Revisited Sector Paper on:

ISIC 7310 Advertising

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International Progress

2009 Country Progress Report (20 countries)

ISIC 7310 Advertising
• SPPI – 16 countries
• Turnover data – 19 countries

ISIC 7320 Market Research & Opinion Polling
• SPPI – 13 countries
• Turnover data – 18 countries
ISIC 7320 – Market Research and Opinion Polling

- Lack of previous work makes “revisited” paper difficult
- Possible topic at future meetings
- This work focuses on Advertising services only
**AIM:** To highlight the two key issues experienced by statistical offices in the collection of turnover data and the development of SPPIs for Advertising Services
Transaction can take place in two ways:

**Wholesaler e.g. UK**

- **Client**
  - £
- **Media Agency**
  - £
- **Media Owner**
  - £

**Broker e.g. USA**

- **Client**
  - £
- **Media Agency**
- **Media Owner**
  - £

...or both (e.g. Germany, USA)
Business Models – International Differences

UK –
• Agency is “principal in law” for purchase of media space and production
• Charge client agency fee plus cost of media and/or production
• Agency accounts include price of media

USA –
• Client is “principal in law”
• Charge client agency fee only
• Agency accounts exclude price of media
National Accounts is main user of turnover data – data collected must meet their needs

If agency acts like a wholesaler
→ Collect gross turnover (agency fee \textit{plus} media price)

If agency acts like a broker
→ Collect net turnover (\textit{only} agency fee)

If both transaction types occur
→ Identify whether to collect net or gross on an individual agency basis
Business Models - SPPI

Price for service or price paid by customer?

We could collect:
• Price for service provided by agency, or…
• Price for service *plus* price of media and/or production costs

Advertising SPPI = money received by agency for provision of service

However, the SPPI *must* match the turnover collected to be a suitable deflator for National Accounts.
Business Models - SPPI

For example, for the services of media agencies…

If -

Turnover = service fee + price of media
SPPI = price for service

Then -

An increase in price of media will show as increased output of advertising services

But-

This is NOT what we should be showing!
Quality Adjustment - SPPI

Is audience size an appropriate measure of quality?

• ONS-CSO questionnaire showed that around half of countries with SPPI account for size of audience in some way

• But...is audience size a suitable quality adjustment?
Quality Adjustment - SPPI

- Media agencies don’t just purchase ad space – audience has no effect on planning and analysis services
- Media agencies increasingly using fixed fees – based on time taken to make purchase
- UK media agencies don’t consider audience size a price determining factor
- Media agency has no control over audience size

We do NOT recommend quality adjustment of SPPI using audience size.
SPPI – Dangers of Unit Value methods

Unit values are the 2nd most common pricing method used for “Advertising Placement”
SPPI

e.g. Unit value = \frac{Revenue}{Audience figures}

But...use of audience size could give a false measure of price change if actual audiences are used.
Client instructs agency to purchase TV space to reach audience of 100,000

Actual audience size achieved = 90,000
TV station “owes” client 10,000 viewers

Price (estimated audience) = £100 per thousand viewers
Price (actual audience) = £111 per thousand viewers

BUT – money received by agency is unchanged

SPPI – Dangers of Unit Value methods
Summary

Business models differ between and sometimes within countries

- Need to determine how agency prices before collecting turnover
- Turnover collected must meet needs of National Accounts
- SPPI must match turnover to act as suitable deflator for National Accounts
- May be conflict between requirements of NA and other users of SPPI

Audience size is not an appropriate measure of quality

- Actual purchase of media space is a small part of agency’s services
- Media agencies have no control over audience size
- Quality adjustment using actual audience figures could cause bias in SPPI
Questions?

• Thank you

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