of passenger activity, this strategy will be aimed at generating higher levels of spending per passenger. Until concessions pass the threshold of the contractually required Minimum Annual Guarantee (MAG) for revenue to the Airport, this marketing strategy would primarily help concessions toward greater profitability. After they cross the MAG threshold, greater concession sales will help to increase Airport revenues.

Selection

A four-person staff evaluation panel representing the Airport and the City Manager's Office reviewed and scored 16 submitted Statements of Qualifications, developed a short list of the

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seven top-scoring firms, and conducted interviews with the seven finalists on May 11. Based on criteria of relevant experience, expertise, and quality of services, the evaluation panel ranked the finalist firms as follows:

Rank	Finalist Firm	Experience	References	Fee Structure	Local Business	Small Business	Total Score
	<i>Possible points:</i>	50	20	20	5	5	100
1	Barnestorming	42	20	11	5	5	83
2	Hoffman-Lewis	47	20	15	0	0	82
3	AdEase	35	20	16	5	5	81
4	Orloff-Williams	39	20	11	5	5	80
5	Baker Street Advertising	40	20	10	5	5	80
6	Creative Partners	37	20	14	0	0	71
7	Runyon-Salzman-Einhorn	39	20	7	0	0	66

The panel was unanimous regarding the resulting final rankings, and recommended securing the services of the two top-rated firms to ensure both continuity of expertise and experience represented by Barnestorming along with the broader expertise and fresh perspective of Hoffman|Lewis. The Notice of Intended Award was issued on May 20, 2011, and no protests were received during the subsequent ten-day period that ended May 30.

Approval and execution of the proposed consultant master agreements with both top-ranked firms will allow for an effective transition for the Airport's marketing and communications strategies and provide a breadth of expertise and added flexibility to meet the Airport's marketing and communications needs. Both firms are well qualified, and the second-ranked firm, Hoffman|Lewis, was rated higher before adjustments for local and small business enterprises.

Barnestorming offers deep expertise regarding the Airport itself as a result of long-term marketing services relationship, and it will continue to be tasked with specific activities related to traditional print and broadcast advertising and development of collateral materials in support of air service and customer service programs. Hoffman|Lewis will provide additional capabilities that will add creative and technical expertise in the field of new media and digital marketing to support the Airport's marketing programs. Hoffman will be tasked with planning and developing campaigns using both new and traditional media to achieve air service goals. The Airport will work with both firms to determine how each is assigned certain responsibilities and to coordinate them to achieve the best results.

POLICY ALTERNATIVES

Alternative 1: Extend the City's existing consultant agreement with Barnestorming for one more year as allowed under the agreement for Airport marketing, communications, and event support rather than award two new agreements.

Pros: Allows continuity of the services provided under the existing agreement to take advantage of consultant's familiarity with the Airport.

Cons: Does not address changes in the Airport's competitive and communications environment, and still would require a new RFQ process next year.

Reason for not recommending: The Airport is seeking broader experience and expertise for its marketing and communications efforts, especially with new media, to address the current need for developing air service and concessions marketing.

Alternative 2: Contract with Barnestorming as a single new service provider to provide Airport marketing and communications services.

Pros: Allows continuity of the services provided under the existing agreement to take advantage of consultant's familiarity with the Airport. Would not require another RFQ process next year.

Cons: Does not address changes in the Airport's competitive and communications environment.

Reason for not recommending: The Airport is seeking broader experience and expertise for its marketing and communications efforts, especially with new media, to address the current need for developing air service and concessions marketing.

Alternative 3: Do not retain any service provider for Airport marketing and communications services.

Pros: Potential reduction in Airport costs, although services still would need to be procured from other vendors as needed.

Cons: Does not address changes in the Airport's competitive and communications environment. Does not provide capacity, consistency, or quality of needed professional services. Increases administrative time and complexity for seeking and managing professional services for air service development and customer services marketing activities.

Reason for not recommending: In addition to seeking broader experience and expertise for its marketing and communications efforts, the Airport also needs the capacity provided by outsourcing service to address the need for developing air service and concessions marketing.

PUBLIC OUTREACH

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. (Required: Website Posting)

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- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. (Required: Email and Website Posting)

- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. (Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)

This item does not meet the above criteria requiring additional notification. However, it will be posted on the City Council agenda website for the Council meeting on June 21, 2011.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, City Manager's Budget Office, and Purchasing Division of the Finance Department.

FISCAL/POLICY ALIGNMENT

Not applicable.

COST SUMMARY/IMPLICATIONS

The table below identifies the fund and appropriation proposed to fund the contract recommended as part of this memo.

BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	Total Appn. 2011-12	Amt. for Contract	2011-12 Proposed Budget Page*	Last Budget Action (Date, Ord. No.) *
523	0802	Airport Non-Personal/Equip	\$38,555,940	\$520,000	XI-3	

The 2011-2012 Operating Budget and the implementing appropriation ordinance are scheduled for approval by the City Council on June 21, 2011.

Services performed by Barnestorming and Hoffman|Lewis under these agreements will be authorized by Task Order for specific projects or activities. In the coming year the estimated amount that would be collected for concession marketing is approximately \$75,000. Using these funds, the proposed marketing and communications consultants help develop and implement appropriate campaigns to increase traffic and sales at the Airport's shops and restaurants. The balance of the funds proposed for marketing service is \$185,000 per year, which is unchanged from previous years under the Barnestorming agreement.

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The total expenditure for both agreements in the initial two-year term will be limited to a total not to exceed \$520,000, which is also the not-to-exceed amount for each agreement. Staff will issue task orders to either of the consultants, with the total expenditure between the two consultants not to exceed \$520,000 over two years. All expenditures associated with the Airport marketing agreements will be paid from the Airport enterprise fund or the Concession Marketing Fund, and not from the General Fund.

CEQA

Resolutions No. 67380 and 71451, PP 08-086.

/s/ Kimberly B. Aguirre for
William F. Sherry, A.A.E.
Director of Aviation

For questions, please contact William F. Sherry, A.A.E., Director of Aviation, at (408) 392-3611.

Attachments: Consultant agreements