



# **Review of television advertising and teleshopping regulation**

An IPA response to Annex 4

**May 2007**

# **Review of television advertising and teleshopping regulation**

The IPA welcomes the opportunity to make observations on the above review.

## **1 About the IPA**

The Institute of Practitioners in Advertising is the trade body and professional institute for UK advertising, media and marketing communications agencies. Our 273 corporate members, who are based throughout the country, handle over 80% of the UK's advertising worth £18 billion in 2006 (Ad. Assoc. Statistics Year Book 2007), on behalf of many tens of thousands of their client companies and organisations worldwide.

Given that our members will place in excess of 90% of the money which is spent on television, any alteration to the regulations governing TV is clearly of critical importance to us.

Having said this, we have already been in discussion with Ofcom on the issues surrounding the specific topic of advertising minutage and, to this extent, have already contributed to the review and its contents.

## **2 Scope of this response**

Having read the review in total, the IPA is in broad agreement with most of the proposals put forward by Ofcom and, rather than working through the entire document, we have concentrated our observations on the section of the paper, which deals with the economic impact of the proposals put forward. As will be seen, there is a divergence of opinion here among our members with regard to certain important areas and, in the interest of balance and fairness, we have reported both sets of views.

## **3 Specific comments on Annex 4 – Impact assessment**

*Q1A1: Do you agree with this overview of the impact of the current rules? Do you agree with our starting hypothesis that in respect of the extent to which the current rules are unlikely to impose a constraint on different broadcasters?*

Broadly, yes- although a significant number of our members disagree with the extrapolation that loosening the rules will allow broadcasters to take more revenue.

Elsewhere, our members felt a recognition that the television market is a complex “two-sided” market where advertising can be considered both a consumer “price” but also a “utility” was an important distinction to make.

They also agreed that the presence of the BBC may serve as a disciplining device. Clearly the UK is unique in major Western markets in that it has such a large, heavily resourced advertising free alternative which would undoubtedly have preventative impact on commercial broadcasters abusing the consumer with too much advertising content.

Having said this, they would like to see an acknowledgement in such a consultation of the importance of television advertising in providing not only consumers with information and choice, but also in providing producers with an efficient route to market - that access to cost efficient television advertising is as commercially important as cost efficient access to other inputs such as transportation infrastructure.

*Q1A2: Do you agree with the broad assessment of the impact on different stakeholders of changes to rules on the distribution of advertising set out in Part 2?*

Our members broadly agree.

*Q1A3: Do you consider that our optimisation approach is a reasonable approximation as to how additional advertising minutage would be used by broadcasters in practice?*

Yes, but we should also consider that broadcasters may not just look at impacts by volume, but by volume/value. E.g. there may be more impacts in local news programmes than in Champions League football, but broadcasters would first choose to place more minutage in the latter, because the audience would be more valuable to them and to advertisers, giving them a higher yield.

*Q1A4 Do you consider dividing non-PSB channels into three categories of “sold out”, “nearly sold out” and “unsold inventory” reflects the realities of the TV advertising market for non-PSB channels?*

Overall, yes, this will be the case because of the large and diverse nature of non-PSB channels.

*Q1A5: Do you agree that the assumption of no drop-off effect is a reasonable assumption to make?*

We agree that this is reasonable only at the margins - and with your conclusions that the results of the modelling should be regarded as upper estimates of the likely impact of SOCI of any positive changes in minutage.

*Q1A6: Do you consider that this range of scenarios is appropriate?*

Yes, this appears to have covered all reasonable scenarios.

*Q1A7: Is the modelling of the changes...in line with any modelling work you have carried out?*

We have not conducted any modelling. Rather, our members, as buyers of most of the UK's television airtime, have discussed the various scenarios and see no reason to dispute the modelling work you have carried out. However, they would caution on relying too heavily on the absolute numbers in these findings since the modelling clearly relies on many, albeit reasonable, assumptions. As buyers within a dynamic marketplace, but a marketplace that is distorted both by regulation and by state involvement, predicting outcomes to even small changes in regulation will be imprecise.

*Q1A8: To what extent do you think it is reasonable to assume a constant price premium in the light of changes to minutage restrictions?*

Our members are divided on this issue. For many, the constant price premium is the most reasonable, although they believe it to be more likely a CPP Plus that they see in action. Under CRR, they believe that a market has been created that is almost engineered specifically for a CPP. However the PSBs – ITV1 and Channel 4 in particular – have managed to perform above their CPP, with the gap between their NAR and SOCI shares widening each year. This is a direct result of the negotiating power they have in the market (despite CRR) and an injection of extra minutage/impacts, they believe, would only increase this negotiating power, therefore, they would expect them to outperform CPP – CPP Plus.

*Q1A9: To what extent do you think that this approach would be a reasonable modelling approach to adopt?*

Our members are also divided on this issue. For some it is inappropriate. For others, the fact that buyers have not reduced the share of advertising spend in ITV to the extent of its reduction in SOCI would suggest that the cost and price premium approach is reasonable and that you would be correct to ignore the Unitary Price Premium approach.

*Q1A10: To what extent do you think that (it) is reasonable to make use of the elasticity estimates derived from the PwC study?*

Again our members are divided on this point - with those disagreeing, rejecting the assumption that the “demand for commercial impact can be represented in the form of a downward sloping demand curve” i.e. that more impacts = more demand. This, they believe is a fundamental flaw in the model and that using long-term models is inappropriate. Rather they suggest the impact of a one-off change to ad minutage would be a one-off “windfall” of increased impact supply for a 12 month period, almost certainly followed by either impact stagnation or moderate decline, once we had cycled through that 12 month period –

and would certainly not trigger a succession of impact increases year after year. Also because this would be an “artificial” and premeditated injection of impacts anticipated by all concerned parties, rather than organic growth, they suggest that behaviours would be very different to those likely to be witnessed through long-term observation. Put simply, agencies and clients would know that more impacts were coming and they could buy the same impacts for less, and would do exactly that. To these IPA members, the prospect of the industry at large finding “new” money for the new impacts is unrealistic.

Other members suggest the PwC elasticity estimates are correct in identifying the differences between multi-channel channels, and “traditional” channels and also between long and short-term effects – stating that the market in the short term is largely inelastic, mainly due to its medium and long-term trading nature - indicating that not only are deals agreed largely on a 12 month basis, but the system of Advance Booking Deadlines (AB), where penalties are incurred for approvals after the deadline reinforces these inelasticities.

However, these members indicate that they are increasingly seeing a difference between published AB deadlines and actual trading deadlines, suggesting that the market is becoming more dynamic, and therefore more elastic. As such, these IPA members would approve the use of PwC’s elasticities as the “best estimators”.

*Q1A11: To what extent is there evidence to support the argument that an increase in advertising minutage could reduce overall advertising expenditure on TV, i.e. that the advertising market is inelastic*

Proponents of this viewpoint, state that there is no historical event similar to the one under consideration from which to draw data. However, they suggest in the 10 years from 1997 to 2007 total all adult impact supply increased by 38%, whereas TV ad revenue increased by only 24%. Also, anecdotally, when speaking to clients – and auditors - about the general issue of whether to maintain or reduce investment when TV costs fall, these members report that almost without exception, the former incline toward a reduction in investment.

*Q1A12: To what extent do you consider that these estimates of the financial impact of changes to the rules on the amount of advertising minutage provide an indication of the potential overall scale of any changes as well as the distribution of the impact between PSBs and non-PSBs?*

While most of our members would agree with the estimate of the relative performance of PSBs versus non-PSBs, there is disagreement over the assumption that there would be a resulting net increase in revenues.

*Q1A13: The discussion of the modelling approach set out above, has focused on the potential impact on different types of broadcasters. To*

*what extent could there be an impact on other stakeholders, particularly media buying agencies and their clients, the advertisers. What is the attitude of these stakeholders to changes in the volume of advertising minutage?*

Some members have expressed concern over a greater concentration of negotiating power in the hands of ITV1 and Channel 4 in particular - especially with CRR remaining in place and the two-way mechanism built in - even though CRR has only resulted in changes in one direction to date.

Giving ITV more impacts in this scenario, they suggest, would be “giving them a licence to print money”.

Other members have commented that the UK television advertising market is not only heavily regulated but has traditionally had very high prices due to the dual restriction in supply: a strong BBC taking impact supply out of the market and the inability of PSBs to set a revenue maximising equilibrium minutage (although they concede that that figure could possibly be less than the current enforced minutage). To these members, high advertising costs to producers as a result of government intervention make business more inefficient than it need otherwise be.

*Q1A14 Do the stakeholders agree with the analysis of the impact of these options on non-PSB channels?*

Broadly, yes. Although some members do not agree with the assertion in “Option 3” that “However, to the extent that such channels are doing no more than simulcasting the services of dedicated teleshopping services, this would not actually reduce visibility to access teleshopping services”. There are many advertisers in this airtime (Time Life, Orec, Direct Wines etc...) who do not run or appear on dedicated shopping channels. Consumers would, they suggest, clearly be deprived of opportunities to derive benefit from these types of advertiser should the three-hour limit be reduced.

These members have similarly stated that they would also want recognised the broadcasters’ ability to raise additional revenue from the existing three-hour limit, or from an increased limit, is considerably impeded by the interpretation of “tele shopping” in Television Without Frontiers as being transactional. Many advertisers, they suggest, who utilise the long-form format in Europe and other markets are not able to do so in the UK because of this very specific interpretation. For example, a mail-order catalogue company cannot demonstrate its products and ask for consumers to call for the catalogue. Relaxing this regulation, they state, would have a significant and positive impact on the market.

*Q1A15 Do stakeholders agree with our analysis of the impact on PSB channels of these three options?*

Yes.

For further comment and information, please contact:

Jim Marshall	Chairman, IPA Media Futures Group	<a href="mailto:jmarsall@uk.starcomww.com">jmarsall@uk.starcomww.com</a>
Andy Jones	IPA Media Futures Group member with special responsibility for TV trading	<a href="mailto:Andy_Jones@universalmccann.com">Andy_Jones@universalmccann.com</a>
Andy Sloan	IPA Media Futures Group member with special responsibility for direct marketing	<a href="mailto:andy.sloan@allresponsemedia.com">andy.sloan@allresponsemedia.com</a>



Institute of Practitioners in Advertising  
44 Belgrave Square, London SW1X 8QS  
*telephone: 020-7235 7020 fax: 020-7245 9904*