

# **The 34<sup>th</sup> Voorburg Group Meeting**

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Mini-Presentation by

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**Advertising (ISIC 7311)**

## 1. Descriptions and characteristics of the industry

### 1.1 Definition of the industry

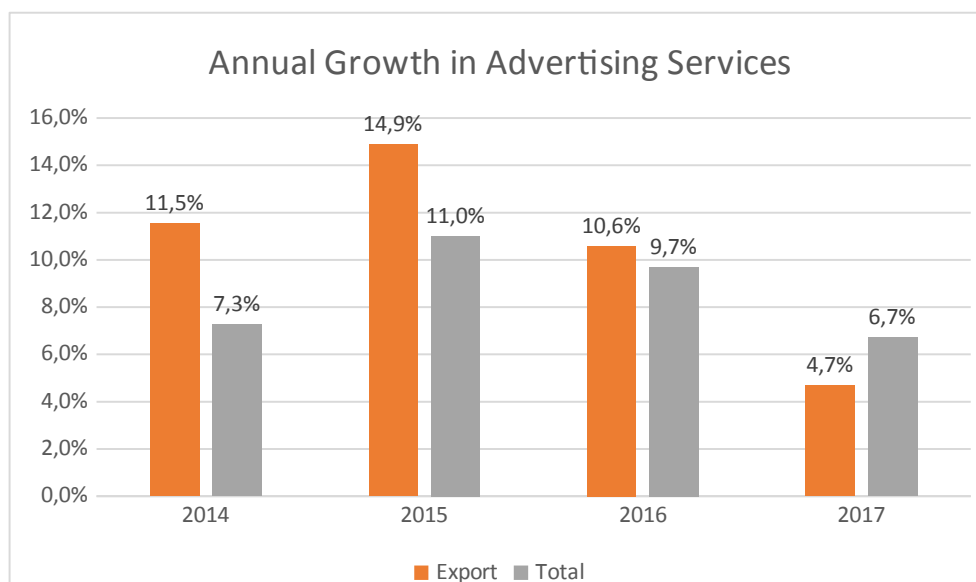
The advertising market in Israel includes two main groups of services:

1. Media representation services: the service of buying media space or time in the different types of media (television, digital, print, radio, billboards and others).
2. Advertising services like: consulting, planning of an ad campaign, creative and production of advertising material (excluding the production of commercial messages for television and radio).

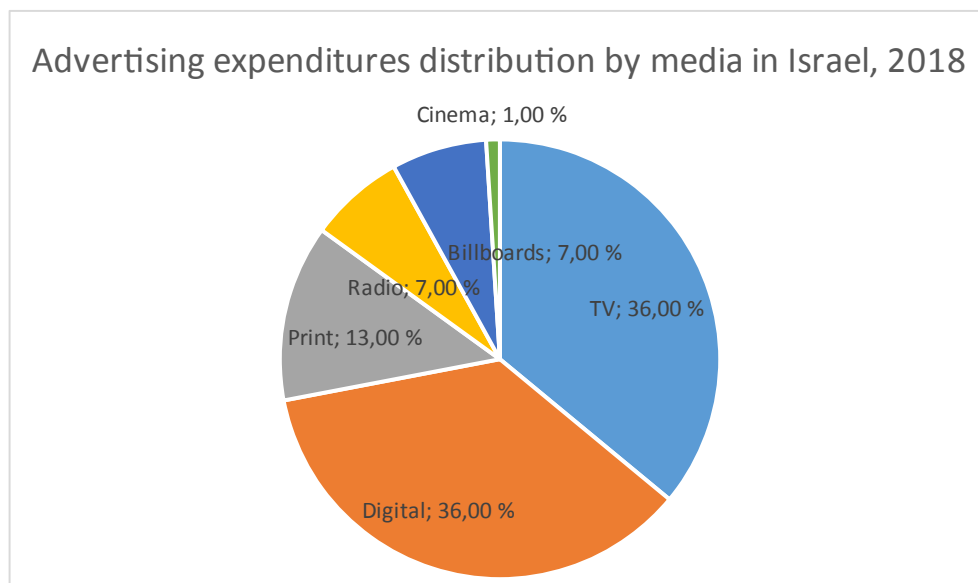
These two main groups of services are provided mostly by two different types of companies: media buyers and advertising agencies. Although advertising agencies may purchase media space or time for themselves, most of the buying is done by companies specializing in that type of service.

### 1.2 Market conditions and constraints

While most of the activity in the advertising market is B2B, there is a significant growth in the activity of digital advertising which includes export of technology driven advertising services. This type of service is provided through an online platform or an application where advertisers can plan and manage their digital ad campaign.



In regards to market concentration, it's very high when looking at the activity of media buyers who buy advertising time in television. In Israel, there are 5 big companies who buy almost all the advertising time in television<sup>1</sup>, which until 2017 was the biggest media in terms of local expenditures on advertising, and in 2018 had the same share as digital media, being the two leading media types in terms of local expenditures on advertising. In the digital media the situation is different. In more recent years, global companies started reaching the advertisers directly, without any intermediary. Media buyers who buy media space or time in the more traditional channels also operate in the digital advertising market and there are companies who specialize exclusively in the digital advertising field.



Concentration in the activity of advertising agencies is low. There are no entry barriers, and regulation only supervises the advertising materials. In the advertising companies Association, there are 40 members, and it is claimed they cover about 80% of advertising sales in Israel.

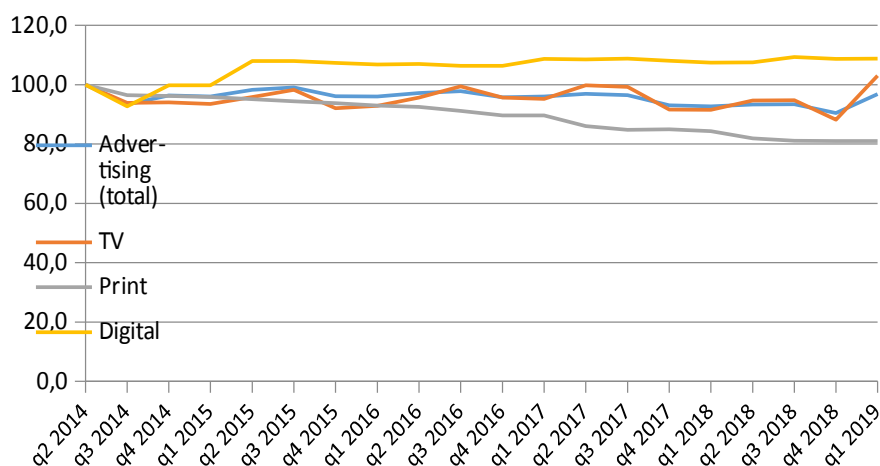
Prices in digital are considered lower than in other media types, even though they are increasing, as can be seen in the chart below. Digital advertising also involves large investments and as a result Profitability low. Still, digital advertising grew 12% in 2018, more than advertising in any other media<sup>2</sup>.

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1 A report published in 2013 by the antitrust authority claimed the 5 biggest media buyers have an 80% share in the purchase of advertising time in television.

2 The growth in digital advertising is also explained by the growth of digital services in general which eventually use digital advertising to sell their products.

## Advertising price change by media in the last 5 years



### 1.3 Specific characteristics of the industry

There are usually ownership relations between advertising agencies and media buyers (excluding those who specialize in digital advertising). Media buyers who share ownership with advertising agencies buy media space or time for them as well as for other advertising agencies, and also directly for advertisers. There are cases of Independent media buyers as well.

The biggest advertising agencies in Israel are owned by international advertising corporations.

## 2. Measurement of SPPI

### 2.1 General framework

In Israel, we publish a price index for advertising quarterly since 2012. The index is used primarily as a deflator for national accounts. The price index covers only B2B services, and does not include export of advertising services. We receive data on prices from advertising agencies for the full service that also includes the buying of media space or time.

### 2.2 Measurement issues

Advertising agencies in Israel don't charge for their service via hourly rates, which is the common pricing in other countries. Instead, they charge a commission from the

price that advertisers pay for the media space or time. Usually the commission would be around 15%, charging less from bigger clients and more from smaller ones. This is usually made through discounts to clients. A less common pricing, for smaller clients, is through a retainer agreement (monthly payments). The inclusion of the client in the definition of the price collected is important.

We were advised by a market research firm we contracted during the development of the price index to collect gross prices. These prices include the buying of the media space or time as well as the advertising services offered by advertising agencies like creative and planning. Media buyers sometimes work on a cost plus basis, which makes it harder for them to report on prices. For advertising agencies, it is easier to report gross prices, than to give a price and a percentage fee. On the other hand, as a consequence there is no separate measurement for any of the two main groups of services in advertising.

Weights for the price index represent the annual advertising sales by media. Data on gross sales (including buying media space or time) was provided by the market research firm we contracted, and was used to determine weights for the price index. Lower aggregation levels in the price index depend on the media type. In television, the next aggregation level is broadcasting time, and the next one after that includes the different channels. In digital, there are aggregations for the type of an ad and the internet site it is displayed on. In Radio and print there is only one more aggregation level which is the media itself (newspapers and radio channels), and the billboards category is divided by the different companies who sell them through advertising agencies.

The sample for the price survey includes the 10 biggest advertising agencies by sales.

### **2.3 Description of pricing methods**

For advertising services in all types of media the gross price that also includes media buying is collected from advertising agencies. Advertising agencies report prices for their main clients. Every price observation includes a code (a letter) that represents the client due to confidentiality reasons.

Prices of repeated services are collected, but in a different manner for every type of media:

- Television: the price for one rating point<sup>3</sup> for a spot (30 seconds) is measured in different broadcasting times (prime time, semi-prime, off prime and late night) and different channels. There is a seasonality in prices for advertising in television. Prices are higher in summer and lower in the winter.
- digital: the price for different types of advertisements like web banners (CPC, CPM) and video are collected in various websites.
- Print: respondents are asked to report the price for advertising in a specific ad placement (the left side before the middle of a newspaper or a magazine) in different newspapers and magazines.
- radio: the price for 30 seconds commercial is collected in national and local radio channels.
- Billboards: the price of an advertising package with nationwide exposure is collected.

As mentioned before, all prices include the client in the definition of the price collected.

## **2.4 Quality adjustments**

Prices in advertising agencies are not time based, but rather through commissions from the total price that includes the media buying. As mentioned the total price is collected. As a consequence, quality adjustments are necessary when there is a change in the exposure of an advertisement. For example, when collecting the price of an ad in a newspaper which is getting less exposure over time the price for the ad will drop. The price drop could also be due to a decrease in demand, but part of the drop in price is explained by a quality change, an ad with less exposure.

Due to respondent burden we do not collect data on exposure (sales or subscriptions) from respondents that report on prices in publishing. But when there is a significant change in the exposure of a newspaper, "link to a cell relative"

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<sup>3</sup> Every rating point represents 1% of the households in Israel measured through a representative survey of 900 households done by a private company.

method will be used for measurement of price change in both advertising and publishing indices.

It is less of a problem in television when measuring the price of a rating point, because less exposure means less rating points and the quality change won't have an effect on the price of one rating point<sup>4</sup>.

Another example of a quality change which is less common, but in Israel happened twice in less than three years, is mergers and splits of television broadcasting channels. If a broadcasting channel splits into two channels, we expect advertising prices to drop due to an increase in supply, but there is also a quality change that causes prices to drop and advertising prices in one of the new channels couldn't be compared to previous prices. The demand for advertising in different channels is not equal and results in different prices for a rating point even if it is for an ad in the same hour of the day. A reason for the different prices may be the effectiveness of an ad displayed in one channel as opposed to displaying it in another channel. If an advertiser thinks that viewers in one of the channels will have more tendency to buy their products, he will be willing to pay more for the ad. An explicit quality adjustment will be preferable in this case. A way to estimate the change in price caused by the change in quality is by evaluating price changes for ads in specific programs that continue being broadcasted in either one of the channels after the split. If it's not possible to estimate the change in price caused by the quality change, then a link to a cell relative, in that case changes in prices in other broadcasting channels in the same period, is preferred.

### **3. Future challenges (SPPI)**

- Updating the price index more frequently so that changes in advertising services, like the growth in digital advertising will be expressed in the weights of the price index.
- Moving from B2B to B2A, reflecting changes in prices of exported digital advertising services. This will include measuring changes in prices of services

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<sup>4</sup> The only adjustment needed to be made is when there is a significant change in the population, which means that 1% of households is not close in numbers to what it used to be.

that are different in the way of technology involvement (programmatic advertising), and have different pricing models.

- Measuring advertising services like creative and planning separately from media representation services.
- New products, like large screens and LED signs are becoming more popular in the billboards category that are needed to be taken in account when collecting prices.