

ADVERTISING SERVICES INDEX

The French experience

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**XVI th Voorburg Group meeting - Örebro (Sweden)
17-21 September 2001**

Work on PPI in advertising industry started in France at the beginning of 2001. The first information was collected in February following a previous period of methodological investigations, contacts with business associations in order to test their willingness and interest about prices collection. The first quarterly mail survey was launched at the end of June. It is therefore a very new topic for INSEE. This paper summarises the main conclusions which can be drawn at this point about the first steps of this new experience. During this year, I benefited from information and advice kindly provided by Ian Tinkler (New-Zeeland) and Roslyn Swick (United States of America) about the situation in their respective country.

The French advertising industry consists in two kinds of companies :

Advertising placement agencies and
Advertising creation agencies.

Advertising placement agencies

a) Industry overview

The current business of advertising placement agencies consists in selling "space" (pages in magazines, billboards, etc...) to companies who are looking for promoting their products. In the following of this presentation, firm A will be an advertising placement company, while firm B will be the buyer of advertisement spaces. Firm A is generally specialised in only one media (billboard for example). The advertising placement industry is very concentrated : for example four firms only represent more than 90 % of ad placement on TV.

b) methodology

There are two usual methods for measuring prices of advertising placement. First it is possible to focus on unit prices : every unit of ad space, for example thirty seconds on TV, has a price which is recorded. This first method is mainly designed to follow prices from the "production" side e.z from the point of view of the media in charge of publishing an ad. The alternative amounts to measure the price of an entire package contract (which very often encompass advertisements with various media, on different periods of time, etc.) between agency A and firm B. This method is more suited to follow prices from the "demand" side e.z from the point of view of the firm which wants to publicize its products. If the sampling of services per advertising placement agency is judicious, both methods should lead to the same results.

The French methodology has opted for measuring unit prices per ad spaces. Difficulties with contracts arise from the fact that each contract is unique and therefore makes impossible to follow through time.

By the way, the output is similar to an ad space unit (thirty seconds on TV for instance). The sampling is carried out with selected advertisements. On TV, several slots are quarterly picked up in a week of reference. Slots are characterised by a specific day and time.

It is important to measure transaction prices and not list prices. Transactions price can be very different from list price because of discounts of all kinds which can be very important and erratic.

But, when dealing with transaction prices, two difficulties are usual :

- first of all, firm A may sell not only one ad placement but a whole set of advertisements (a package) to firm B. Therefore, it is not easy to pick up the market price of each separate ad within the set.

- secondly, and this is the most important point, the price of ad space depends on firm B and particularly on the total amount of the yearly purchases firm B has done to firm A. The price depends on the quantity and the more ad space firm B bought in a year, the cheaper the price per ad space unit. Unfortunately, the total amount of yearly purchases can't be known before the end of the year,

hence the definitive transaction price is only known at the end of the year. In the actual world hopefully, agency A is able to estimate the amount of discount each quarter.

c) audience and the quality effect.

For TV commercials alike any kind of ad space, the price depends on the audience. Prices are based on slots by size ("number of pairs of ears and eyes" affected) as well by "quality" of audience (number of housekeeper women less than 50, males between 25 and 45, number of executives, etc...) This methodology, as mentioned in an European Community Task Force Report, is a way of taking in account the quality effect in advertising in audio-video media, which is strongly recommended in the same Task Force Report above mentioned. For other media of communication (billboard for example), quality effect does not appear that compelling since audience may not change too quickly, on a short term basis.

d) the sample and the survey.

It is a quarterly survey on about 100 firms. The sample is segmented by stratum (size and activity) as usual in business surveys. Seasonality is important. Firstly, each quarter will be compared to the same quarter, the previous year. For radio and TV, a week of reference is selected within each quarter. The sampling of services is a general sampling with several degrees. The choice of this reference week is important. Transactions are measured with one unit by medium. For TV, the price is per second and viewer for the selected slots. For newspapers, the price is by format unit.

Advertising creation agencies

1) Industry overview

The current business of advertising creation agencies consists in giving advice to companies who are looking for elaborating advertising campaigns. Advice focus, for example, on targeting audience, media planning, marketing strategy, etc...

The other output, the most visible, is the creation of advertising messages. Concentration in advertising creation agencies is less important than in advertising placement agencies. There are three lines of business in this activity :

- advert creation for media
- marketing (other advert creations, telemarketing, packaging creation,)
- purchase of ad space (Media Buying Service).

2) pricing

Four main pricing methods are currently in use in the industry:

① Hourly fee.

Advertising agencies sell time spent in advice and creation. In some cases, the price is set according the number of hours weighted by skill levels.

② Contract price

Firms bargain on the various components of the contract and a transaction price is concluded accordingly. In some cases, this price can be separated into "creation" and "consulting", again by skill levels. Then the contract price is the total of hourly fees.

③ Commission rate on purchase of ad space.

When the advertising creation agency is in charge of the whole campaign (from the early stages of consulting to ad creation, media planning and purchase of ad spaces), it is common procedure that the transaction price be a commission rate applied to the total amount of purchase of ad space.

④ The commission rate on production spending

In some cases, the advertising agency is in charge of monitoring the campaign, and manages for instance the relations with a printer or a fashion agency. For a billboard campaign, for instance, the advertising agency negotiates the price with the printer and applies a commission rate when invoicing the printing expenses to the firm.

There is another method of pricing: the incentive method. One part of the campaign price may depend on the results achieved through the campaign. But the aims of a campaign in the short term and the measure of the results agreed upon are not easy to lay down in a contract: that is why this method still remains trivial in the industry.

3) Price indexes calculation

First of all, firms are asked about their pricing methods. The methodology will follow accordingly.

If the pricing method is that of a commission rate on the purchase of ad space, several contracts are selected and the commission rate is evaluated. In some cases, the measurement consists in averaging commission rate on several types of customers. It would be dangerous to measure the average commission rate on all clients because clients may change in structure from time to time. In this case, the price evolution has to be weighted by the structure of customers.

The advertising agencies production price is then issued from the commission rate and the price of ad space (see supra) per medium.

For other methods of pricing, the output method is applied. For example, the production price is based on selected contracts. Contracts may not be unique and can be proposed to several clients. In other cases, the price is issued from contracts for standard services available to any client.

When services are unique the only way is to measure the hourly fee for several skill levels (as already done for production price measurement in engineering). But the methodology has some drawbacks :

- it is difficult to measure the evolution of productivity. The price seems to increase but, actually once taken into account this "quality" effect, the price decreases (as it could be seen with an hedonic method of measurement). The same kind of difficulty is found in engineering.
- the very nature of the hourly fee is of the kind of a list price. There is a negotiation and actual invoicing is different from the number of hours multiplied by the hourly rate.

4) the survey

The survey aiming at monitoring prices in advertising creation agencies is quarterly and about 130 firms in size. But it is worth noting some prices change only once a year, for example the hourly fee for several qualifications. As weighting coefficient of each 'elementary' index, the firm's margin (and not the firm's turnover) is used.