



Office for
National Statistics

Quality Adjustment Paper on:

ISIC 7310 Advertising

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Introduction

- 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?

Advertising services

- Creative services
- Media placement services
 - Media (advertising) agency
Buys media space on behalf of their client. May charge as a broker or a wholesaler.
 - Media marketer
Buys media space from the broadcaster/publisher and re-sells this space to their client.

The Voorburg Group

- “The objective of the VG is to establish an internationally comparable methodology for measuring the constant dollar outputs of the service industries”
- Need to assess the issue of quality adjustment from the perspective of treatment of Advertising placement in the national accounts

How might we view industry output

- As a *broker*
- As a *reseller*
- Is audience size related to industry output?

Industry output

- Media space of different audience sizes are different products
 - **Everyone** agrees on this!
- Advertising that reaches more of the target audience is seen as more desirable
- Is the service of **placing** advertising different for different sized audiences?
 - 2008 SNA suggests it is,
 - at least for some markets
- Looking at different industry practice might help us

Different billing methods

- Net basis
 - Broker
- Gross basis
 - Reseller
 - Broker
 - Cost of media space included

Different pricing mechanisms

- Commission, contract fee, methods based on working time
 - Usually for net billing methods, and brokers
- **Expected** audience size
 - Explicitly
 - Often implicitly
 - “30 second slot during match of the day”
 - Gross or net billing, brokers and resellers
- **Achieved** audience size
 - “1.5 million viewers”
 - Gross or net billing, brokers and resellers

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
- So what do we see in Advertising turnover?

Turnover practices vary

- Some markets have a net basis
 - eg, USA
- Some markets have a gross basis
 - eg, UK
- Some markets have a 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
 - And not including media in the billing method
- Audience size is not a consideration

2. The industry is like a 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
 - 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

3. The industry adds value by achieving an outcome from a portfolio

- 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 so that client achieves a certain outcome
 - The client buys “1.5 million audience achieved”
- A drop in achieved audience figures reflects on poor portfolio management
 - A change in the output of the industry

Example 1: Broker type, no quality change

	Price	Quantity	Turnover	Price Index	Output (constant prices)
Q1	1000	10	10,000	100	100
Q2	1500	10	15,000	150	100

Example 2: Reseller, expected audience size (wholesaler view)

	Price	Quantity	Turnover	Expected Audience	Acheived Audience	Price per expected viewer	Price index	Output (constant prices)
Q1	1000	10	10,000	1 million	1 million	0.001	100	100
Q2	1500	10	15,000	1 million	1.5 million	0.0015	150	100

- Expected audience size remains the same
- Product remains the same
- No quality adjustment
- Output remains the same

Example 3: Reseller, achieved audience size (portfolio manager)

	Price	Quantity	Turnover	Expected Audience	Acheived Audience	Price per <i>achieved</i> viewer	Price index	Output (constant prices)
Q1	1000	10	10,000	1 million	1 million	0.001	100	100
Q2	1500	10	15,000	1 million	1.5 million	0.001	100	150

- Achieved audience size changes (better portfolio management)
- Product has improved
- Quality adjustment applied (price per achieved viewer used)
- Output increases (as desired)

Issues

- 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

Example 4: Reseller, achieved audience size (portfolio manager) in the presence of discounts

	Price	Quantity	Turnover	Expected Audience	Achieved Audience	Price per achieved viewer	Price index	Output (constant prices)
Q2	1000	10	10,000	1 million	1 million	0.001	100	100
Q3	1395	10	13,950	1 million	1.5 million	0.00093	93	150

- Achieved audience size changes (better portfolio management)
- Product has improved
- Quality adjustment applied (price per achieved viewer used)
- Output increases (as desired)

So which is right?

- For those billing methods that don't use any audience size, 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

So which is right?

- Different circumstances apply in different markets
- Different national statistical offices may view the market output differently
 - And sometimes, even within the office!
- It is clear that turnover is effected
- “It depends”

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

Questions?

- Thank you

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