Quality Adjustment of SPPI advertising

- 26th Voorburg Group Meeting in Newport
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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

![Diagram](Diagram.png)
Price mechanisms

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

Diagram showing interactions between buyer, seller, broker, reseller, and media, with notes on commission/contact fees and working time based on audience size.
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 straightforward
  - 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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Quality Change in Advertising