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Advertising
(ISIC 7310)

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Istat

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o   The Italian classification *vs* the European classification

o   Market conditions

o   Specific characteristics of the industry

o   Measurement issues and description of pricing method

o   Evaluation of measurement

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The Italian classification *vs* the European classification

ATECO 2007 is the Italian Classification of Economic Activities and comes from NACE Rev. 2, the Classification of Economic Activities used in the European Union

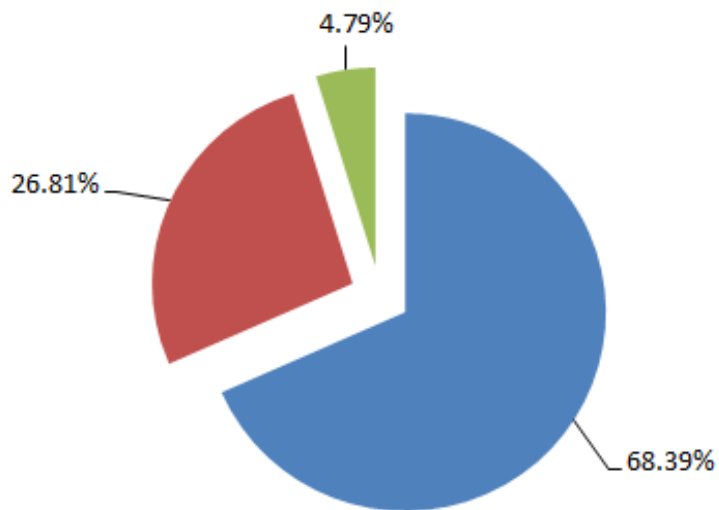| Structure	Ateco 2007	NACE Rev. 2	Definition
Sector	M	M	Professional, scientific and technical activities
Division	73	73	Advertising and market research
Group	731	731	Advertising
Class	7311	7311	Advertising agencies
Category	73110	-	Advertising agencies
Class	7312	7312	Media representation
Category	73120	-	Media representation
Group	732	732	Market research and public opinion polling
Class	7320	7320	Market research and public opinion polling
Category	73200	73200	Market research and public opinion polling

o Industry 73, Advertising and market research, is dominated by class 7311, Advertising agencies, in terms of enterprises, employees and turnover

o The following table shows the breakdown of the industry by market share and employment size (year 2016, source: SBS - Istat)

ATECO 2007	% Enterprises	% Employees	% Turnover
7311 - Advertising agencies	72.6	73.7	47.0
7312 - Media representation	10.3	10.5	43.2
7320 - Market research and opinion polling	17.1	15.8	9.7
Total	100.0	100.0	100.0

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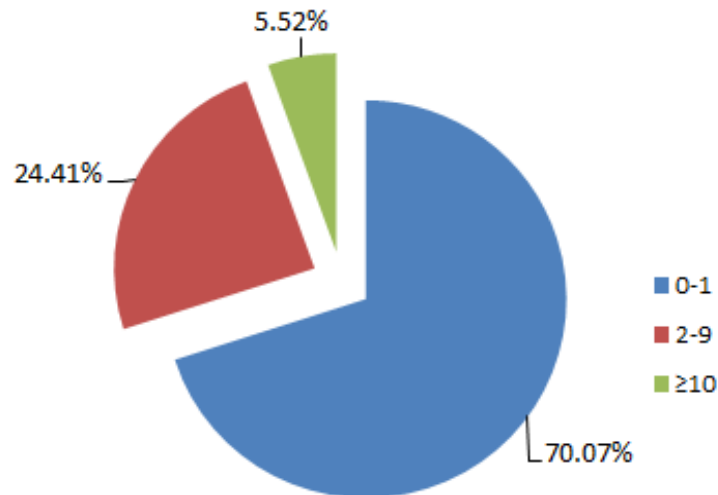
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Percentage of enterprises by ATECO class and number of employees, year 2016 (Source: SBS - Istat)

7311 – Advertising agencies
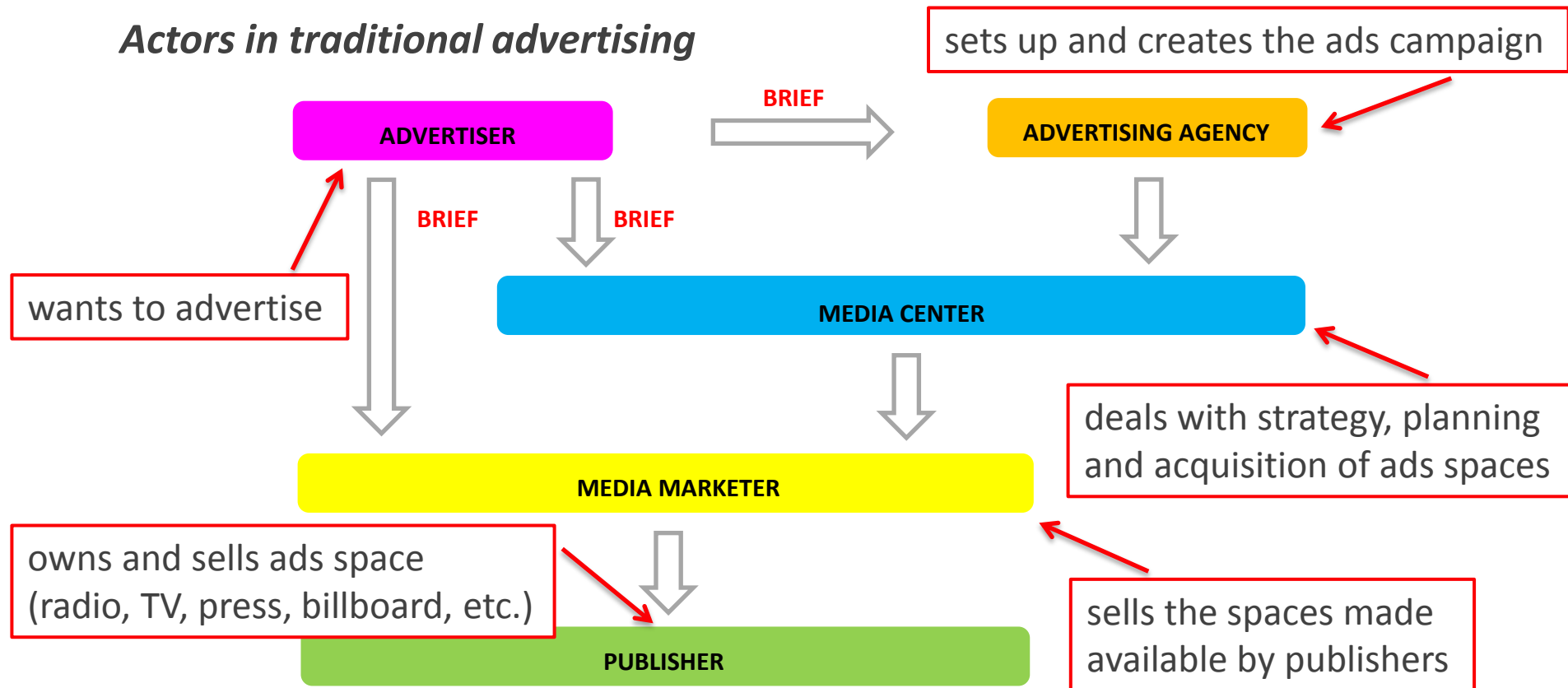
7312 - Media representation

From a study by the Digital Innovation Observatories of Politecnico of Milano:

o at the end of 2018 the ads value was 2.98 billion Euro;
o a declining media market: a 2% decrease at the end of 2018 and a further decrease of 2% estimated for 2019;
o the market divides into _TV_ (54%), _Press_ (22%), _Internet_ (21%) and _Radio_ (3%). _Internet_ ads slows down, confirming the decreasing of the total ads market;
o referring to the expected growth in 2019-2023:
   data show that the _Display ads_ grows by 14% and is about 1.9 billion Euro. Video ads is the master, with over 900 million Euro, a value that will exceed that of the Banner thanks, above all, to the Social Networks. _Search ads_ grows by 9% and is over 850 million Euro. _Classified_ and _e-Commerce ads_ closed 2018 with 224 million Euro in total (+ 6%) and for 2019 their growth should be higher thanks to e-Commerce ads on large portals. Finally, _Email ads_ is constant at around 30 million Euro.
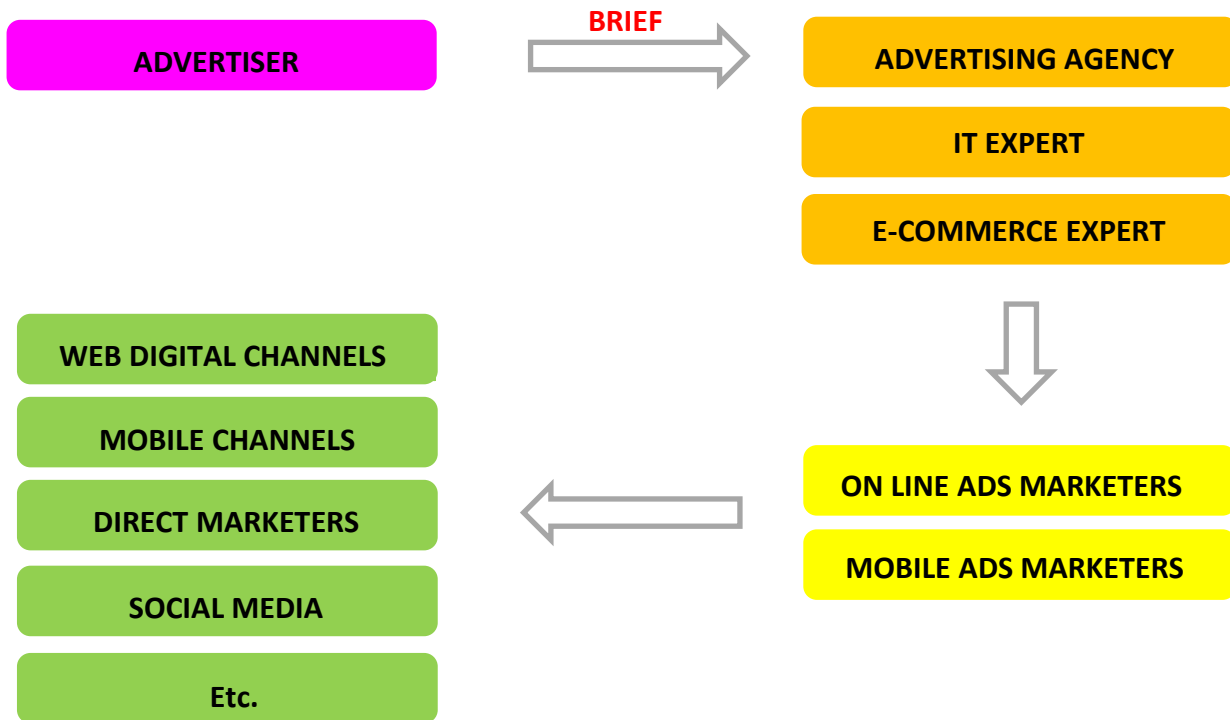
Actors in traditional advertising

sets up and creates the ads campaign

ADVERTISER

BRIEF

ADVERTISING AGENCY

BRIEF

BRIEF

wants to advertise

MEDIA CENTER

deals with strategy, planning and acquisition of ads spaces

MEDIA MARKETER

owns and sells ads space (radio, TV, press, billboard, etc.)

PUBLISHER

sells the spaces made available by publishers

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Actors in digital advertising

ADVERTISER	**BRIEF** →	**ADVERTISING AGENCY**
		IT EXPERT
		E-COMMERCE EXPERT

WEB DIGITAL CHANNELS

MOBILE CHANNELS

DIRECT MARKETERS ← **ON LINE ADS MARKETERS**

SOCIAL MEDIA **MOBILE ADS MARKETERS**

Etc.

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A focus on digital advertising

…every advertising action conveyed through digital communication channels

1 - *Display advertising*

Ads on portals, news or editorial sites, social networks and blogs, e-shopping sites. It mainly includes banners and videos, both in-stream and out-stream.

Planning display ads campaigns is similar to the planning used for traditional media:
the value of an ads space is defined taking account of the audience, the positioning of the site on the web, the length of the message, the format and size of the ads, the importance given to the brand.

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2 - *Search engine advertising*

This process leads sites to appear among the first results of the SERP (Search Engine Results Page), attracting as many visitors as possible, and tracking down potential customers.

It divides into *keyword advertising* and *contextual advertising.*
The search operates on the so-called affiliate marketing. More precisely, there are two actors: the advertiser, who wants to promote his online business, and the publisher, who participates in the affiliate program by including on his website, in addition to his own content, the advertiser's ads content. Both share the affiliate platform as a means of making payment.

3 - *Classified advertising*

The purchase of visibility on trading sites or online directories and within catalogues and search engines on portals and on e-Commerce sites.

There are lists that contain ads classified by sector or product category. They can contain only text or include a logo or an image and have a border surrounding the ads text.

4 - *Email advertising*

Also known as *direct email marketing.*

Any form of advertising in newsletters and emails sent to third-party databases.
These activities are usually conducted by an opt-in system.

Many online advertising payment/price models exist, for example:

o *Flat Rate (FR)*: the advertiser pays a default amount for a certain amount of time, regardless of the number of impressions, clicks or whatever;

o *Cost per Click (CPC):* the advertiser pays for every click made, on a banner or a link, by the users of a particular site that redirects them to his site;

o *Cost per Thousand (CPT):* consists in the payment of 1.000 impressions;

o *Cost per Action (CPA):* the advertiser pays when the user performs an action;

o *Cost per Visitor (CPV):* the advertiser pays when the visitor goes on the website to which the ads refers;

o *Cost per View (CPV*): the advertiser pays for each individual ads display;

o *Cost per Lead (CPL):* the payment occurs when a user turns into a lead after filling out a form, or subscribes to a newsletter;

o *Cost per Sale (CPS):* the advertiser pays only when there has been a sale.

1 - Display advertising

Usually ads spaces' sales use CPC, CPT or FC.

Some examples of ads campaigns are:

o *Affiliation campaigns*
allow to publish ads (banners, videos, pop ups, etc.) in spaces sold by publishers (websites or portals). Intermediaries manage the affiliation program and are paid only when a user performs an action on the advertiser's site, for example buying something. Every click on an ads is remunerated.

o *Remarketing campaigns*
aim at retaining users by offering ads only to customers who have already successfully completed an action on the advertiser's site.

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o *Retargeting campaigns*

show ads only to the users who have previously had interest in an advertiser's site, offering them new purchasing opportunities. Intermediaries manage a network of advertisers and publishers.

o *Programmatic campaigns*

allow the advertiser to reach only users corresponding to his target.

Each user's view is called impression and is counted and processed. It refers to the use of a software that decides when, where and how to place ads according to the value of the user's profile.

For example, ads assignment can be done through an auction mechanism in real time (Real Time Bidding or RTB) and the person that presents the highest bid generally pays an amount equivalent to the second highest bid on the auction (second price auction).

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2 - *Search engine advertising*

The price of the keywords related to the ads depends on the competitiveness for the assignment of the keywords and on the position of the ads in the results' search page (top, right or bottom). The ads assignment includes an auction in which any advertiser can participate by establishing a maximum bid. If the advertiser wins the auction, his ads will be published on the search engine for the keyword in the auction. The advertiser pays only when the customer clicks on the ads. Even if no one clicks, the ads will anyway appear in the search for the keyword, making the advertiser earn a free impression.

3 - *Classified advertising*

It is charged per letter, line or column. It has a low cost if compared to other forms of ads.

4 - *Email advertising*

It has not a direct payment, i.e., sending emails doesn't need to be paid but a pre-investment must be done for creating a list of targeted addresses to which sending emails, as long as the user is subscribed to the list.

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Different <u>advertising models</u> exist if considering four parameters:

the method (the way ads spaces are booked), the price, the participation (the way a seller sells to one or more buyers), the space allocation (the right of the advertiser to purchase ads space in a guaranteed manner).

For example:

o *Reservation model*: known as traditional. The sales of the spaces are similar to the ones of paper spaces: the media center contacts the ads agencies one by one (one-to-one participation) and books ads spaces and digital contents on the publishers' sites, which usually offer packages of ads space in relation to budget ranges. Space allocation is guaranteed and the price is static.

o *Programmatic guaranteed model*: the media center agrees on the price, impressions and timing with the ads agency. The advertiser can decide any change or adjustment thanks to programmatic technologies. It is characterized by one-to-one participation, space allocation is guaranteed, the price is static.

o *Preferred deal model:* is a programmatic method. The negotiation price is pre-agreed between the media center and the ads agency, with no target of budget and impressions. It is characterized by one-to-one participation, space allocation is not guaranteed, the price is static. It is often used for retargeting.

o *Private market place method*: based on the opportunity to buy packages of ads space presented by the publisher in the ads exchange. All the buyers owning an invitation (a pre-set deal ID) can access to the package (one to few participation). It's like an invitation to a private auction. Firstly, more buyers have the same deal ID, which means that to buy a space, buyers have to compete in the ads exchange (space allocation is not guaranteed). Secondly, the ads exchange does not provide guarantees of either price or pre-set impressions, but everything happens in real time. The auction winner is the buyer who offers the most to buy the impressions, but he pays the second highest price of the auction (dynamic price) even if, lately, ads exchanges are using the first price auction model replacing the second highest price one.

o *Open RTB model:* prices are defined by offers in the open market (open auction), where all buyers have the opportunity to buy spaces in the publisher's ads exchange. The main logic is the second highest price +1 US cent dollar, called the second highest bid +1 cent. Some ads exchanges are switching to the first price auction model. Publisher has a series of access protection tools, such as minimum auction prices and blacklists and whitelists. The blacklist protects the publisher by blocking unwanted buyers. Advertisers may also decide to avoid buying at certain sites. Unlike blacklisting, which follows the logic 'all but the excluded' the whitelist is based on 'exclude all but a few'. The buyer has the right to choose only the sites or networks or ads exchanges where to provide ads and exclude all others. The delivery of impressions, budgets and prices are not guaranteed, but decided in real time based on the offers (dynamic price).

Main issues of the Italian Advertising SPPI

o A chained Laspeyres industry based price index

o A quarterly survey with an online questionnaire

o For each enterprise, collected data refer to:
   - annual business to business total turnover (enterprise's weight in the total sector index) as well as turnover for each media (price index weight for each media inside each enterprise), both referred to the previous year
   - quarterly business to business turnovers and volumes for each media, used to calculate unit values relatives, proxy of price relatives

o A stratified sample of enterprises by turnover with PPS sampling in each stratum. Large companies are integrally sampled

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Measurement issues and description of pricing method

Main issues of the Italian Advertising SPPI

o Unit value method: the turnover and the respective quantity are collected by each media and then a unit value is calculated to produce the elementary index for each media in each enterprise

o Observation field: the intermediation services and the sales of advertising space on the most important media in terms of investments (Television, Radio, Newspapers, Magazines). For a question of cost, ads creation and digital ads are out of the index.

o Quality adjustments: minutes or television appearances for television, minutes or airplay for radio, pages both for newspapers and magazines, are the types of unit of measure provided in the questionnaire and used to treat quality adjustments. Moreover, the voice 'other' is considered to allow each enterprise inserting its own advertisement's unit of measure to be used for the same scope.

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o The unit value method gives an index strongly affected by seasonality because the turnover of the sector is clearly seasonal and the service output is sub-divided only into few classes, represented by the different media.

o The classes are too large and probably not so homogeneous inside.

o Data collection should be done at a lower level, observing, for example, one or more specific sales for each media and not the total ads sold by each media.

Good news:
Istat is re-engineering the survey on producer prices on services and this will allow to obtain prices at a lower level of detail for the advertising sector too.

Thank you!

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