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**SESSION 2: MINI PRESENTATIONS ON
PRODUCER PRICE INDICES**

**CHALLENGES IN THE DEVELOPMENT OF A PRICE INDEX FOR
ADVERTISING SERVICES IN THE UK**

Nick Palmer
UK Office for National Statistics

THE DEVELOPMENT OF A PRICE INDEX FOR ADVERTISING SERVICES IN THE UK

This paper contains a list of issues that are currently being addressed by the ONS as we attempt to develop a Corporate Services Price Index (CSPI) for advertising services.

Which advertising services should we be collecting prices for ?

- placement of advertisements in various media ?
- creation of advertisements ?
- supply of advertising space ?
- co-ordinating and enabling services provided by advertising agencies ?
- or a combination of all or some of the above ?

Who is providing the services ?

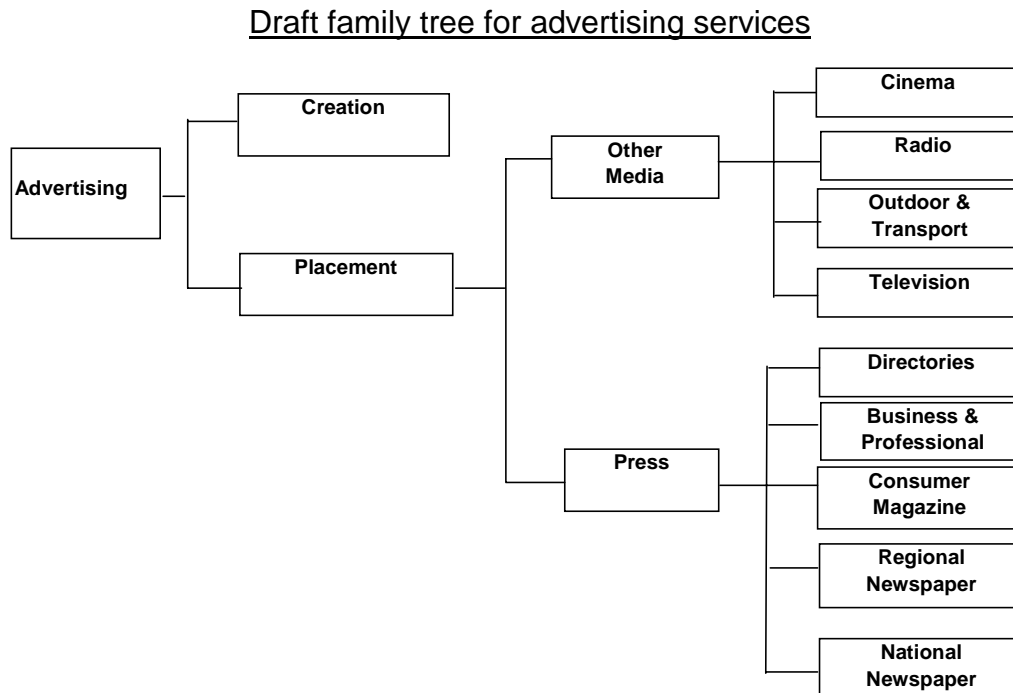
- Services are mostly provided by advertising agencies it seems, but some media companies provide services direct to business customers (especially business directories)
- We are assuming that, for the most part, we will be pricing the services provided by advertising agencies for which they charge fees and commissions. These charges may or may not include the actual cost of placing the advertisement in the chosen media – this is something that needs to be investigated further. Advertising purchased directly from media companies may require separate treatment and, perhaps, a separate price index.

What guidance is provided by industrial classifications ?

- the UK Standard Industrial Classification identifies the following:
 - 74.40 Advertising:
 - 74.40/1 Sale or leasing activities of advertising space or time
 - 74.40/2 Planning, creation and placement of advertising activities
 - 74.40/9 Advertising activities not elsewhere classified
- the CPC is similar (category 836) but makes it clear that the purchase or sale of advertising space or time is associated with a commission fee.
- the bulk of activity in the UK is in 74.40/2 – but we will have to find out for ourselves what the proportions are for the component activities, particularly **the split between placement and creation.**

What product groups should form the framework for price collection ?

- An initial attempt at a “family tree” is shown below.
- It is relatively straightforward to identify the different categories for placement of advertisements, but we have not tackled the problem of identifying the main product groups (if any) within the creation branch of the tree.



How do we estimate the weights for the components of the family tree ?

- No relevant data is currently available although we are currently in the process of carrying out a turnover inquiry, requesting companies’ turnover information for each of the product groups (the turnover will relate to the commission or fee relating to each service provided) which may provide a useful indication – especially for the split between placement and creation.

What should be done about data collection ?

- first, try and make use of any relevant data that are already available
- if that approach is unsuccessful, then either: make arrangements to collect the extra information that may be required to supplement the data already available; or set up an original survey of advertising agencies or media companies.

Data that are currently available and published:

- in the UK, the Advertising Association regularly collects and publishes information on the revenue obtained from various kinds of media advertising.

- the following table summarises the kind of detail that is available, i.e. the value of all expenditure on advertising appearing in the media:
- the methodology underpinning the survey that provides this information, along with its timeliness, require further examination by ONS before we can assess how useful this information might be. For example we will need to find out whether agencies' fees or commission are included in these figures.

UK expenditure on media advertising, expressed as a percentage of the total:

	1995	1996	1997	1998	1999
National Newspapers	14.5	14.1	14.1	14.3	14.4
Regional Newspapers	19.8	19.3	19.1	18.8	18.6
Consumer Magazines	5.4	5.5	5.6	5.6	5.4
Business & Professional	9.1	9.5	9.5	9.5	8.9
Directories	6.5	6.5	6.3	6.1	6.2
Press Production Costs	5.2	5.2	4.9	4.9	4.8
<i>Press Display</i>	35.0	34.2	33.0	32.5	32.0
<i>Press Classified</i>	25.4	25.9	26.6	26.7	26.3
Total Press	60.4	60.1	59.6	59.2	58.3
Television	31.7	31.7	31.7	31.7	32.2
Outdoor & Transport	4.2	4.4	4.7	4.8	4.8
Radio	3.0	3.2	3.4	3.6	3.8
Cinema	0.7	0.7	0.8	0.8	0.9
Other Display Media Total	39.6	39.9	40.4	40.8	41.7
Current Prices £m	9,891	10,675	11,697	12,730	13,436
Constant 1995 Prices £m	9,891	10,420	11,070	11,650	12,108

- In theory, if the above data could be combined with some relevant volume measure then perhaps a proxy price index could be developed.
- Other data that are available is information on "rate card rates" – these are the headline rates for the various kinds of media advertising provided by the media companies and represent the starting point of negotiations between the advertiser and the media owner. Rate card rates for advertising in national newspapers are made available by the Advertising Association.
- Discounting of these rate card rates is highly prevalent and we would need a good indication of the levels of discounts. Ideally this information should be collected (but it is not currently). In addition, we would need to determine whether or not changes in discounts on rate card rates for some types of media is similar to those for other types, e.g. are there differences between discounts for national newspapers and other press ?

Possible pricing methodologies

- It may be possible to develop some price indices for placement of advertisements using the information collected by the Advertising Association – although it may not be possible to cover all categories within this branch of the family tree – as follows:
 - For newspapers, the annual information collected on revenues and rate card rates could be used to estimate the mean discounts in any year. These changes in mean discounts could then be applied to the changes in

rate card rates for display advertising to come up with a proxy price index for placement in newspapers.

- For television advertising it may be possible to combine the Advertising Association's revenue data with the number of commercial minutes (collected every quarter) to produce the price per minute of advertising in any quarter. This would take into account variations in the size of commercial television audiences and, apparently, can be broken down into terrestrial and satellite channels.
- For radio, outdoor advertising and cinema advertising, it is not clear what data are readily available that could be combined with the revenue data. Some additional data collection may be required, although we are currently investigating possible sources for radio audiences, radio broadcast hours/advertising time and cinema audiences. (The ONS already collects detailed information on cinema audiences and numbers of screens as part of a separate survey – cinema advertising only represents about 1 per cent of UK advertising though.)
- Other methods for collecting prices for placement would probably involve surveying advertising agencies and media advertisers and choosing a representative selection of typical items for repricing – but we would have to address the problem of discounting somehow.
- We are also considering introducing a category for placement of advertising on the internet and have approached some companies that specialise in these services.
- The approach for **creation** is likely to be different from that for placement. This could possibly be based on charge-out rates, i.e. the hourly rates charged by various grades of agency staff when working on specimen advertising campaigns - although this would depend on consistent hourly rates being charged. Rates can vary significantly depending on who the client is.
- Also for creation, an approach involving collecting total fee incomes by grade of staff will be examined - this would be similar to approaches being developed for another CSPI (accountancy).
- The placement of the advertisement, following creation, may be part of the same transaction, so it may not always be possible to separate the two. In this case the price collected will probably have to be for the combined service.