

# Quality Adjustment of SPPI advertising

- **26th Voorburg Group Meeting in Newport**
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# Outline

**In what cases should audience size be used for quality adjustment?**

- **Introduction: Why audience size?**
- **Business models, billing methods and price mechanism**
- **What determines industry output?**  
**3 cases: broker, reseller, wholesaler**
- **Summary and recommendations**

## What this session is about...

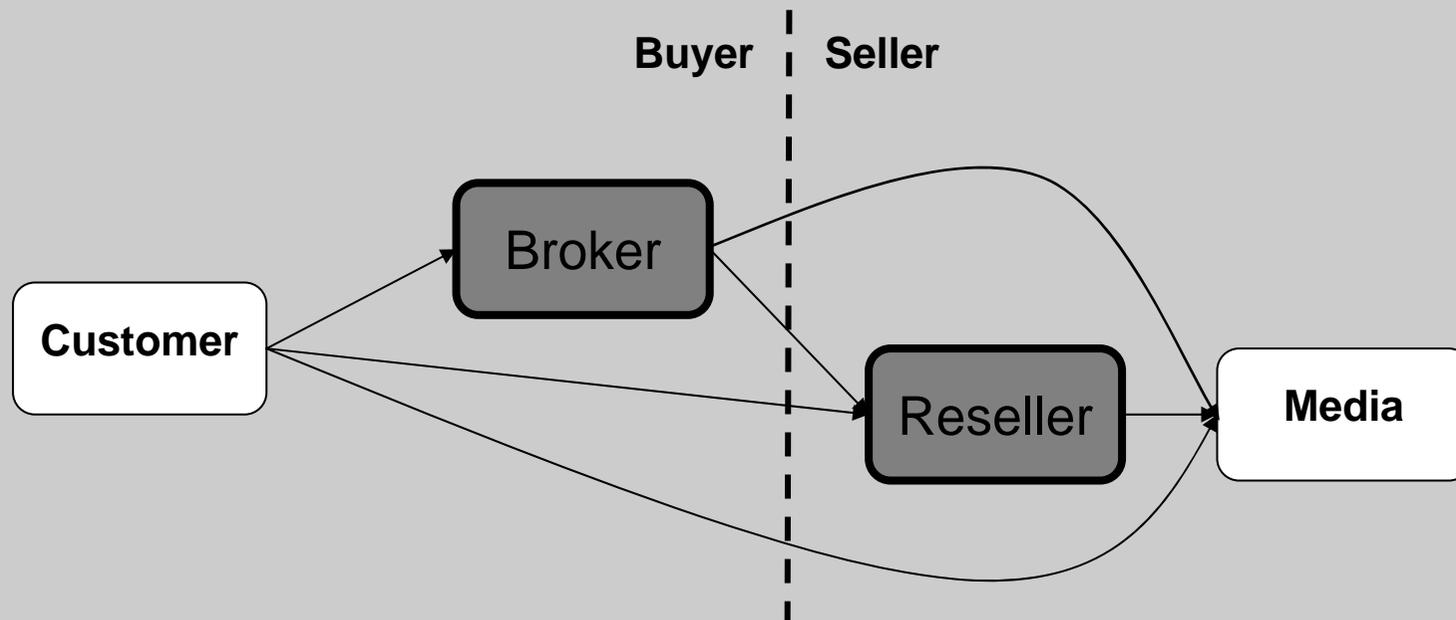
- **ONS-CSO questionnaire (2009) showed that around half of countries with advertising SPPI account for size of audience in some way**
  
- **But...is audience size a suitable quality adjustment?**

# Identifying the service

- **The advertising industry differs significantly across countries – and sometimes even within countries**
  
- **Relevant issues:**
  - **Market agents: buyer side and seller side**
  - **Business models: broker and reseller**
  - **Billing methods: net and gross**
  - **Price mechanisms: fees/ working time and audience size related (expected or achieved)**

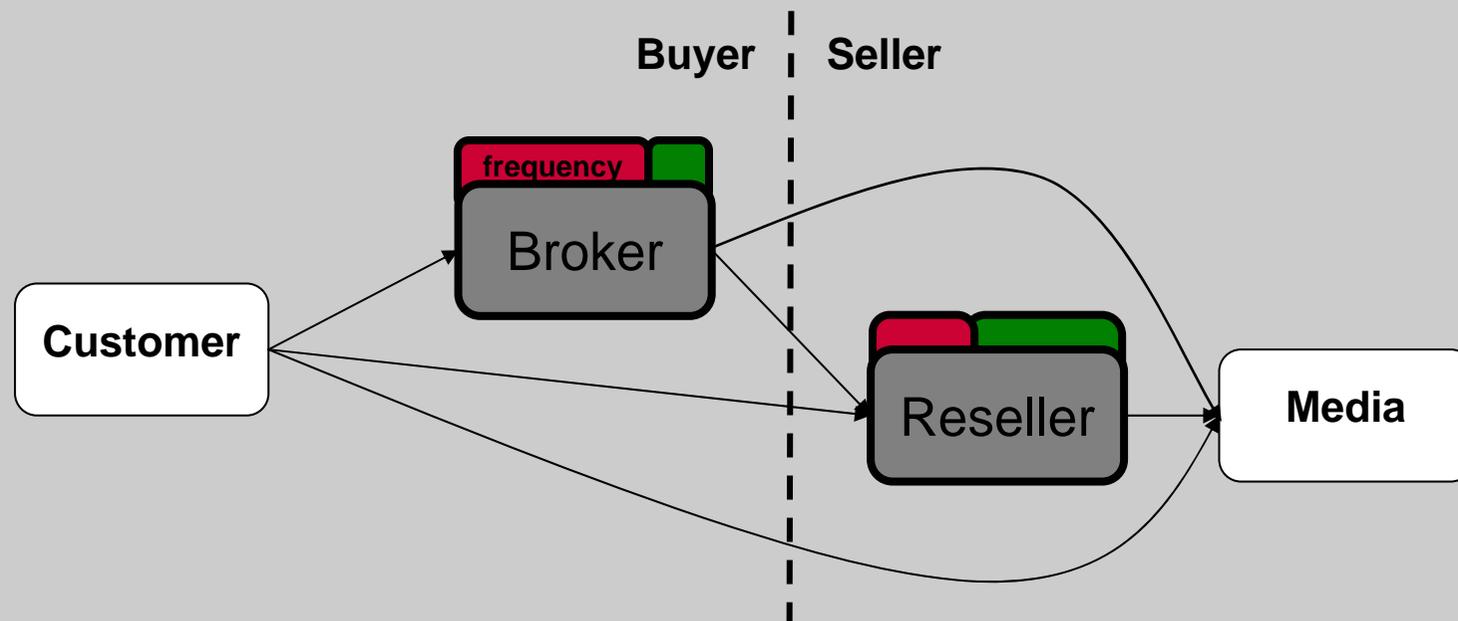
# Business models

- **Broker:** buys media space on behalf of client
- **Seller:** purchase media space in bulk to re-sell it



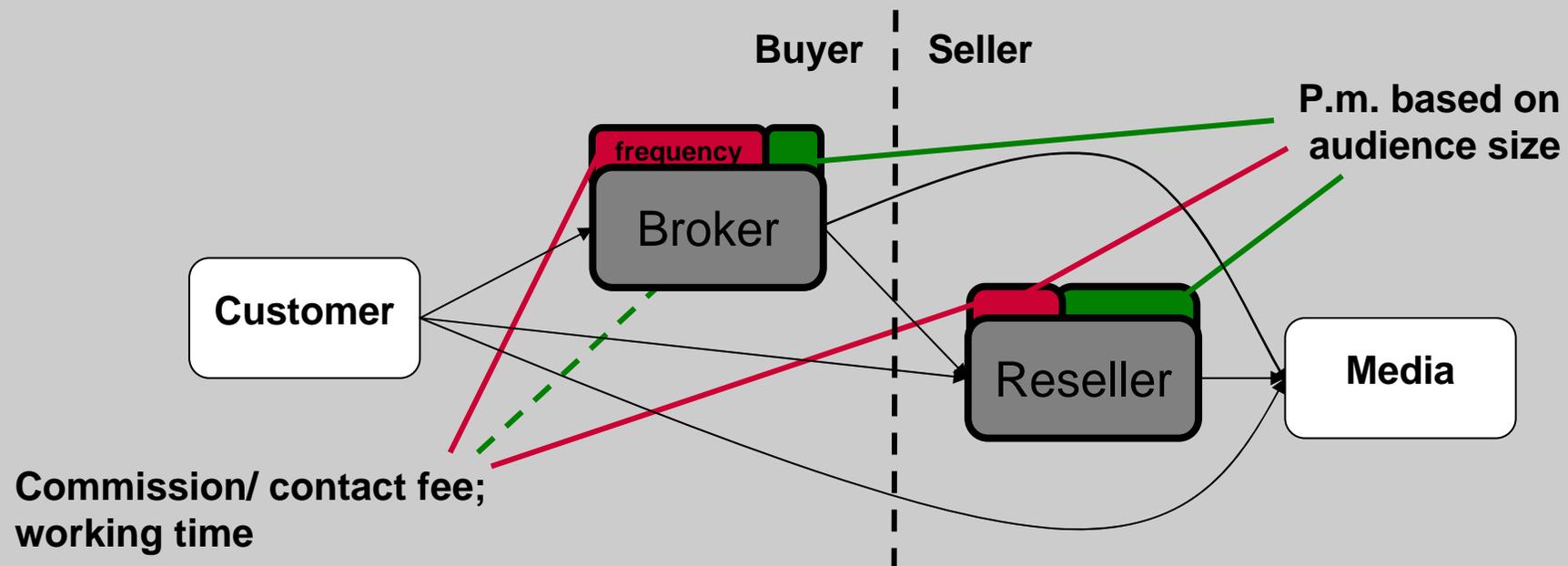
# Billing methods

- **Net basis:** client is charged purely for the negotiation service in media placement
- **Gross basis:** client is charged also for media space



# Price mechanisms

- Commission/ contact fees; working time
- Based on audience size (expected or achieved)



# Output: turnover and deflation

- **Advertising SPPI used to deflate Advertising Turnover to get Advertising output**
- **Important that price index concept aligns with turnover so that output is the correct measure**
- **Turnover practices vary according to prevalent billing methods in the industry (net basis, gross basis or mix)**

## How do we perceive the industry output?

- Where a net billing approach is used, we can clearly see the service separated from the media space
- Where the gross billing approach is applied, the value of the media space is included in turnover
  - The current price output of the advertising placement industry has some component where different audience size is an indicator of different products

# How to proceed?

- **For the net approach, this should be fairly straight forward**
  - **A change in service delivered must flow through to output**
  
- **For the gross approach, this depends on how the activity of the industry is viewed**
  - **And different viewpoints call for different solutions with respect to quality adjustment**

# 1. The industry is a broker

- **Advertising brokers are like stockbrokers etc.**
- **Bring buyer and seller together without taking ownership**
- **A net broker does not take audience size into account**
- **A gross broker bills media space connected to estimated audience size**
- **Achieved audience size as quality adjustment is not a consideration**

## 2.1 The industry is a reseller acting as wholesaler

- **Buys and resells media space**
  - Or at least includes media space in the billing method
  
- **Service is the same for a broad range of products (i.e. the product is less narrowly defined)**
  - 1.45 million audience is the same as 1.5 million
  - 10,000 audience is not the same as 1.5 million
    - Compare the approach of trade margins
  
  - This is implicitly an “expected audience size” type pricing mechanism
  
- **A change in the size of the achieved audience is not a function of the industry**

## 2.2 The industry is a reseller acting as a media portfolio manager

- This is for resellers only
- A reseller buys a range of different media slots
  - Different channels, different times, terrestrial, cable and satellite TV etc.
- The service is managing the portfolio (adding value to the service) so that client achieves a certain outcome
  - The client buys “1.5 million audience” at a negotiated **achieved** Cost Per Thousand (CPT) Viewers rate
- A drop in achieved audience figures reflects on poor portfolio management
  - The price of the CPT is constant, the output of the industry drops

# Discounts

- **Discounting occurs in addition to changes due to audience size**
  
- **Caution needed**
  - **Need to allow discount to pass through as price change**
  - **But need to remove that part of observed price change that is due to change in audience size**
    - **Where we believe that this is a change in output**

# Summary

## Different circumstances apply in different markets:

- For those billing methods that don't use audience size, clearly audience size is not an issue
- For those methods that use expected audience size (implicitly or explicitly), the service only changes when the expected audience size changes
- For those billing methods that use achieved audience size,
  - a change in audience size is not a quality change if we consider the service like a wholesaler
  - a change in audience size is a quality change if we consider the service as some sort of intermediary / portfolio manager

# Summary

- **Achieved audience size is not a function of the activities of Advertising Placement**

*BUT ...*

- **Audience size can appear in some billing methods and flow into turnover**
- **Whether this is a change in output depends on how the output of the industry is viewed**
  - **If we believe that the output is like a wholesaler, variations due to audience size should be seen as price effects**
  - **If we believe that the industry adds value beyond the wholesale activity, it is appropriate to remove the effect of change in audience size**

# Recommendations

- **Audience size is only used to quality adjust an SPPI for advertising media placement services if media space characteristics play an important role in industry's business models;**
- **All discounts offered by the media agency or media marketer, both as a result of negotiations and to compensate for lower than expected audience size, are taken into account;**
- **Any sales of media space or discounts offered by the broadcaster or publisher of the media space or time are excluded.**

# Thank you



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