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SUBMISSION TO THE COMPETITION COMMISSION AND THE OFFICE OF FAIR TRADING IN REGARD TO ITV's CONTRACTUAL RIGHTS RENEWAL OBLIGATIONS

INTRODUCTION, SUMMARY AND RECOMMENDATION

In this document we have described the background to the terms of trading by Granada and Carlton, prior to the merger in 2004, which were incorporated in the Controlled Rates Regulations.

We have identified the basic economic factors governing the sale of advertising airtime with which such terms of trading can be seen to be in total conflict and thus distorting the market

As we show, ITV today operates in a highly competitive environment where it competes for programs and revenue with in excess of 350 channels, many of which are owned by the worlds largest broadcasting and communications companies.

It competes with 11 sales houses.

Since 2003 there has been a considerable consolidation of the buying groups of which Group M, Opera, VivaKi and Aegis, all publicly traded international marketing services companies, now account for over 75% of ITV1s advertising revenue revenue.

ITV1 airtime is currently seen to be an essential part of any television schedule with its higher share of unduplicated audience.

As we point out the price of television airtime is unarguably demand led. This demand has both macro and micro influences. The overall level of demand bearing a strong relationship over time to the growth of GDP whilst the demand for any station, day of week, time of day, specific break or position in break reflects the value placed on it by buyers. Some of these will attract a greater demand and be more valuable whilst others will be in lesser demand and therefore less valuable. The collective sum of these values reflecting the totality of the market.

In 1972 Jim Shaw, then Director of Sales and Marketing at Thames Television, faced a freeze on prices by the Conservative Government. Following meetings with the Board of Trade at which he explained that, as television airtime sales were demand led, a freeze on prices would result in the potential rationing of airtime overall and distortion in the relative value of its component parts. Subsequently he constructed an airtime sales system where the overall price of airtime and its constituent parts floated in response to the demand from buyers. This proved to be both practical and efficient.

Later Harry Henry wrote his papers concerned with the economics of television advertising and supported this approach to the sale of airtime which he described as the most appropriate and logical response to it.

In conclusion we would observe that the contents of the contracts with buyers, the subject of the CRRs, and the conditions for their modification are clearly insensitive to the demand for television airtime in general and particular, and at odds with the economics of television advertising set out in this document.

As it is the collective expenditure by buyers which drives the price overall, and within that the price of one part against another, we propose that the CRR's be removed and in parallel ITV1 should adopt a demand led pricing structure that allows the market to operate efficiently and be immune from accusations of 'exploitation of 'undue market power'.

SECTIONS

1) THE ECONOMICS OF THE SALE OF TELEVISION ADVERTISING AIRTIME

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3) COMPETITION
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   ii) Sales Houses

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5) THE FRAGMENTATION OF AUDIENCES

6) HARRY HENRY PAPERS:
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SECTION 1

THE ECONOMIC FACTORS RELATING TO THE SALE OF AIRTIME

It has lready been proved, in theory (see Section 7) and practice, that the price of airtime is related to the value of the collective demand from advertisers divided by the number of minutes of commercial time available. I**n other words channels do not set the overall level of demand (and therefore price), advertisers do!**

The value (objectives) of television advertising varies between advertisers. A car manufacturer may be concerned with the image they are able to create which leads on to the sale of cars. on the other hand a company marketing fast moving goods is probably looking for a direct relationship between investment and sales whilst Government advertising may seek to condition attitudes. There is no one value. the products are different, the sales volumes are different, the sales margins are different, the total level of profits engendered are different, the objectives are different.

i) An advertisers budget is not in a static relationship to expected sales. it is related to their expected profitability linked to the extent to which production capability matches consumer demand. stated more simply, if demand exceeds supply advertisers may spend an increased amount on increased production capability and less on selling. if supply exceeds demand the reverse will apply.

ii) The effect of this is that even in a buoyant market advertisers may spend less on advertising in order to invest more on increasing production capability.

iii) Allowing for the affect of the above there is nevertheless a strong relationship between the growth of gdp and the growth of advertising over time.

THE MICRO ECONOMIC FACTORS

Some breaks will be more desirable collectively to advertisers than others, as a result of the size of the audience exposed and their demographic characteristics. Correspondingly others will be less in demand.

SECTION 2

BACKGROUND TO CONTRACT RIGHTS RENEWAL OBLIGATIONS

Origin of regional 'station share of television budgets'.

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1) Prior to the commencement of the mergers of the commercial regional television stations in 1992, stations were under heavy pressure from buyers to provide concessions in regard to discounted rates, guaranteed audiences and maximum costs of audience deliveries, in return for undertakings in regard to their share of expenditure on television.
   The concentration of buying groups elevated the potential losses to stations not participating in share deals.

2) For the smaller stations there was the implication that subject to an acceptable level of concessions they stood the risk of being totally omitted from advertisers schedules for the period under negotiation.

3) The larger stations were exposed to the risk of diminished revenue.

Over time these special terms became more and more onerous until they became totally at odds with the basic economic factors controlling the price of airtime. Thus utterly distorting the market for television advertising airtime.

SECTION 3 (i)

COMPETITION

MAJOR TERRESTRIAL CHANNELS

BBC1
BBC2
ITV1
CHANNEL 4
FIVE

CHANNELS AVAILABLE ON CABLE OR VIA SATELLITE

In excess of 350

Many of these are owned by the worlds largest broadcasting, media or communications companies.

Company	Revenue	Net Profit	Information
Bertelsmann	€18.756bn	€405bn	Privately owned Germany company operating internationally. Owns RTL, the largest broadcasting group in Europe. RTL owns Channel 5 in the UK.
Bourges	€29.613bn	€1.376bn	Privately owned French company owns TF1 which owns Eurosport.
Disney	$35.51bn	$3.8326bn	Major American entertainment, film and television production company owns ABC Television one of the major television networks in the USA.
GE of America	$172.738bn	$22.208bn	American conglomerate which owns NBC one of the major networks in the USA.
Hearst Corporation			Privately owned US company. One of the largest diversified communications companies in the world.
Time Warner	$46.482bn	$4.387bn	The worlds second largest media conglomerate based in the USA owns Turner Broadcasting.
Viacom	$13.423bn	$1.63bn	One of the largest global media empires based in the USA. Owns CBS one of the major networks in the USA.
News Corp	$28.66bn	$5.381bn	Public company based in the USA. The world's largest media conglomerate.

SECTION 3 (ii)
COMPETITION

SALES HOUSES

Sales house			
Channel 4	Channel 4	E4	
DMS	Channel U	Motors	Real Estate TV
	Classic FM TV	NASN (North	DMS-Baby Channel
	Game Network	American Sport)	Fizz
	The Horror Channel	Rapture TV	ABC
DOLPHIN	All in Sport	Pop	True Movies
	Bid TV	Playboy One	True Movies 2
	Movies 24	Price Drop TV	Zone Reality
	Movies4Men	Speed Auction	Extra
	Movies4Men2	TVTWC	Zone Thriller
	More 24	Tiny Pop	Channel U
FIVE	Five	Five US	
GMTV	GMTV		
IDS (VIRGIN	Bravo	UK Bright Ideas	UK Style
MEDIA)	Challenge	UK Drama	Viacom-TMF
	Classic FM TV	UK Food	Nickelodeon
	Extreme Sports	UK Gold	Nick Junior
	Front Row	UKG2	Jetix-Jetix
	FTN	UK History	Turner Boom
	Living TV	UK Horizons	Cartoon Network
	Trouble		
OPTIMAL	S4C	The Golf Channel	
MEDIA			
SKY MEDIA	Sky 1	Sky Box Office	MUTV
	Sky Sports 1	Hallmark	Adventure One
	Sky Sports 2	Biography	Animal Planet
	Sky Sports 3	Flaunt	Discovery
	Sky News	Seuzz	Civilizations
	Sky Premier	The Amp	Discovery Health
	Sky Movie Max	Q	Discovery Home and
	Sky Cinema	Kiss	Leisure
	Sky Travel	Kerrang	Discovery Travel and
	History Channel	Magic	adventure
	National Geographic	Smash Hits	Discovery Wings
TMH	Ben TV	God Channel	My TV
	City TV	God Channel 2	Reality TV
	Channel 7 (Grimsby)	Home TV	Showcase TV
	Channel 9	Life TV	TBN Europe
	(Londonderry)	Oxford Channel	TV12
	Channel H	MA TV (Leicester)	You TV
	(Manchester)		
	Christian Inspiration		

ZIELER MEDIA	The Adult Channel Adult Text Climax 3	Playboy TV Spice Extreme	Private Spice Trade TV
ZMTV	B4U Movies B4U Music Bangla TV Channel S JSTV	MATV National MATV Channel 6 MAX from Sony Phoenix Chinese News & Entertainment	Sony Entertainment Television Asia TVBS Europe (Chinese) Venue TV

SECTION 4

BUYING GROUPS/BUYING CLUBS

Immediately prior to the merger of Carlton and Granada in 2004 there were some 15 top buying points.

Buying Points 2003			
Mediacom Mindshare CIA Carat	Vizeum Zenith Starcom Mediavest	Motive OMD PHD Universal McCann	Initiative MPG Walker

Over the five years since the merger and the enforcement of CRRs dramatic consolidation has occurred amongst the fifteen.

CIA and Motive are no longer in existence. CIA has been re-branded as Mediaedge and Motive merged with Starcom.

The remainder having been consolidated into four major Buying Clubs, all owned by publicly traded international marketing services companies These are Group M, OPERA, VivaKi and Aegis, with substantially increased buying power accounting for over 75% of ITV1 advertising revenue.

Significantly transforming the negotiating environment.

In this situation stations, including that of ITV1, can ill afford a stand off with any of the clubs.

PARENT COMPANY	BUYING CLUB	BUYING GROUP BRANDS
WPP	Group M	Mediacom Mindshare Mediaedge
OMNICOM	Opera	OMD PHD Rocket
Publicis Groupe	VivaKi	Starcom Mediavest Zenith
Aegis (Havas 29%)	Aegis	Carat Vizeum

When trading for each new period begins the Buying Clubs will set out their requirements for the ‘bulk’ deals.

They will specify the target audiences based on the TGI analysis and the trading audience; one of the 15 demographic groups from BARB.

There will then be discussions as to the discounts to be granted off the effective station price at the time of delivery, in each of these categories, and the expected minimum delivery of audience by category. The proportion and quality of the bulk deal allocated to any advertiser being under the control of the Buying Group.

Failure to deliver the agreed level of specified audience will be compensated by the granting of financial credits. The allocation of these credits is at the discretion of the Buying Group. Audited clients and new business being at the front of the queue in this respect and less demanding un-audited clients at the end.

The effect of this form of trading is contrary to the basic economics of the airtime sales market and severely undermines the control ITV1 has over its own inventory.

SECTION 5

FRAGMENTATION OF AUDIENCES

The greatest challenge facing commercial television broadcasters, financed by the sale of air time, is the increased fragmentation of audiences.

The objective of any television advertising campaign is to reach the target audience with a balance between reaching a satisfactory percentage of the desired audience and the frequency with which they are exposed to the advertisement.

With many channels each attracting an audience, however small, the ability to achieve the desired ‘reach’ target decreases and is replaced by undue repetition. The advertising then becomes less efficient and more costly to achieve the objectives.

For this reason programs with a higher share of the audience, providing an unduplicated audience, become essential and consequently more valuable per rating than those in programs with smaller audiences.

SECTION 6

HARRY HENRY PAPERS

Harry Henry was a visiting professor of marketing at the University of Bradford and at the Cranfield Institute of Technology. He was industrial professor of marketing and media policy at the International Management Centre. He chaired the Marketing Communication Research Centre, the statistics committee of the Advertising Association, the technical sub-committee of the National Readership Survey, the research committee of the Evening Newspaper Advertising Bureau and of British Posters. He was a governor of the History of Advertising Trust and a member of the editorial boards of the Journal of Advertising History and the International Journal of Advertising.

In 1985 he was awarded an honorary D Litt by the Northland Open University of Canada and in 1988 he received the Market Research Society's Gold Medal, both awards recognising his contribution to management and market research. He won the Advertising Association's Mackintosh Medal for his contribution to the business.

"Hysteria about television costs: a cyclical ailment'

Harry Henry offers some help towards understanding more and complaining less

(ADMAP May 1997)

Harry Henry

At approximately ten-year intervals voices are heard deploring the shortage of advertising time on television and the iniquitous way in which television rates have risen (these are usually complained about as separate phenomena, caused by separate malfeasances, whereas they are simply reflections one of the other, but let that pass).

In 1976 the hunt was led chiefly by the media directors of advertising agencies; in 1988, jointly by spokesmen of Unilever and Procter & Gamble (at an ISBA conference); and in 1997 (again at an ISBA conference) by Paul Polman, the managing director of P&G's UK operation. It might be noted that in 1988 we were approaching the peak of an economic (and hence advertising) cycle; disaster struck in 1990, and it is to be hoped that the current hue and cry is not a predictor of an imminent advertising recession, for all that such recessions are very effective in reducing television costs per thousand.

Oddly enough, while between 1988 and 1991 television supply rose by five per cent, and costs per thousand in real terms fell by 20 per cent, the ISBA did not convene a conference to celebrate the fact, and people who were not around at the time may not appreciate its significance.

It should not be necessary to suggest to the managing director of a giant and highly successful company that he does not seem fully to understand the economics of the

UK's television medium, that the problem that appears so to concern him is not a major problem at all, and that the solution he is advocating would be of no benefit to his company or to anybody else. But possibly he has been badly advised, so let us consider the implications of the accompanying chart (Exhibit 1).

The level of overall display advertising spend, as every schoolboy ought to know, varies (squarishly) with the level of overall consumer expenditure, modified by changes in the levels of corporate profits, and both the press and the television halves of the chart show how since 1982 adspend has moved in accordance with movement in the national economy – a long upward trend to the late eighties, a most uncomfortable fall for the following three or four years, and a steady recovery thereafter.

The press display picture is clear enough. Increases in adspend are determined by how much more money marketing directors can persuade finance directors to release, and result in more volume – more billions of pages of advertisements distributed. But while increased demand puts up rates in the early years of a cycle, these themselves result in the creation of more press media opportunities – which lead to reduction in rates and (in this instance) very little change thereafter. In this medium, as in all other sectors of the advertising market as a whole, adspend is the independent variable, but in this case volume is determined by how much can be bought at given rates. And the more volume is demanded, the more can be supplied – generally at a decreasing marginal cost, because that is the nature of the press.

The mechanics of the television medium are different. Again, adspend is determined by the state of the economy, and follows the same general pattern as that of the press (though television's share of the Press Display + TV total has risen over the fifteen years from 40 to 48 per cent). But volume is determined by the hours of programmes broadcast, the number of people the television contractors can get to watch those programmes, and the number of minutes in the broadcast hour they are permitted to devote to commercials: over the fifteen years from 1982 to 1997 that volume has increased by 40 per cent. But the volume delivered cannot be varied to match varying demand – not even when demand slackens, since the market must clear itself each day, at whatever rates it can get.

What have caused the increases in volume supplied are, from 1982 to 1984 the arrival of Channel 4 and TV-am, and thereafter increases in broadcasting hours and extensions in the permitted advertising minutes per hour (originally 6, but now effectively 7.2). Thus with a total advertising budget determined by how much money can be spared, at any particular stage in the economic cycle, to be spent on buying share of voice in competitive situations (which is what advertising is, fundamentally, about) and a volume of supply which is virtually fixed over the immediate term, what in effect operates as an auction determines the price per thousand paid. In the case of the press, expenditure divided by rate tells the market how much space it is buying: in the case of television, expenditure divided by the advertising volume available tells the market what rate it is paying. In this latter case, it is not that greedy media proprietors are holding the advertiser to ransom when the economy is buoyant (or that they are being benevolent in times of recession): the true villains from the advertiser's point of view are other advertisers, whether or not they are fellow-members of the ISBA.

But that is not always recognised. Given that the supply of television opportunities is limited because getting on for half of all the television delivered is provided by the

BBC, which does not carry commercials, and that advertising on commercial channels is (mostly) limited to seven minutes in the hour, if you believe this means that UK advertisers are severely disadvantaged you will suppose that the remedy is simple – let the BBC carry advertising, and extend the minuteage per hour to nine. This will result in what looks like an obvious solution to the problem (though in fact it begs the question) – a massive increase in the availability of advertising opportunities, and an automatic decrease in rates. So all will be well, and all manner of things will be well.

To put it gently, perhaps not. It is difficult to imagine P&G deciding to save money by buying the same weight of advertising at the new low rate if Unilever decides to maintain its spending level and buy more weight with it. So they both buy more weight: does either benefit?

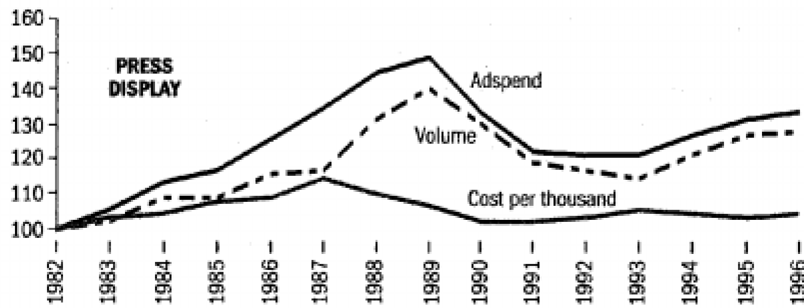
This last scenario understates the possibilities. Between 1982 and 1987 the volume of television advertising (commercial home minutes, or impacts, or whatever) increased by 21 per cent, principally as a result of the arrival and running-in of Channel 4 and TV-am. Over the same period the volume of commercial home minutes bought for instant coffee rose by 55 per cent, for petfoods by 57 per cent, for rte cereals by 59 per cent, and for heavy-duty detergents by 101 per cent. And, of course, they spent between them a lot more money, though that was largely a consequence of the booming economy. It is noteworthy that these product categories are essentially oligopolies, if not virtually duopolies, and such exercises in market power make a nonsense of the suggestion mooted last time around that increasing the supply of television advertising opportunities would reduce barriers to market entry – not that market leaders are necessarily keen on reducing such barriers anyway.

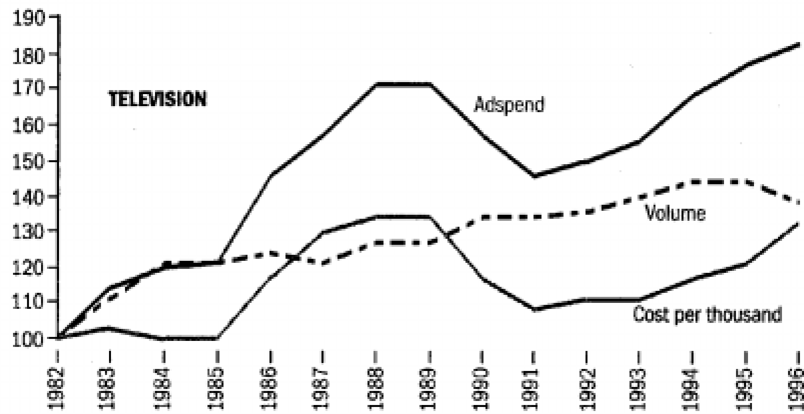
A note on the difficulties of foreseeing consequences. It was thought that the arrival of satellite television would increase the supply of television impacts and (in due course) lead to a reduction in rates. But the curve of television advertising volume in the chart (which naturally includes satellite) shows a halt to growth after 1994 and a marked drop in 1996. While satellite now takes almost a fifth of all non-BBC viewing, it provided in 1996 only about 12 per cent of all weighted impacts – because a considerable proportion of satellite transmissions do not carry advertising, being otherwise funded. Most of the 8.8 per cent increase in 1996 in costs per thousand in real terms (11.4 per cent at current prices) results from this – not at all what was looked for by those who were so enthusiastic about its introduction.

It is worth noting (since the odd figure is always a handy thing to have around) that the patterns of viewing shares across the past twenty years have been: 1976, BBC 46 per cent, commercial channel (ITV) 54 per cent; 1986, BBC 45 per cent, commercial channels (ITV + Channel 4) 55 per cent; 1996, BBC 45 per cent, commercial channels (ITV + Channel 4 + satellite) 55 per cent – of which satellite's share is about 11 per cent. As Gertrude Stein didn't quite say, a market is a market is a market. "

Press display and television advertising

Indices at constant prices (1982 = 100)





Source: Advertising Association's *Advertising Statistics Yearbook 1997.*

© NTC Publications Ltd 1997

“The Simple Economics of Television Advertising

(ADMAP October 1988)

Harry Henry

What follows addresses only one aspect of television – the simple economics of television advertising. For simple they basically are, though failure to see the wood for the trees frequently obfuscates the issue.

Television is one advertising medium among several, and must not be looked at in isolation. However, what is relevant here is not all advertising but *consumer display* advertising – that is, all advertising on television, display advertising in the consumer press, and the modest contributions from posters, radio and cinema.

And one thing must be clear from the outset: it is essentially a tool of competition within particular markets. With rare exceptions it has little effect on the total size of individual markets, while expenditure with non-competitive objectives is so small a proportion of the whole as to be largely immaterial. Recognition of these realities is essential to an understanding of what advertising is all about.

How adspend is determined

The pattern of consumer display advertising over the past eighteen years is shown in Figure 1. This has increased very rapidly: even at constant (1980) prices it has virtually doubled from 1.4 billion pounds in 1970 to 2.7 billion in 1987. The figure at current prices was 4.1 billion pounds in 1987, and will reach over 4.5 billion in 1988.

Also shown in this chart is the curve of total consumers’ expenditure on goods and services in the UK. There is an obvious tendency for the two curves to move in sympathy, but they do so at different rates. Whereas between 1970 and 1987 consumers’ expenditure in real terms increased by some 46 per cent, consumer display advertising in real terms increased by no less than 96 per cent.

Clearly, the ratio of consumer display advertising to total consumers’ expenditure has risen over the period. This ratio can be regarded as a proxy for the advertising-to-sales ratio of British consumer markets as a whole, and we can see from Figure 2 how it has in fact risen – from 1.2 per cent in 1970 to 1.6 per cent in 1987, an increase of 33 per cent. But what is particularly noteworthy here is that, four exceptional years apart, this curve matches almost exactly the curve of total consumers’ expenditure. The exceptional years were 1974, 1975 and 1976 – the catastrophe years of the oil crisis and its aftermath – and 1979, when commercial television was off the air for almost two months because of a strike.

This means that a given percentage change in the level of consumers’ expenditure produces an almost identical percentage change in the *ratio* of advertising to consumers’ expenditure, the overall advertising-to-sales ratio: an increase in consumers’ expenditure results in advertising taking an increased proportion of an increased base. In other words, advertising expenditure varies as the *square* of consumers’ expenditure, which is why I have labelled this phenomenon ‘the square law’. A highly satisfactory and remarkably simple model follows from this, but the relationship between the two measures is very clearly illustrated in Figure 3.

The model (shown in Figure 4) is not difficult to grasp, involves no complex mathematical symbols, and does not require a computer. Simply, advertising expenditure in millions of pounds equals roughly one-tenth of the square of consumers' expenditure in billions. It is not hard to see how closely the model fits the reality: in fact, leaving aside the four catastrophe years, the correlation between the two is .996, which is about as near perfection as one could hope to get in an imperfect world. It does not provide for catastrophe years, and should not. A model that does is a model that must be regarded with the utmost suspicion and will be quite useless for normal purposes.

It is, of course, one thing to uncover the existence of the square law, but quite another to discover why it exists or in what circumstances it will be repealed. What *can* be said is that the relationship has been maintained, catastrophes apart, for almost 20 years.

One explanation can, however, be found. There is no reason why an increasing level of sales revenue in real terms should confront the typical manufacturer with increasing costs per unit sold – rather the reverse, in fact. But with advertising the situation is different. Although what the advertiser is technically buying are advertising opportunities – time on television, pages in newspapers and magazines – these are not objectives in their own right. What he is seeking is a share of voice in the market place, matching – to whatever extent is deemed necessary – that sought, competitively, by rival firms. And the total of *shares* of voice is finite, and in no way related to the supply of advertising opportunities. However loud the combined voice may be, the various individual shares cannot add up to more than 100 per cent – or, for that matter, to less.

Thus so long as he can be satisfied that a maintained or increased advertising spend is profitable in relation to maintained or increased sales, or that a decrease in spend would result in a sales loss outweighing the saving, and so long as he can lay hands on the necessary funds, so long he will compete for what he considers an appropriate *share* of the available supply of advertising opportunities, however much that supply may expand.

Comparison with the USA

Since an extraordinary amount of nonsense is talked about international comparisons, ignoring the problems involved in such comparisons in terms of exchange rates and of the international differences in effective values delivered by a minute of television time or a page of press advertising, we might take a quick look at how the general pattern of advertising in the UK compares with that of the USA, a country regarded by so many people as the paradigm of deregulation and competition.

Figure 5 gives a fair impression of those patterns: the use of indices and ratios by-passes the problem of exchange rates. Between 1981 and 1986 total advertising expenditure at constant prices rose by 40 per cent in the States: it rose by 40 per cent in the UK. And expenditure on television as a percentage of total advertising expenditure, around 32 per cent in both countries in 1981, had risen to around 35 per cent in both countries by 1986. Expenditure on television rose over the period by 54 per cent in the US and by 56 per cent in the UK – hardly a material differences – and expenditure on all other media, though it rose rather less, also did so at roughly the same rate in both countries.

The implications of this are clear. Whether we are talking about total advertising expenditure, or expenditure on television, or expenditure on other media, or television as proportion of total spend, the increases are virtually identical in the two countries. If there is any evidence here to suggest that changing the structure of the television system in Britain to something closer to the American would in any way affect the patterns of expenditure I must confess that I cannot see it.

The same similarity emerges when we bring in the square law. Figure 6 shows advertising expenditure as a proportion of gross domestic product rather than of consumers' expenditure, but that makes little difference to the shape of the curves. Because gross domestic product per head is greater in American than in Britain, the advertising percentages are higher there than here – a fact which itself supports the square law. But, equally for television and for all other media, the proportions have risen over the period in both cases, and in each case to the same extent in each country.

Dividing the adspend pot

Figure 7 shows how total consumer display advertising in the UK has been divided between the three main media categories. The figures for 1979 have been omitted because of the television strike of that year: apart from this, the most immediately noticeable aspect is the remarkable stability of the trends – which persist even through the catastrophe years of 1974 to 1976. But the most surprising thing about the television curve is that while the supply of television advertising opportunities increased between 1971 and 1973 by 21 per cent (as a result of the introduction in 1972 of afternoon broadcasting) and again by 21 per cent between 1982 and 1984 (as a result of the arrival of Channel 4 and TV-am) these dramatic increases in supply – far greater than could now be expected, for example, from the arrival of a fifth channel – had no visible effect on the trend of television's share of expenditure. More money, in real terms, continued to be spent.

However, to put these trends into perspective it is helpful to look not just at shares but at actual expenditures in real terms. These are shown in Figure 8: the figures for 1988 are estimates, but will not be far out. There is a good deal of year-on-year variation, but we might note that the effects of the 1970/71 recession, the 1973 boom, and the 1974/76 crisis, were the same both for television and for other media. In 1979 most of the money suddenly denied to television, in the short term, by the strike of that year went into other media: some of it, indeed, had to be so committed into 1980.

Figure 9 shows what the general pattern looks like if we cut through the year-on-year fluctuations to get at the longer-term trends. The phases during which the rates of change have increased are identical for television and for all other media combined, but the increases have been consistently greater for television, reflecting what we already know about television's steadily increasing share of total spend.

The supply of advertising opportunities

There is only one reason for the steady fall in the press share of the increased total: advertisers have progressively preferred to allocate their advertising budgets to television. There has been no significant change over the period in the total circulation of newspapers and consumer magazines, which between them distributed over 11

billion copies in 1987. But in any case the supply of press advertising opportunities is neither constrained nor fostered by press circulations: if advertisers want more press impacts, it is normally easy enough for these to be provided by the addition of extra pages.

Thus the volume of press advertising opportunities delivered, shown in Figure 10 in indexed form, represents what advertisers, of their own free will, have *chosen* to buy, there being no constraints of any sort. The year-on-year fluctuations essentially reflect fluctuations of total advertising expenditure, themselves linked to overall consumers' expenditure by the square law. But the supply of television advertising opportunities is a quite different matter. These we measure in commercial home minutes: the chart shows these in indexed form, and while there were 98 billion of them in 1970, the figure for 1988 will be about 152 billion.

The factors which determine the supply of commercial home minutes are the size of the total television audience, the proportion of viewing homes switched to a commercial channel at any point in time, and the number of minutes in the hour in which commercials may be transmitted. All this is largely independent of anything the contractor might do: while he endeavours to optimise the proportion of viewing homes which constitute his audience he cannot dictate it, and its variations are much affected by external factors – such as, of recent years, the BBC's policy of playing the ratings game rather more vigorously. And the numbers of *commercial minutes* transmitted are controlled not by anything the advertisers can do but by the regulations about the number permitted in the hour and the IBA requirement that all the time permitted shall be disposed of. The mechanism through which television advertising opportunities are bought and sold is totally irrelevant.

What emerges very clearly from Figure 10 is that while the volume of press advertising opportunities which advertisers have chosen to buy in a totally free and highly competitive market has increased since 1970 by some 25 per cent, the volume of television advertising opportunities with which advertisers collectively have been *supplied* has increased by no less than 50 per cent. The casual observer might wonder what they are grumbling about.

Space does not permit detailed discussion of the year-on-year variations in commercial home minuteage though it may be observed that the 6 per cent decline between 1973 and 1976 simply reflects the 7 per cent drop in ITV audience which produced such squeals of anguish at the time from advertisers and their agencies. And ITV came back after the 1979 strike (the figures for that year are omitted here) with substantially lower audiences, absolutely and as share of total viewing, than it had been getting before the strike. But none of this had any effect on the economics of television advertising, as is clear from Figure 11 which smooths out the short-term changes. Although both the supply of television advertising opportunities and expenditure on television have trended upwards over the past 18 years, there is no correlation whatever between the two. And certainly there is no indication that increases in supply result in decreases in expenditure. A more widespread recognition of this reality might have done something to check the vast amount of nonsense currently being talked about the future.

The production costs phenomenon

That advertising expenditures increase in order to mop up the increasing amounts of money which advertisers as a whole have available and which they judge it expedient to use, competitively, in the battle for share of voice and hence share of market, must be regarded as a variant of Parkinson's Law. But very significant corroborative evidence emerges when we look at production costs – the costs of designing and making the actual press advertisements and television commercials. The left-hand side of Figure 12 shows the media costs per message delivered – the same thing, in effect, as the advertising rates per thousand. Over the ten years since 1977 press rates, at constant prices, have increased by 25 per cent. Television rates have increased by 82 per cent -hence, as they say, these tears. But it is the right-hand side, *production* costs per message delivered, which shows what happens when there is so much money sloshing about that financial managements do not think it necessary to impose unkind restraints on market managements.

In the case of the press, production costs per message delivered changed very little between 1977 and 1982: since then, however, they have increased rapidly, the 1987 figure being 60 per cent higher than that of 1977. There are complications with the television curve, because in the strike year of 1979 money was spent on producing commercials which could not then be fully exposed, while less were made in 1980 because of the stocks left over from the previous year: the dotted line averages these years. But that is hardly material: the important thing is that television production costs per message delivered, at constant prices, were in 1987 no less than 120 per cent above their 1977 level.

Against increases of this order the lip-service currently being paid to the need for better housekeeping in the administration of production are immaterial, having something in common with a Board instruction to economise on paper-clips and switch off the lights when leaving the toilets. There are only two likely explanations: either more commercials are being made to fill equivalent amounts of time, or commercials are being made more expensively – in terms of high-priced artistes and directors, exotic locations, fiendishly complex technology and graphics, and the like. Either explanation implies the concurrence of the advertiser, who must be presumed to know what he is doing and to find either or both worth while in terms of increased effectiveness – or of matching competition. For there are no monopolies material to *rising* costs in the advertisement production processes, no limitations on the number of suppliers who can enter the business, and no statutorily-imposed sales structures. If advertisers are prepared to spend money in this way it is because they judge this will give them an advantage over their competitors in the battle for consumers' hearts and minds.

An actor paid 75,000 for a day's work can obtain such remuneration only because some advertiser judges his particular services are worth the money. Equally, when one marketing director complains that a single commercial costs his company 300,000, while another protests that the million pounds he spent on four commercials could have been more usefully spent in other directions, it is not in itself obvious why they, the executives responsible for such expenditures, actually authorise them. But both media expenditure and production expenditure are governed by the same factors – the perceived need to compete for share of the consumer's mind, the availability of resources to do so, and the judgment that these resources can be more cost-effectively allocated in that way than in other directions. The money is there to be spent, and

spent it will be, both on increasingly expensive commercials and, more significantly, on bidding against other firms for share of television voice.

In fact, the price/supply equation for television can be very simply expressed.

One *could* say:

TV expenditure = audience delivered times TV costs per thousand which is arithmetically correct but logically nonsense. The correct form of the equation is:

TV cost per thousand = TV expenditure divided by audience delivered and there is no connection of any sort between expenditure and audience: they are both independent variables, and cost per thousand is a dependent variable.

Misunderstanding 'competition'

It may be wondered where in all this I fit the concept of competition. The short answer is that I don't: it is wholly irrelevant at the level of the market, though I am prepared to concede that it might have some marginal effect on the outer fringes.

Since we no longer burn heretics at the stake, it is not particularly courageous of me to suggest that 'competition' is not invariably the answer to a maiden's prayer, or to ask what the devil people think they are talking about when they use the word in connection with television. Expenditure on advertising is in no way related to the supply of advertising opportunities, and the same amount of money will be spent however supply changes. And while increases in television supply provide more opportunities for that same money, this is of no advantage to advertisers in their search for *share* of voice: they will all benefit' equally. When increases have occurred in the past, they have been snapped up by the big boys pro-rata -sometimes more than pro-rata. And the mechanisms through which those advertising opportunities are sold are almost wholly irrelevant.

This, however, is true only in one sense. Where the supplier's sales organisation *can* exert some influence is on the demand side. The propensity of advertisers to buy television time is a function of their general willingness to spend money on advertising as a tool of competition, but it is also a function of their relative preference for television as against other media – which preference has increased steadily over time regardless of changes in the volume of television opportunities available. Thus it has been an important task of the sales organisations to promote that relative preference, and the more successfully they can do that the greater will be the advertiser's propensity to spend money on television rather than on other media – and thus push up what are seen as rates.

The efforts, which have been made by the television companies over the years to persuade the users of other media that television is a suitable medium for them, typify this. Television's share of total TV and consumer press display advertising on motor cars, for example, has grown from 4 per cent in 1969 to 44 per cent in 1987. And when, following the break up of the Stags consortium at the end of 1981, Scottish Television sharpened its sales activities (to the admiration of the advertising industry) it increased its share of national revenue over the next three years by 20 per cent, despite no increase in its share of national audience. In other words, the rates per thousand which its advertisers paid rose well ahead of the market as a direct

consequence of the sort of vigorous activity implicit in the concept of competitive selling.

Five propositions arise from the evidence I have analysed.

- What determines advertising spend? The amount of money advertisers can find and are prepared to spend in competition with other advertisers for share of voice.
- What determines television spend? The proportion of their total spend which advertisers judge will be more efficient against competition in TV rather than in other media.
- What determines TV rates? The amount of money advertisers are prepared to spend, competitively, on television, divided by the audiences which that money provides.
- The effects of more vigorous selling of television time? An increase in the propensity of advertisers to spend money on television.
- The effect of more money being spent on television? Increases in TV 'rates'.

A fifth channel?

A word might be said here about the likely consequence of a fifth terrestrial channel. Look first in Table 1 at what history has to tell us. Between 1971 and 1973 the supply of commercial home minutes rose by 21 per cent: expenditure on television rose in real terms by 26 per cent. But press display advertising also rose, by 25 per cent. 1973 was the peak of an advertising boom, not matched in speed of growth until the one we are currently experiencing. And between 1982 and 1984 the supply again rose by 21 per cent: this time television expenditure rose by 21 per cent, while press display again rose by roughly the same amount – 24 per cent. I reiterate: changes in supply have no effect on the levels of television spend, and certainly do *not* bring them down.

TABLE 1: EFFECTS OF MAJOR CHANGES IN SUPPLY OF TELEVISION AUDIENCE

	1971 – 1973	**1982 – 1984**
TELEVISION:		
No. of CHM	+21%	+21%
Spend (at constant prices)	+26%	+21%
Cost per thousand	+5%	0
CONSUMER PRESS DISPLAY:		
Spend (at constant prices)	+25%	+24%

It is somewhat improbable that a fifth channel would increase the total amount of television viewing to any significant extent: even seeking virgin audiences would have little overall effect. And on the assumption that the fifth channel gains the same share of audience as BBC2 or Channel 4, and that it takes share from the BBC and the ITV network pro-rata, it will increase the supply of commercial home minutes by barely more than 9 per cent. Seeing how little have been the effects of increases of 21 per cent in the past on the levels of television spend – none at all, in fact – what can

anybody in his right mind suppose will be the effect of a mere 9 per cent? Double that figure of 9 per cent if you like: twice zero is still no more than zero.

One final point. At the end of 1987 the supply of commercial home minutes was increased by an extension of broadcasting hours and by an increase in the permitted number of advertising minutes in the hour. As a result the number of commercial home minutes delivered in the first half of 1988 was 5.4 per cent more than it had been in the first half of 1987. Did this bring down the level of television spend? It did not. That level increased by almost 15 per cent, what time press display advertising increase by no more than 13 per cent.

There is a lesson here."

NOTES & EXHIBITS

FIGURE 1; TOTAL CONSUMERS' EXPENDITURE AND CONSUMER DISPLAY ADVERTISING

At constant (1980) prices

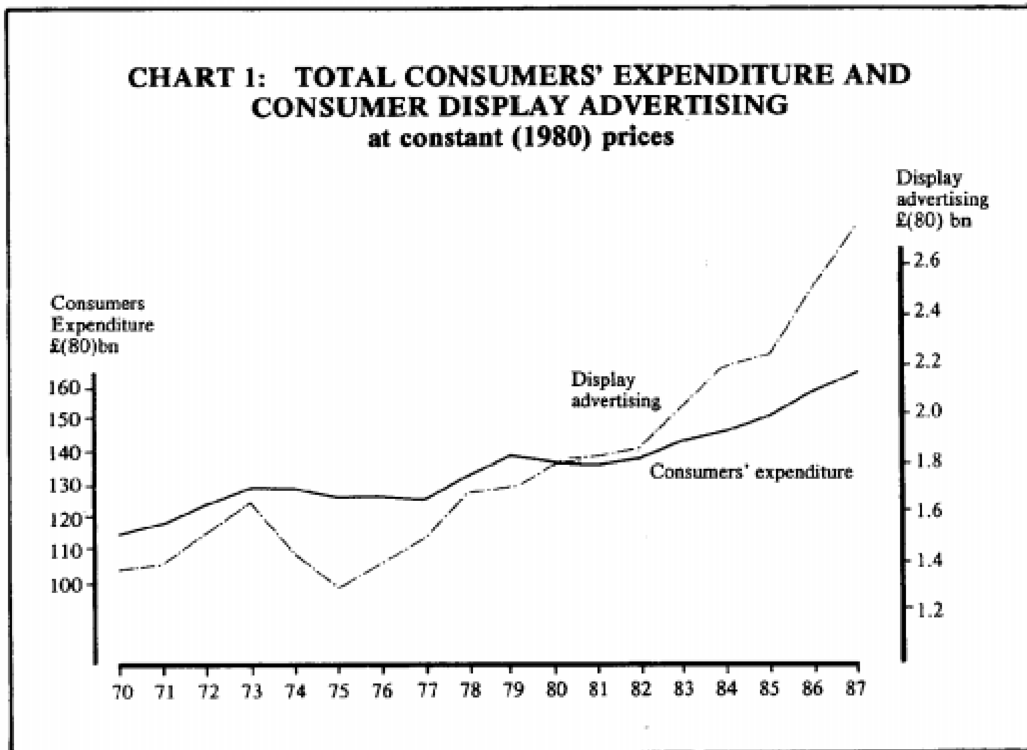


FIGURE 2; TOTAL CONSUMERS' EXPENDITIRE AT CONSTANT PRICES AND CONSUMER DISPLAY ADVERTISING AS A PERCENTAGE OF IT

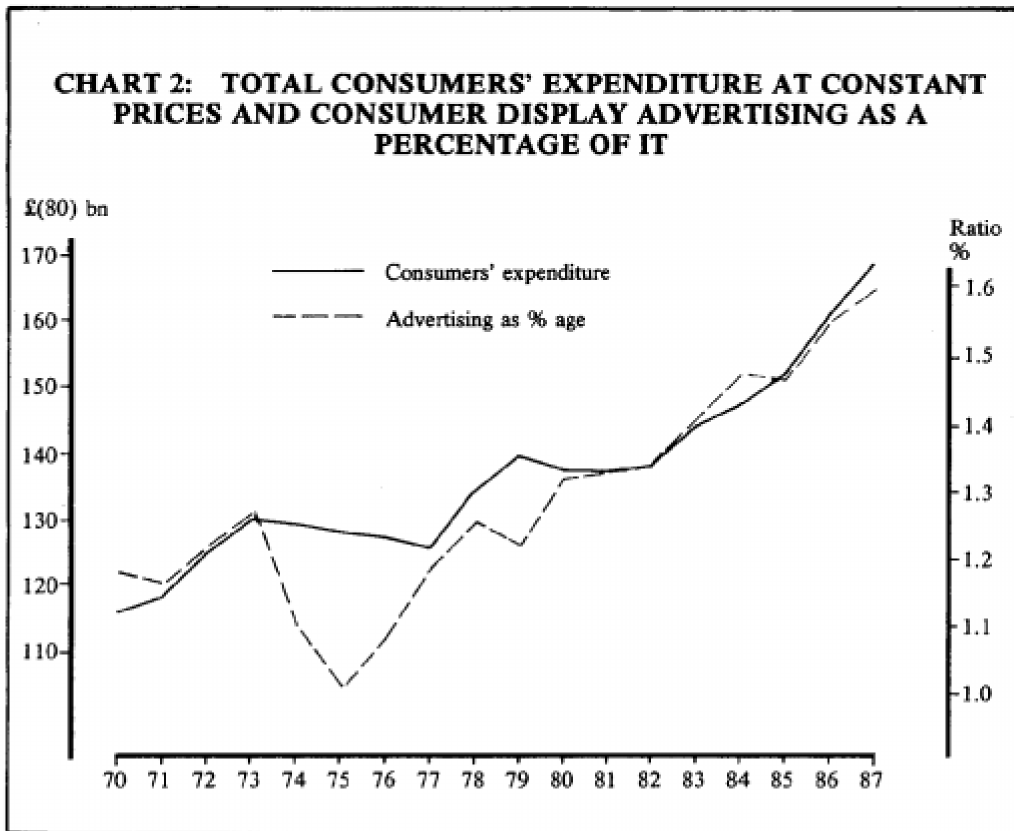


FIGURE 3; RELATIONSHIP BETWEEN TOTAL CONSUMERS' EXPENDITURE AND CONSIMER DISPLAY ADVERTISING

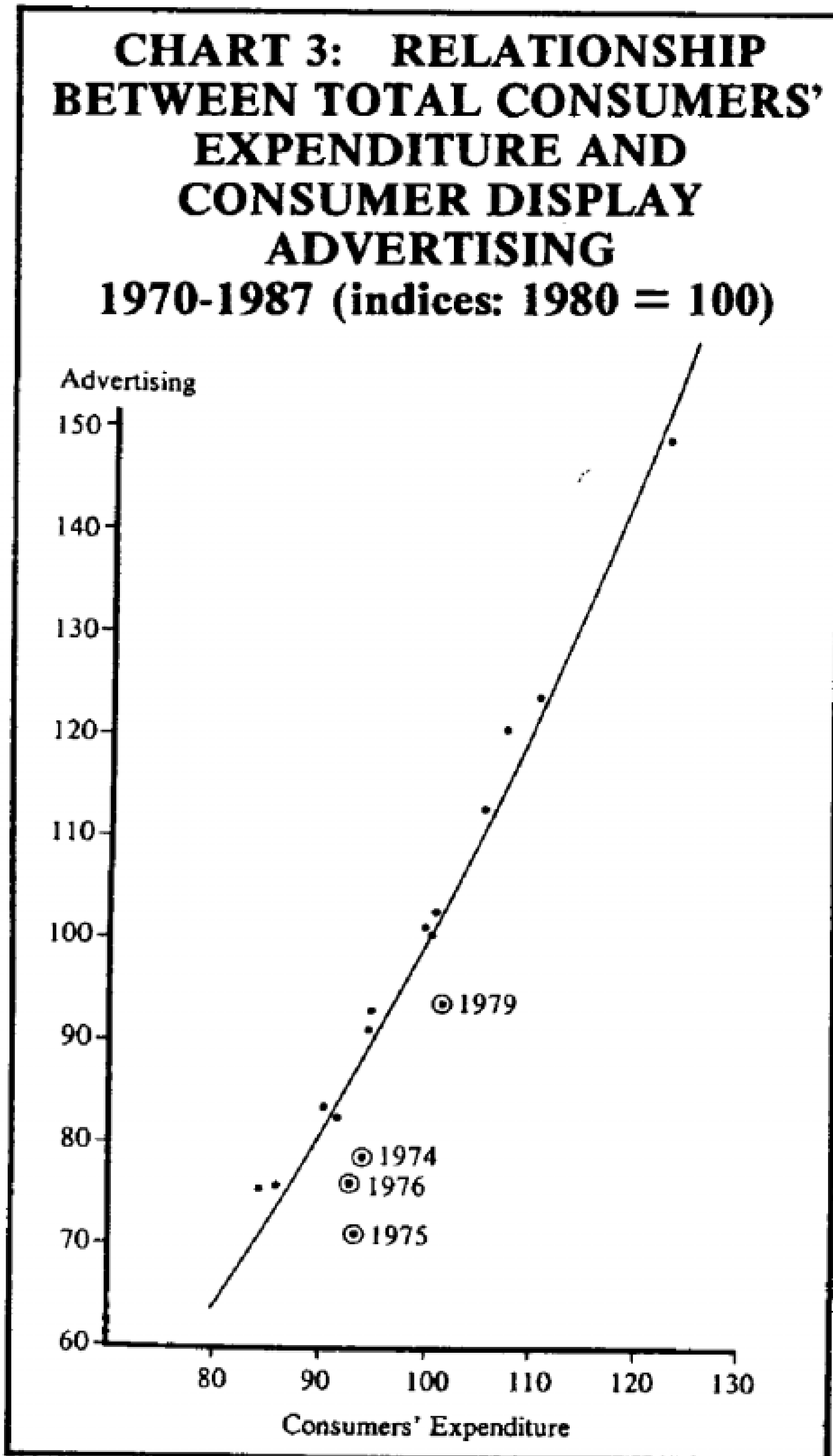


FIGURE 4; CONSUMER DISPLAY ADVERTISING INCLUDING PRODUCTION AT CONSTANT (1980) PRICES MODEL AND ACTUAL

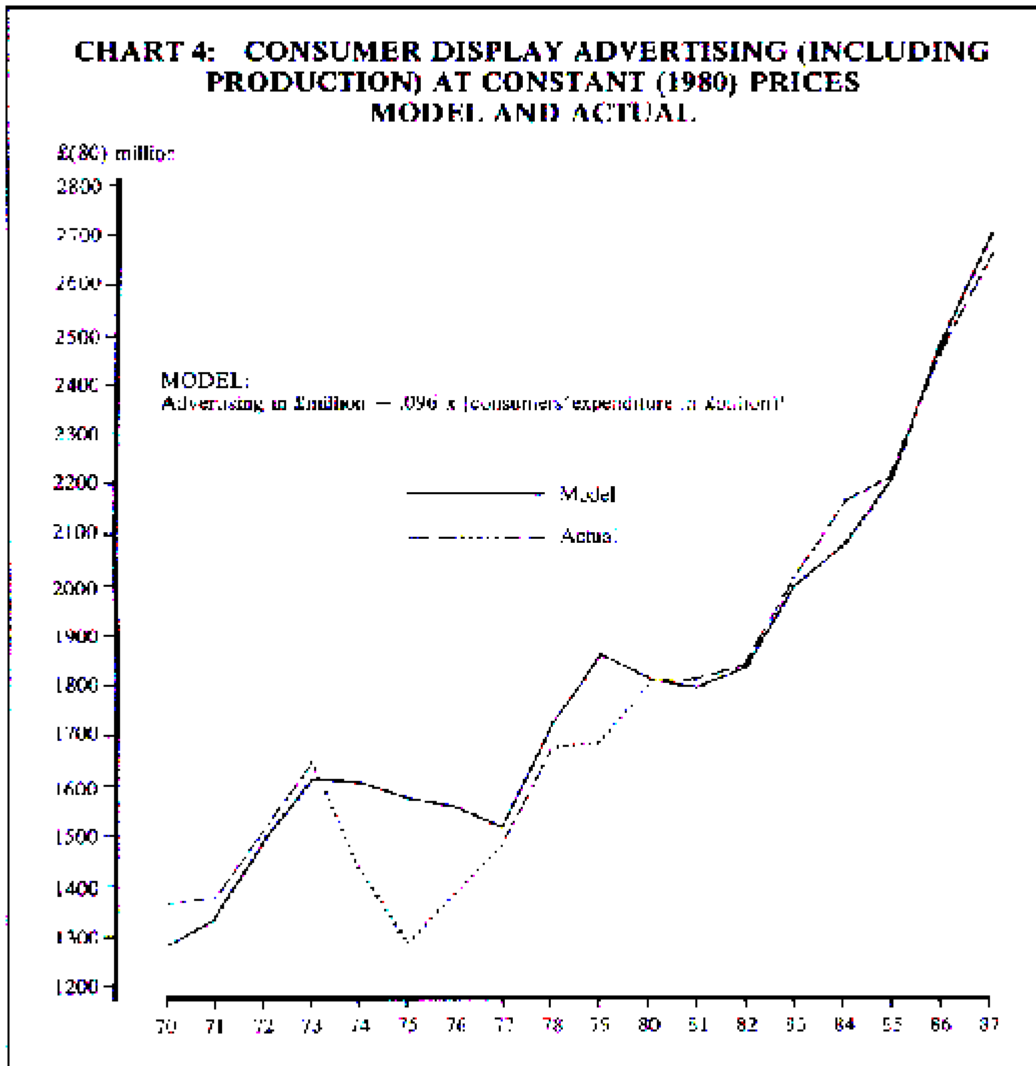


Figure 5

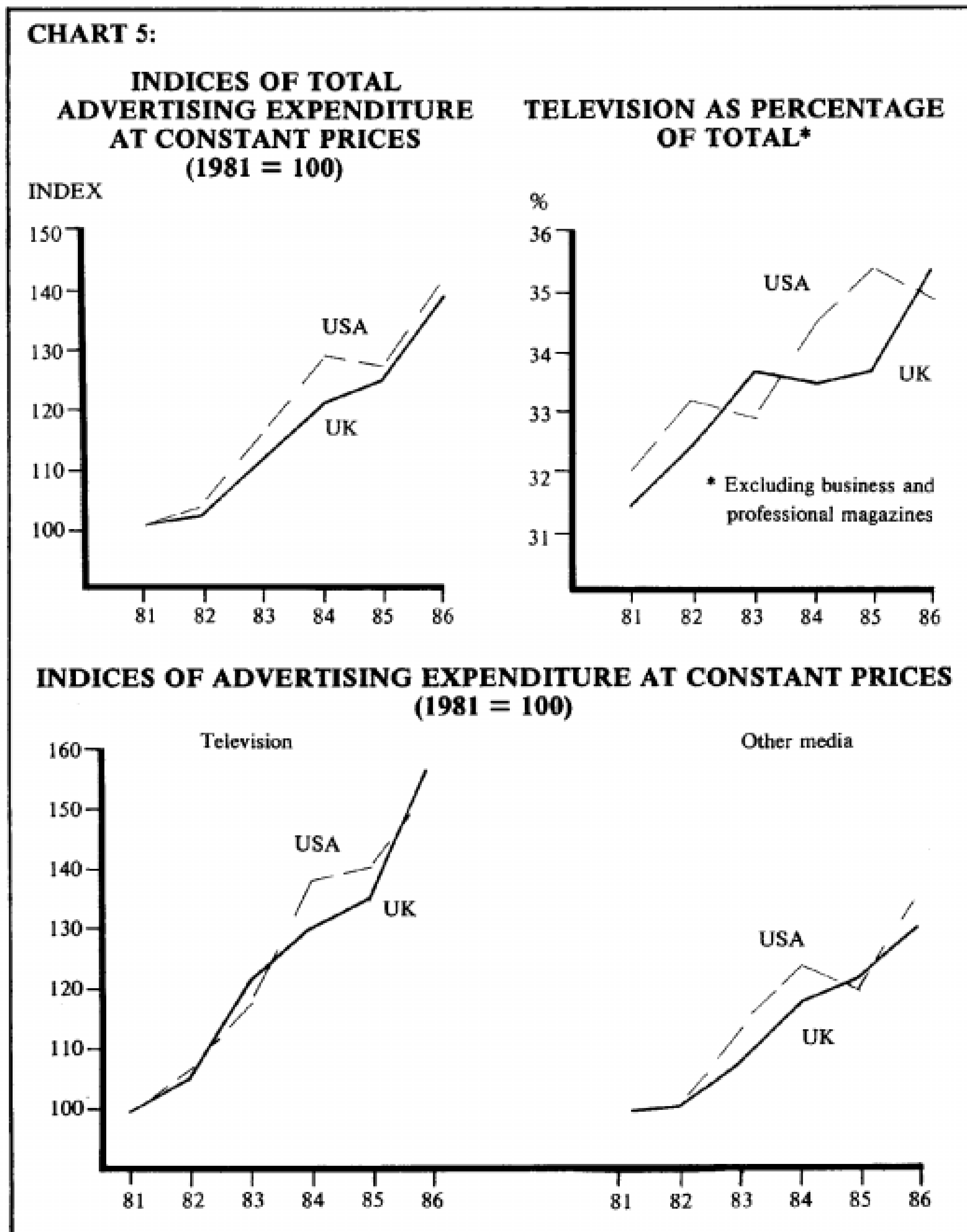


FIGURE 6; ADVERTISING EXPENDITURE AS PERCENTAGE OF GROSS DOMESTIC PRODUCT

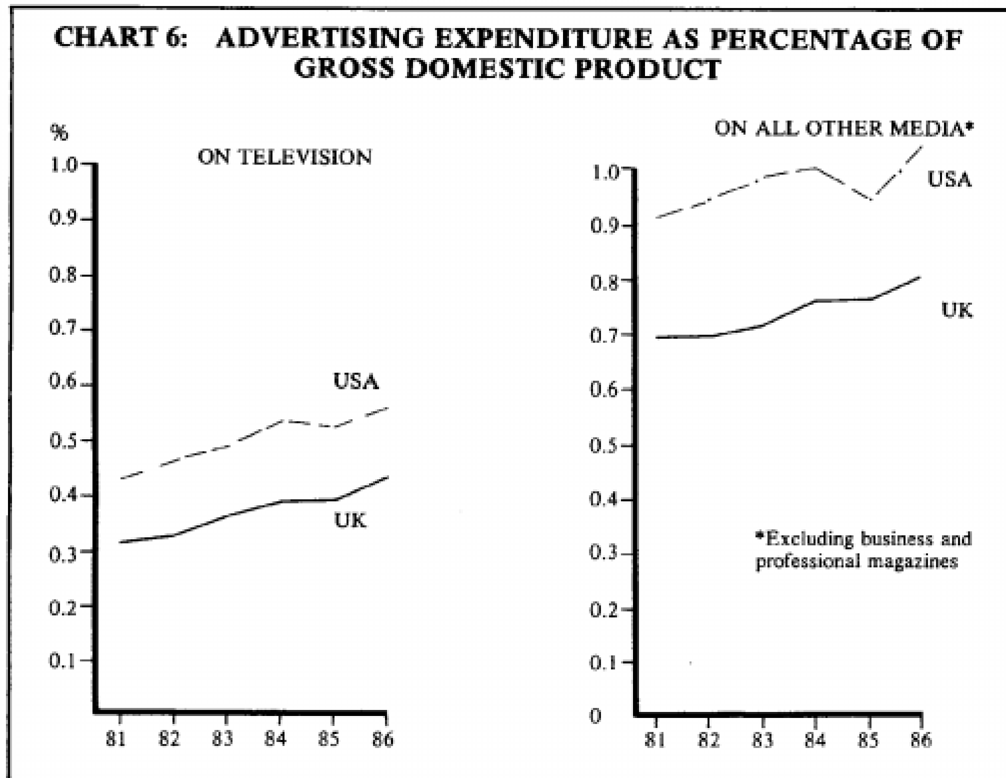


Figure 7

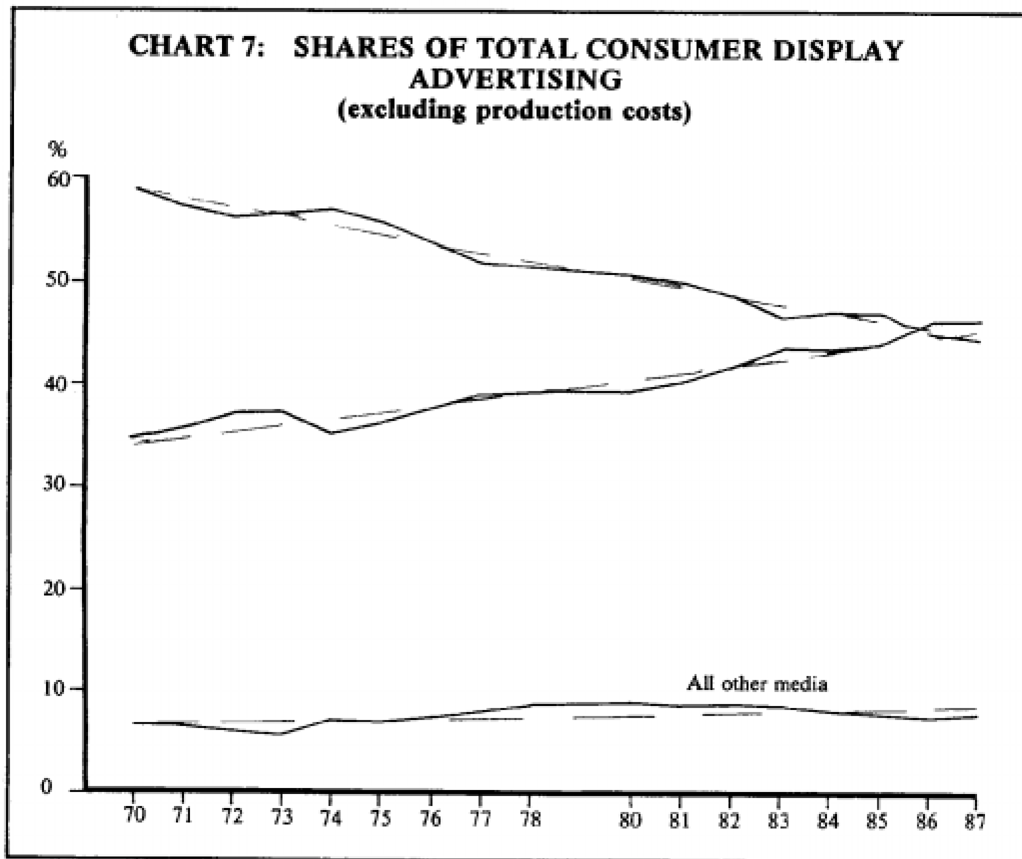


FIGURE 8; CONSUMER DISPLAY ADVERTISING EXPENDITURE

(including production costs)

AT CONSTANT PRICES

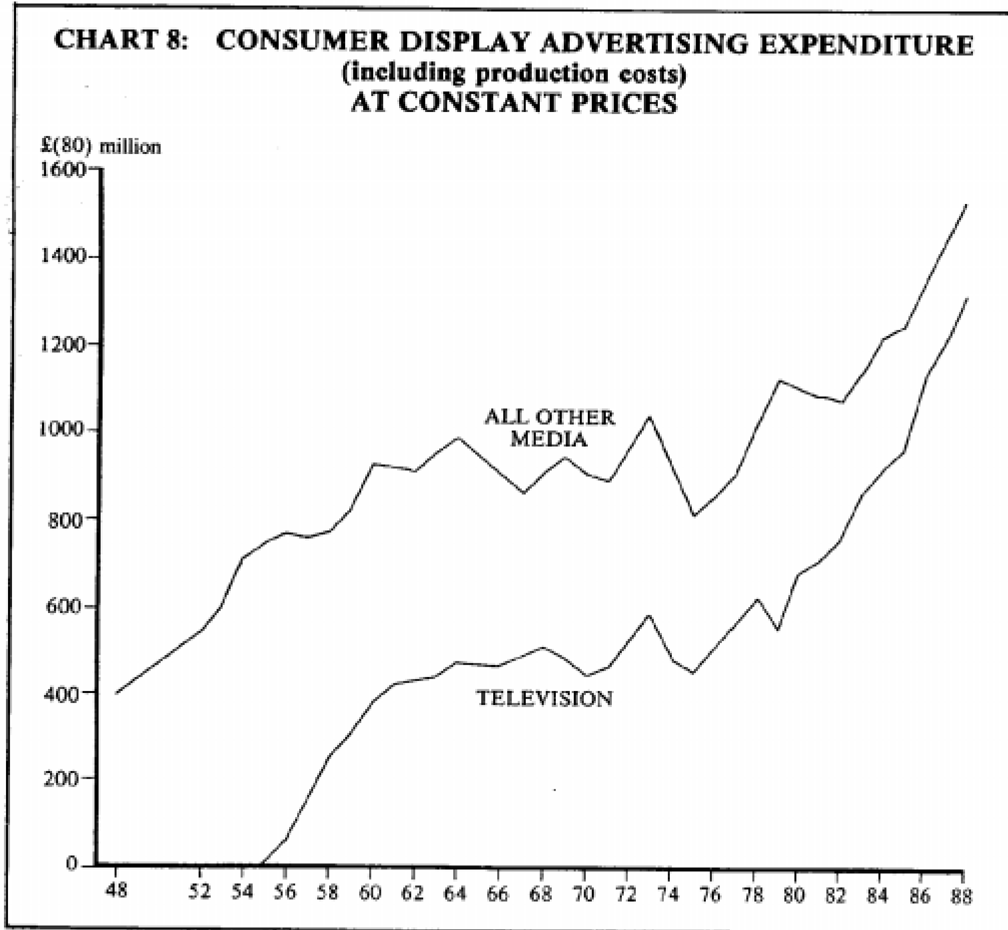


FIGURE 9; CONSUMER DISPLAY ADVERTISING EXPENDITURE

(including production costs)

AT CONSTANT PRICES LONG TERM TRENDS

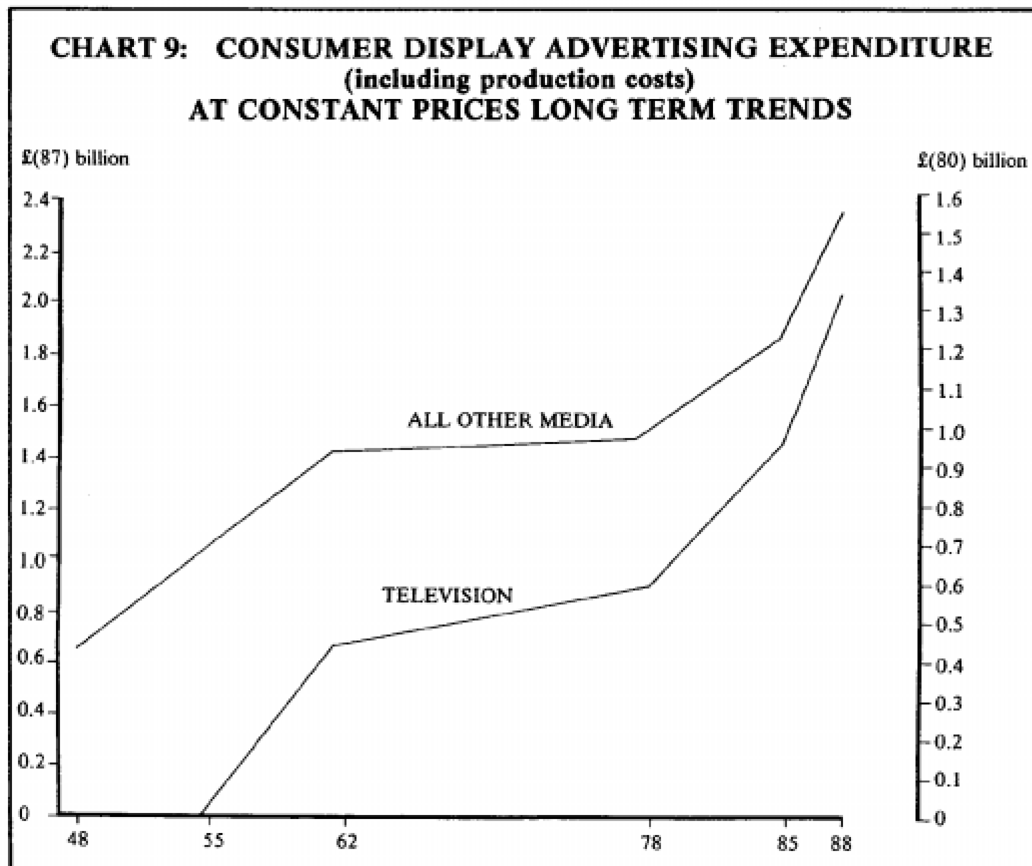


FIGURE 10; INDICES OF ADVERTISING VOLUMES DELIVERED AND CONSUMER PRESS DISPLAY (1970 = 100)

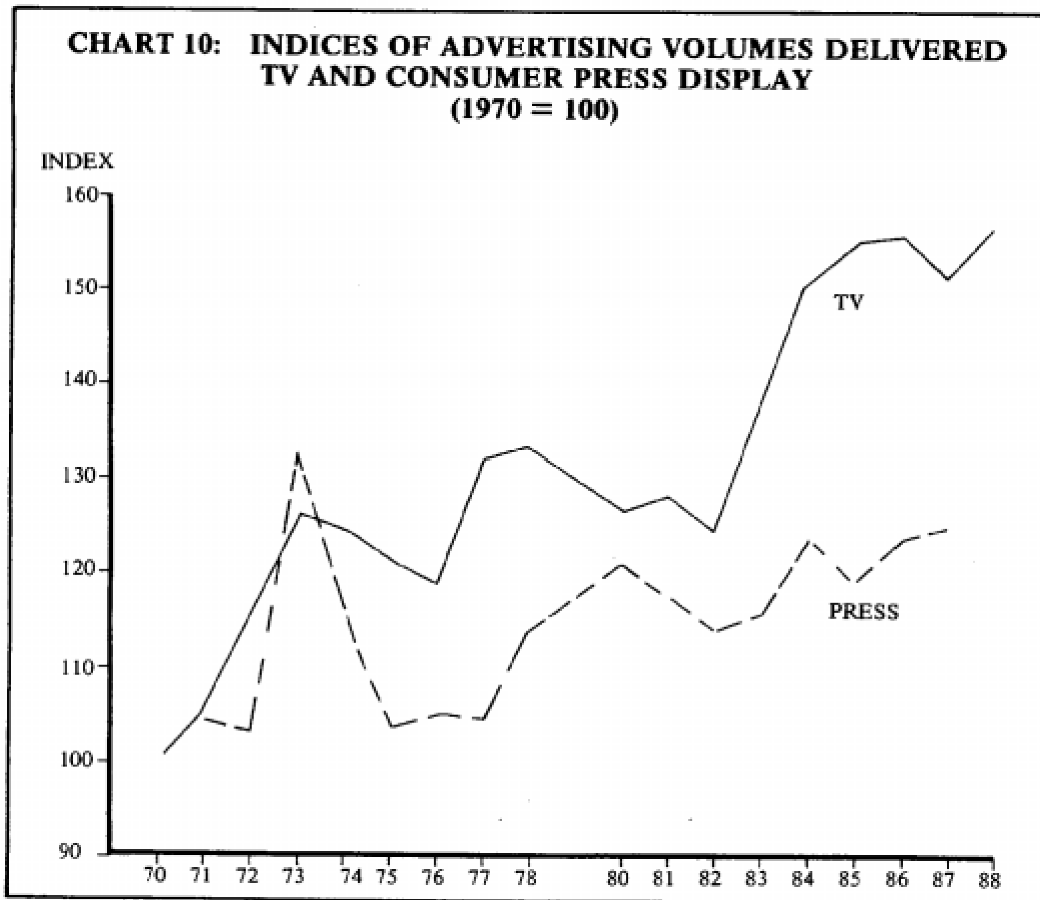


FIGURE 11; TELEVISION PHASES INDICES (1971 = 100) OF COMMERCIAL MINUTES AND TV ADVERTISING EXPENDITURE AT CONSTANT PRICES

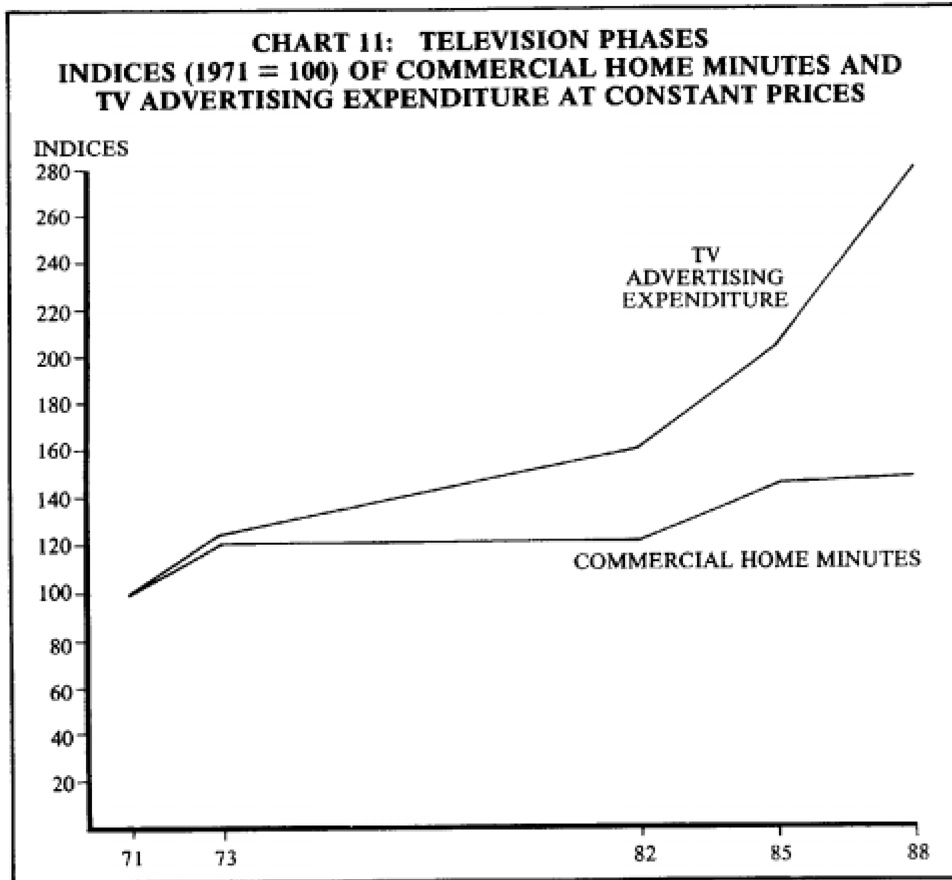
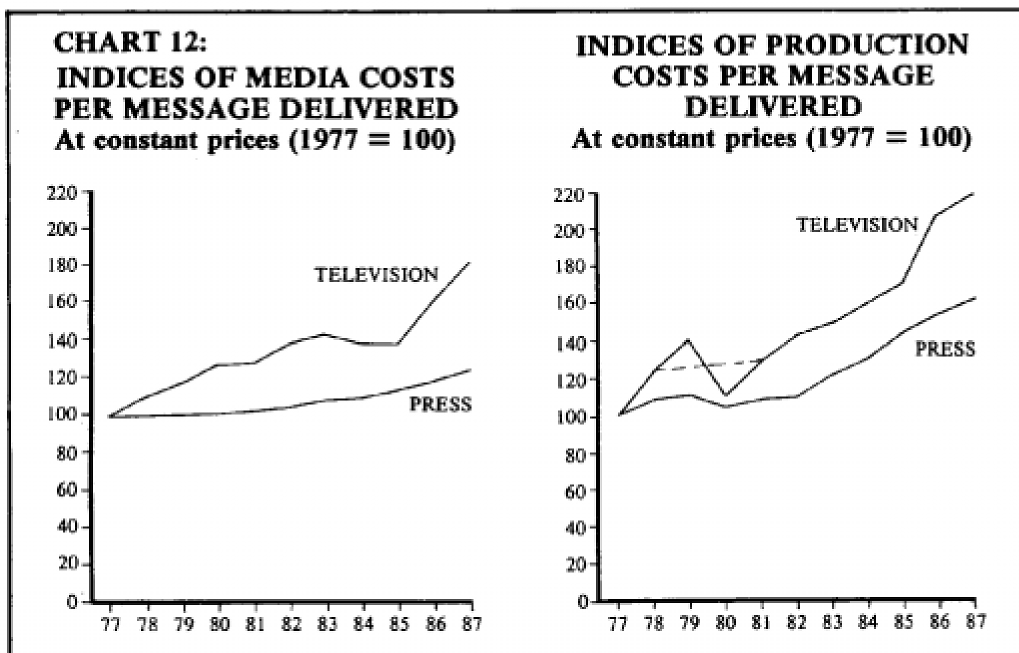


Figure 12



SECTION 7

THE COMMERCIAL TELEVISION ASSOCIATES

The Commercial Television Associates was formed to guide commercial broadcasting companies strategy in responding to the problems and opportunities of the new era.

Such advice falling within the following categories;

1) Maximising airtime sales revenue.
2) Innovatory initiatives responding to the fragmentation of viewing audiences.
3) Multi channel and IP broadcasting.
4) International opportunities.
5) The development of complimentary businesses.

Its founders have unsurpassed experience, knowledge and expertise in regard to the commercial aspects of television. They have been responsible both jointly and individually for a number of major commercial initiatives in broadcasting, the marketing of commercial airtime, media planning and buying.

MIKE YERSHON

Prior to setting up Media Assessment Ltd, Mike worked for McCann Erickson (twice as Media Director with a 20 year span in between and on the first occasion with a pan-European responsibility) and Collect Dickenson Pearce and Leo Burnett (as Vice Chairman in charge of Media, Research and Sales Promotion departments).

He formed Yershon Media Management and Yershon Media Buying which were later sold to TMDH plc, the largest independent media buyer in 1988. Mike joined the plc board. Three years later TMDH was sold to Aegis to form the UK end of Europe's largest buyers of media. Yershon Media still traded as a separate brand with Mike as Chairman. The TMDH brand was renamed Carat UK with Mike as founder director.

In parallel he was World Wide Media Controller for Guinness with particular reference to Europe.

He has introduced a number of major innovations in the media advertising business.

Persuading the commercial television companies to change spot lengths from 15/30//45/60 to 20/30/40/50/60 seconds.

At Collett Dickenson Pearce became the first centralized media buyer acting for Reckitt and Colman in this role.

Revitalized the outdoor media by forming Portland Outdoor, jointly owned by Collett Dickinson Pearce and J Walter Thompson agencies, where he was chairman.

Launching the UK's first specialist strategic media consultancy Yershon Media Management, for several years the only agency of its kind.

Appointed advisor to the commercial sub-committee of the Football league. Proposed that games should be taken out of Saturday afternoon fixture list and split between the

BBC and ITV.
Subsequently he advised the League on the exploitation of the rights worldwide.

JIM SHAW

Jim has considerable experience of commercial broadcasting from involvement in a number of countries.

In the UK he was Director of Sales and Marketing at Thames Television.
In Europe, Asia and the USA, where he was chairman of the companies he set up to market the computerized airtime sales system he developed; along with James T Shaw, ex-VP Sales ABC Television USA and Pete Cash the ex-head of the TVB the American Television Bureau of advertising.

Whilst at Thames, chairman at one time or another of the industry committees concerned with Marketing, Finance, Research, Copy Clearance and New Technology.

He pioneered the use of commercial television by a number of industries including those for motorcars, finance and direct response.

He was a Director of the McCann Erickson advertising agency, Molinaire, a post production facilities company and SAWA, the Screen Advertising World Awards festival in France.

Founder member of the European Commercial Broadcasters Group.

He founded SKY Direct Satellite TV and was head of TV Public Relations for the British Advertising Industry.