7311 Advertising agencies - France

34th Voorburg Group on services statistics

Mini-presentation on Services Producer Price Indices (SPPI)

Measuring, understanding

Insee

Paris

September 29th – October 4th, 2019

Measuring, understanding

01 DEFINITION OF SERVICE, BUSINESS MODELS

Services included in the industry 7311 are the following services, provided to advertisers.

Advertising agencies

- Some provide the full range of services, including media space buying
- other only create the concepts or materials
- some are very specialized (health, digital, etc.)

Media agencies

- Specialized in media planning and media space negotiating on behalf of advertisers or their agencies

Direct marketing services

- Advertising leaflets, promotion at point of sales, e-mailing

Pharmaceutical representatives campaigns

Services that are not included in the industry

- Services outsourced by advertising agencies to film producers (5911), photographers (7420), graphic designers (7410) etc.
- Lobbying or methods to improve the image of an organization (7021)
- Consultancy services for selecting advertising agencies (7021)
- Media auditing companies (7021)
- Trade show organizers (8230)
- Gift coupons or reduced-price coupons (8299)
- **Any service that serves the media seller’s side (7312 or other)**

Programmatic advertisement: which services are included ?

Advertising trading desks (ATDs): may be included

- Advertisers or their agencies contract with ATDs
- The objective of ATDs is the placing of digital advertisements
- Some of them are affiliates of agencies or media groups

→ We have arguments to consider ATDs services in 7311

Demand-side platforms (DSPs): not included

- Platforms where ATDs can place purchase orders
- Suppliers may be considered as technology providers, not in 7311

Beware of generalizations !

- Examples have to be discussed with classification experts

Business models in France

Traditional media

- Existing contracts: annual contracts or several-years contracts, with annual budget negotiated
- New contracts: selection of an agency done through a call for tender
- An advertiser can contract with a full service agency, or with an agency for the creative aspects and another one for media planning and buying
- More than half of advertisers are used to hire “media auditing” companies to select, monitor and evaluate agencies

Business models in France

Digital media

- Advertisers or their agencies usually contract with providers of advertising trading desks (ATDs)
- Their task is to optimize digital campaigns, taking into account parameters given by advertisers (consumers profiles to target, budget) during real-time automated transactions.
- There seems to have been moves recently among some of the biggest advertisers to create their own in-house ATDs.

02 MARKET CONDITIONS, TRENDS

Public regulation in France: traditional media (Sapin law, 1993)

Advertising agencies are not media wholesalers anymore

- They never own the media space themselves but can only buy it on behalf of an advertiser
- Every discount negotiated by an agency on media space must be reported and must benefit the advertiser
- Agencies role does not limit to bring together advertisers and media marketers: the advertiser transfers money to its agency, which is fully engaged in the negotiation and in the buying
- The direct responsibility of the advertiser clearly remains (in case of failing of its agency)

Public regulation in France: digital media (“Sapin law II”, 2017)

Agencies must report the result of each campaign

- The dates and locations of the advertisements and the placement fees
- The information to guarantee the effectiveness of the release of advertisements (number of view or clicks or actions, etc.)
- The information on the IT tools and partners involved (IT services)
- The results achieved compared to the objectives of the advertiser or its representative.

Degree of concentration

The number of companies exceed 15,000

- Numerous micro-agencies (no regulation to establish an entity and many training programs for communication professions)
- But the 100 first companies weigh 50% of the turnover

Horizontal / vertical integration

The largest corporate groups are present at each level with affiliates

- Numerous affiliates very specialized, or devoted to pools of advertisers
- Media groups often try to take over independent innovative agencies to integrate them in their services

Trends

Sensitive to the slightest variations in the economic environment

- The advertising market tends to recover from 2016 to 2018
- The digital advertising receipts have been soaring in the same period
- 2018: television and billboards have a good performance,
  while radio, cinema and printed media advertising revenues are decreasing

New products / services

- Traditional media: innovation has now reached some limits
- Digital media: programmatic techniques are more and more developed
- “Advertainment”, “Advergaming”, events staged on the Internet, etc.

03 SPPI MEASUREMENT: FRAMEWORK

General framework

Categories of indices released

- BtoAll, BtoB and BtoX “basic prices”, for the use of deflation of national accounts and SPI (BtoC: negligible)

  + BtoB “market prices” (purchaser’s prices), excluding intra-group transactions
- Product-based indices

Sample of firms / sample of elementary services

- Cut-off sampling, completed with firms omitted (researches on the Internet, contacts with federations of employers):
  38 businesses surveyed, mix of legal units and profiled entreprises
- At elementary service level, representative service products are chosen by “field engineers-surveyors” during initialization visits to enterprises:
  280 individual services for BtoB, 80 for BtoX

Taking into account the turnover on a net basis

Agencies usually have a budget at their disposal, transferred from advertisers on a gross basis

- Including the value of media space they expect to be negotiated

Yet, the output is taken into account on a net basis

- Only the agencies services – not the media space negotiated, nor services outsourced (like an advertising film realized by an external producer)
- In French SBS survey, agencies have to report separately:

  - the amounts devoted to the purchase of space,

  - the cost of other services bought and resold without added value.

04 PRICING METHODS AND QUALITY ADJUSTMENT

Price determining characteristics of the service

Existing contracts, with regular advertisers

- Mostly annual or spanning several years. The notion of “annual budget” is more commonly evoked than the notion of “price”.
- Annual budgets are subject to negotiation, more on the content of the campaign than on the price itself.

New campaigns

- Heavy competitive pressure (economic environment, calls for tender, evaluation of media auditing companies etc.)
- Agencies have reduced their margins in the past ten years:

  - by outsourcing part of the concrete production of advertisements,

  - by trying to obtain better prices from media marketers, which are also heavily touched by economic variations.

Price methods chosen

Chosen during visit surveys, according to the situation

- Hourly or daily average rates by category of staff and category of activity of the advertiser, after negotiation
- Contract prices, when representative ones can be identified and isolated,
- Commission rates: for media agencies, for digital advertising agencies (on CPT/CPM/CPC/CPL/CPA…), for pharmaceutical representatives,
- Average prices per consumer: for marketing activities,
- Model pricing (evaluation of fictitious contracts): sparsely - when other methods have failed (anyway, according to FRIBS regulation, an actual transaction price is preferable to show the true development of price movements).

Quality adjustment methods

Adjustment to audience size

- Rules from *Eurostat-OECD guide* and *VG revisited sector paper* are followed
- The 7311 services are less concerned by audience size than the 7312 services (media representatives).

  → For the 7311 industry, we adjust on audience size only services whose price is a direct function of the number of consumers (ex: marketing)

Other quality adjustment issues

- Several years contracts: budget may be unchanged from year to year, but the qualitative content of the campaign is negotiated each year
- Calls for tender: strategy of low price bidding, with quality efforts

05 EVALUATION OF MEASUREMENT

Evaluation of methods - future challenges

Negotiation effects

- Always try to measure prices *negotiated* or *discounted* after contract

Flatness of prices

- Regularly ensure that the seeming flatness of prices, fees or commission rates correspond to the real market tendencies

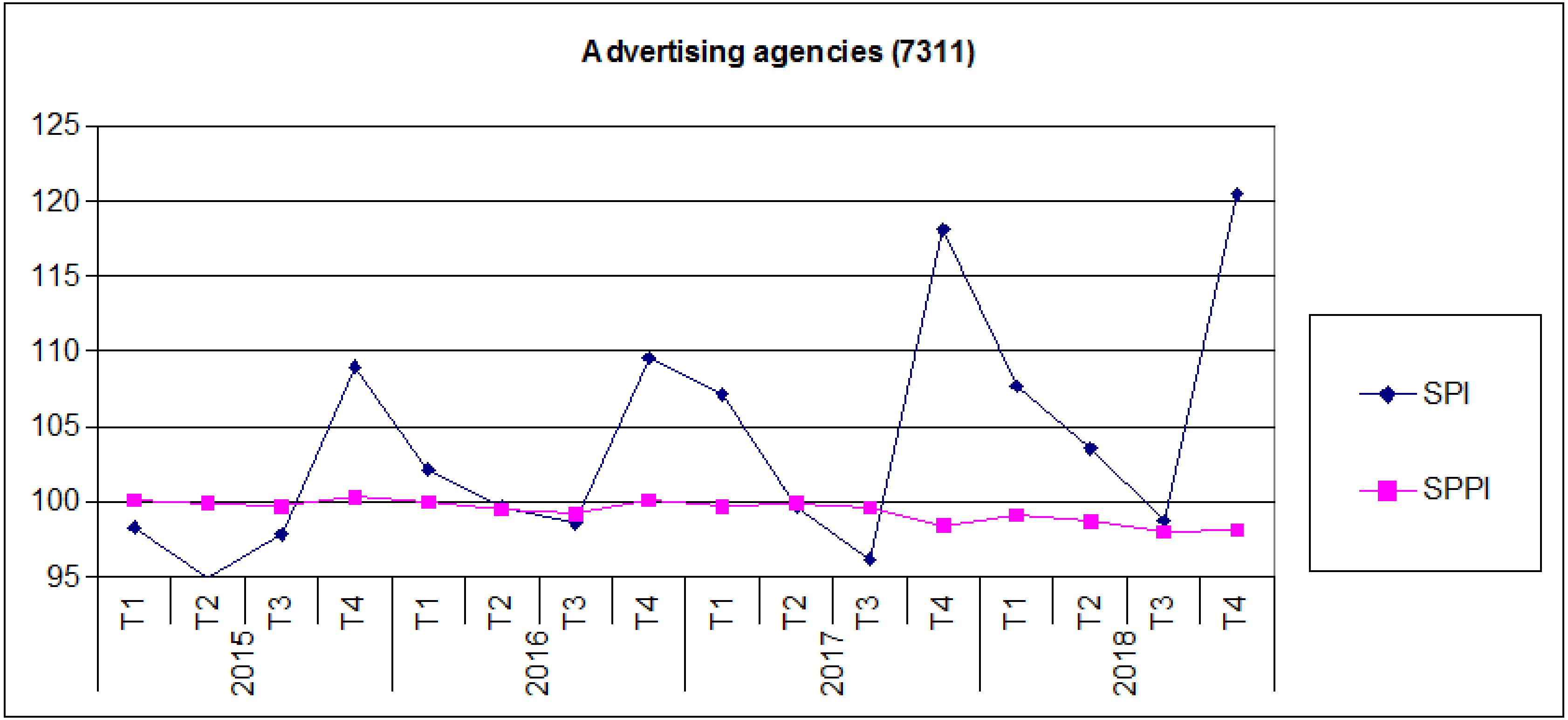
Sample

- Integrate some small-sized agencies if their prices evolve differently

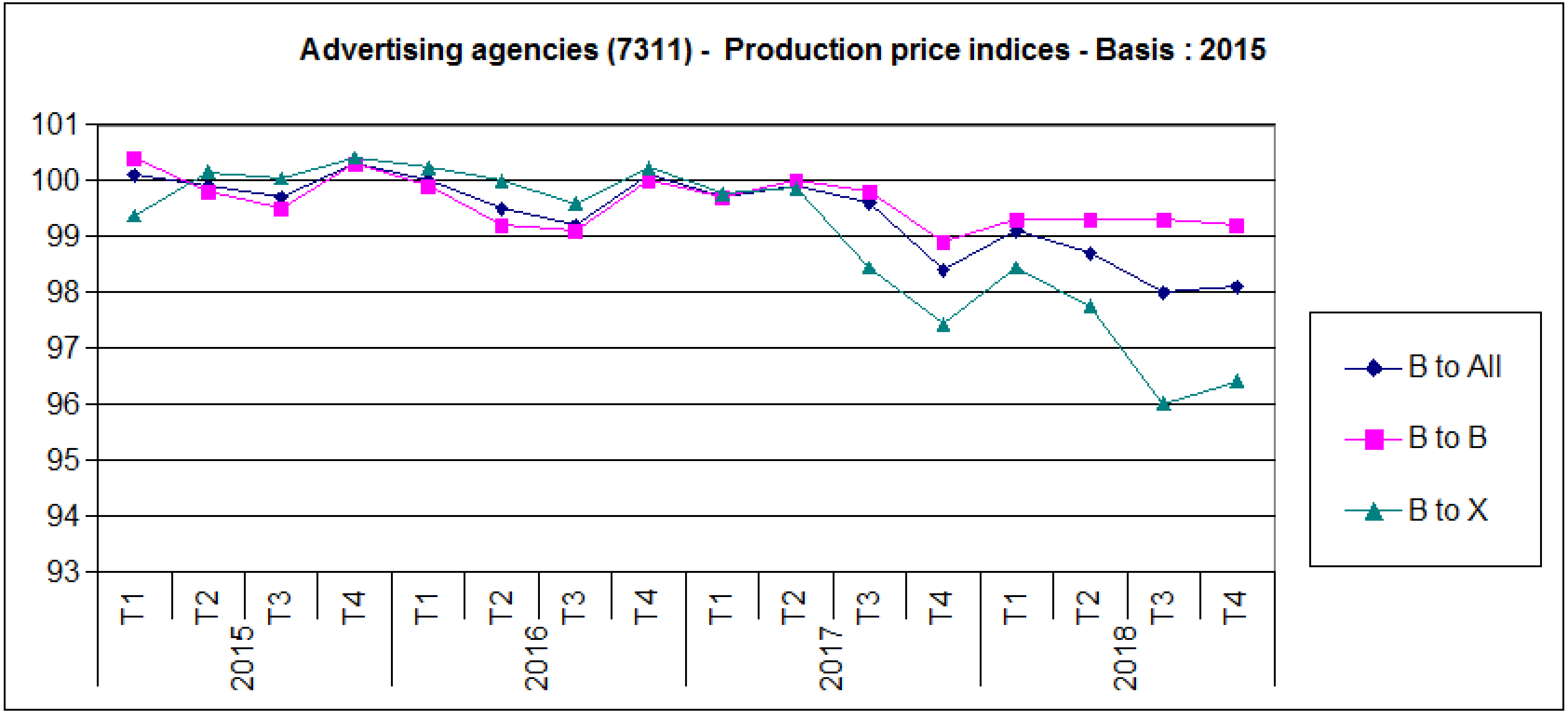
Explosion of programmatic advertisement: future challenge

- Encompasses several industries (advertising, publishing, broadcasting, IT services) and many issues (classification, definition of pricing methods for each actor in the value chain)

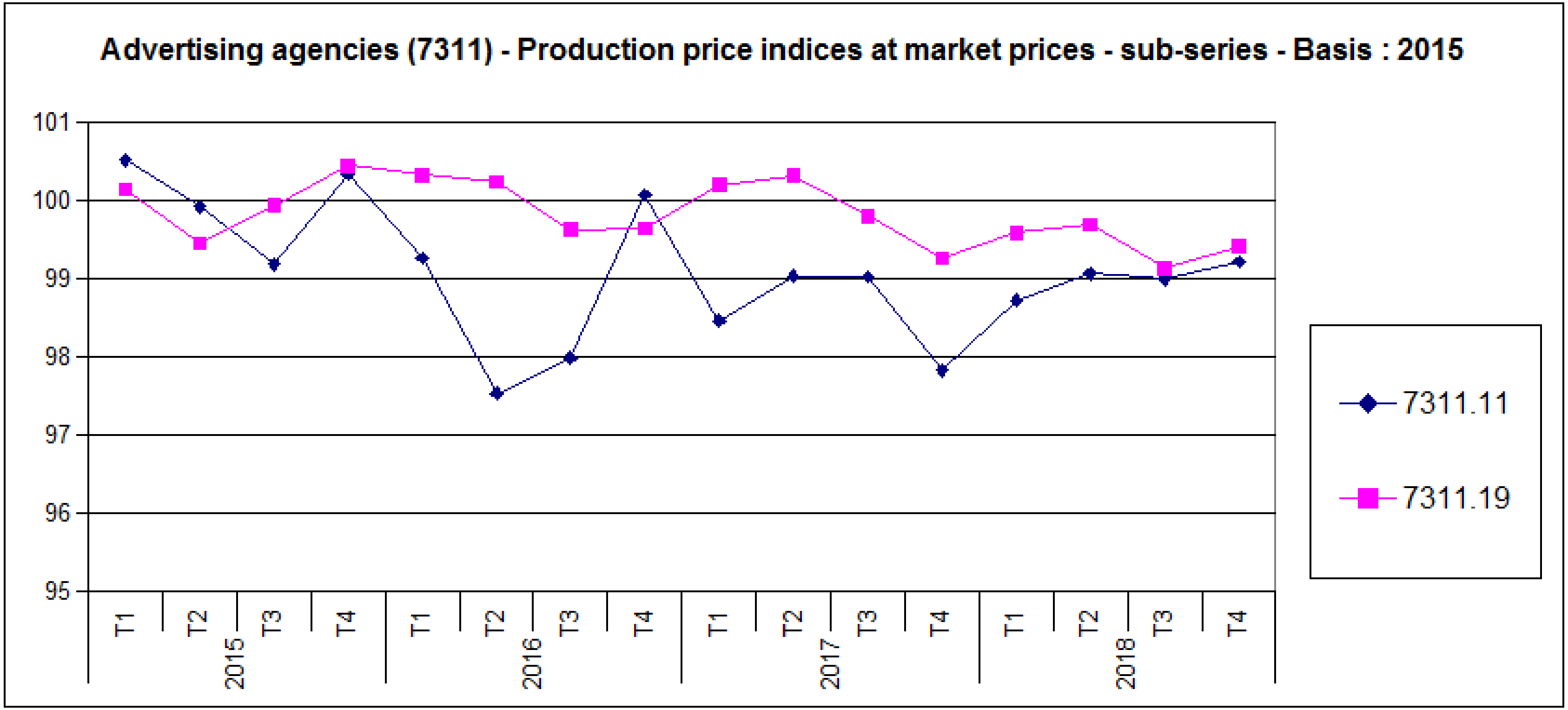
SPPI vs SPI


Advertising agencies (7311)
125
120
115
110
105
100
95
T1
T2
T3
T4
2015
2016
2017
2018
SPI
SPPI

B to All, B to B and B to X indices



Sub-series (CPA-6)



Thanks for your attention !

Yann Leurs
Insee
Head of services production prices skill center
Lyon, France

Join us on:

insee.fr