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COMPETITION ISSUES IN TELEVISION AND BROADCASTING

Contribution from Israel

-- Session II --

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COMPETITION ISSUES IN TELEVISION AND BROADCASTING

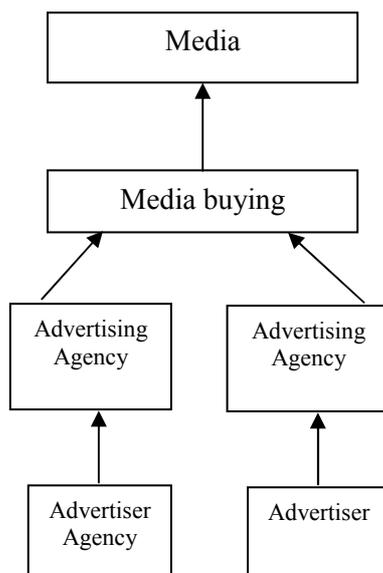
-- Israel --

Position paper regarding joint purchasing of television airtime: Introduction

1. Four TV channels operate in Israeli commercial television broadcasts. Most of the television channels' revenues come from selling airtime to advertisers.
2. Television channels are characterized by high fixed costs, which are relatively constant, at least in the short term, and are unaffected by the number of viewers or by the amount of airtime sold. Consequently, loss of revenue from ads cannot be compensated by a similar reduction in expenditure.
3. The maximum amount of broadcasting minutes designated for advertisement is set by a market-specific regulator. Hence television channels cannot increase the number of advertising minutes per day.¹ In contrast, they may – and indeed do – sell fewer advertising minutes than the maximum set by the regulator in order to keep advertising prices high.

1. The advertising field

4. The advertising field is comprised of four segments: advertisers, advertising agencies, media buying and planning companies and the media.
5. Following is a graphic representation of the link between the different segments of the advertising field:



¹ For example, the total advertising time in prime time cannot exceed 32 minutes.

1.1 Advertisers

6. An advertiser is an entity that uses media channels to promote awareness to its products or to enhance its branding.

1.2 Advertising agencies

7. The advertising agency is in charge of the planning, the strategy and the creative aspects (for simplicity we will call these activities “the creative field”).

8. At the first stage, the advertising message is planned. During that time the data regarding the advertised product or service as well as relevant worldwide trends are collected. At the end of this process the advertising strategy, i.e. the advertising message to be conveyed through the commercial, is formulated. In the second stage, the advertising strategy is translated into a creative idea, and eventually the advertisement is produced as a video clip.

9. The creative field in Israel is characterized by a multiplicity of competitors. Alongside the ten leading advertising agencies, which constitute over 40% of the market, there are dozens of small advertising agencies whose market shares do not exceed 1 percent. The financial investment required to enter the market is relatively low, but an agency has to acquire a strong reputation to attract advertisers, particularly if these advertisers are large.

1.3 Media buying and planning

10. Media buying and planning companies (for simplicity we shall call them: “media buying companies”) are involved in planning and buying media space or airtime, for the purpose of increasing exposure to the target audience of the advertisement.

11. The process of media buying includes three main stages: At the first stage, the media buying company recommends to the advertiser the best media channels for the campaign. Usually two main media channels are selected. At the second stage, the advertising mix among the media channels is selected and the commercial’s location in each of the media channels is chosen (e.g., broadcasting timeslots or specific shows) for the purpose of reaching the highest possible exposure rates among the target audience for a given budget. At the final stage, the media buying company purchases advertisement space or airtime from the different media channels (e.g., airtime on television or radio, a page in a newspaper or billboard space). The goal of a media buying company is to plan and purchase media in an optimal way, so that the advertising message will reach the largest number of viewers or listeners within the target audience, subject to the advertisement budget.

12. Larger media buying company enjoy improved bargaining power in negotiations with media channels over commercial prices and locations.

13. Another size-related advantage stems from the media buying company’s ability to offer the advertiser more flexible planning. In particular, a large media buying company is typically able to offer attractive media locations on short notice because it can manage internally the slots allocated to its advertisers.

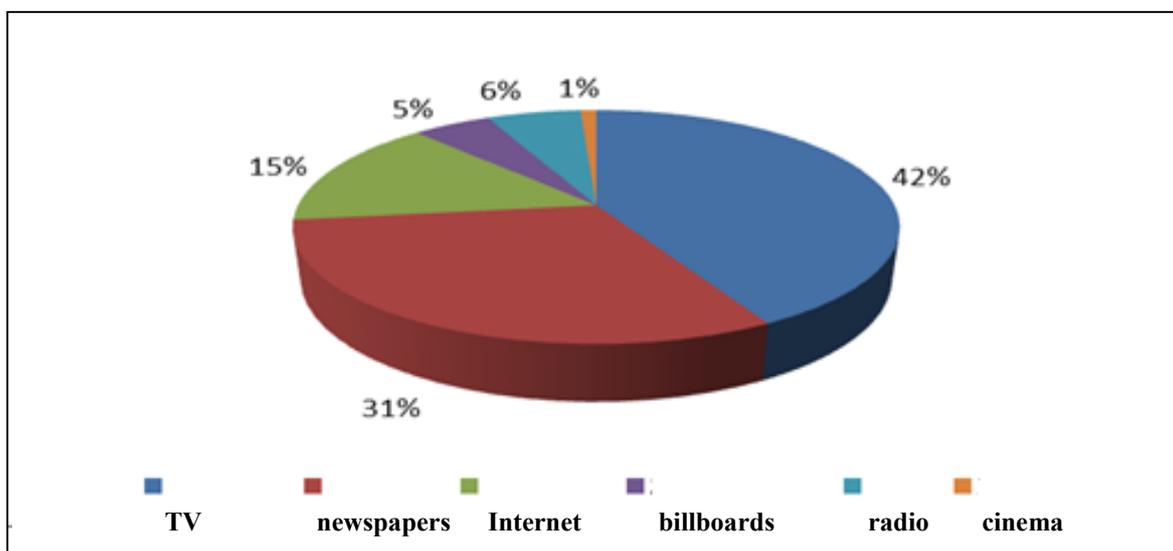
14. Concentrating several media buying activities under one purchasing company can also save on transaction costs. Instead of every advertising agency hiring its own staff to handle the planning, negotiations and purchasing, several agencies can use a joint buyer of media in order to save on these costs. This particular advantage is reached, however, even with a relatively modest size of the media purchasing company.

1.4 Media

15. Media channels are the different communication channels used to convey information to the public. The media channels that serve as advertising platforms are television, radio, newspapers, billboards, cinema and the Internet. Different advertisers can view them as substitutes or as complements, depending on the type of commercial, the target audience, the scope of the investment in the advertising campaign, etc.

16. As illustrated in the following diagram, television advertisement has the largest scope, with about 42% of the total advertisement field. The second largest media, newspapers, comprises of approximately 31% market share, and in third place is the Internet, with approximately 15%. The advertising scope of the rest of the media channels is only a few percentage points.

The rate of the financial advertising scope of different media channels from the total amount of advertising in the year 2011



2. The structure of the media buying field

17. The media buying field is characterized by far fewer competitors compared to the number of advertising agencies. In this field there are six companies that purchase media from all of the media channels: a large company with a market share of over 30%, three medium-sized companies with market shares between 14% - 18%, and a small company with a market share of a few percentage points. In addition, there are a few advertisers or advertising agencies that purchase media directly from the media channels, without the assistance of media buying companies.

18. As described in what follows, each media buying company, except for one, is vertically integrated with large advertising agencies. Typically, such vertically integrated media companies serve their affiliated advertising agencies as well as other advertising agencies. Accordingly, there are three models of media buying companies:

1. A media buying company affiliated with a single advertising agency that purchases media for this agency as well as for a number of other advertising agencies that are not affiliated with the media buying company.

2. A media buying company affiliated with several advertising agencies that purchases media for them and for other agencies.
3. A media buying company that purchases media for advertisers and advertising agencies and is not affiliated with an advertising agency.

19. As stated above, most of the media buying companies in Israel operate based on the first or second models.

20. Most advertisers buy both creative services and media buying services from the same entity. An advertiser typically selects the advertising agency that offers him the best combination of creative services and media prices. In practice, only a small number of clients split the creative and media buying services between two different entities, and these are mostly either advertisers with extremely large advertising budgets or international companies. In addition, there is evidence that often an advertising agency will refuse to provide creative services to clients who do not buy media through them.

21. Media buying companies aspire to increase the scope of their purchasing in order to enhance their bargaining power and purchase media for reduced prices. As a result, a few requests to approve joint media buying by different companies were submitted to the Israel Antitrust Authority ("IAA").

3. Television media buying

22. The field of television media buying is distinguished from media buying in other media channels, for at least two reasons:

- First, television is a popular medium to expose ads to consumers and allows the advertiser to present an audio-visual commercial to a large target audience.
- Second, some of the public consumes information solely through television and does not use other forms of media, such as radio and newspapers. For this reason, advertisers interested in conveying an advertising message to the general public are typically encouraged to use television in addition to other forms of media.

23. In the media buying field, television channels usually reward the media buying companies for large purchases: They pay commissions to the media buying companies for reaching yearly purchasing targets. The size of these commissions, and the price per rating point paid by the media buying company to the television channel in general, is unknown to the advertisers, and commissions or discounts are not fully passed through to advertisers.

4. Past decisions in the media buying field and challenges ahead

24. Several proposed partnerships among media buying companies have been submitted to the IAA over the years.

25. Starting in the year 2000, several of these requests were approved by the IAA. The grounds for approval, inter alia, were that the media buying market was not concentrated enough at the time to raise concerns.

26. In 2008, the IAA refused to extend its approval of one of these partnerships. A careful examination of the relevant markets demonstrated a reasonable probability for accumulation of market power by media buying companies. The partnership under consideration had a relatively high market share of approximately 40%. The examination revealed an increase in the media purchasing market

concentration and in the commissions paid by the television channels. Specifically, the large media buying partnerships had become larger and a few small media buying companies had exited the market.

27. Currently, the IAA is faced with another request for cooperation between two media buying partnerships, which jointly purchased approximately 22% of television air time in 2011. Because many distinguishable advertisers are unable to purchase airtime directly from the media (particularly due to the discounts and commissions a media buying company can get from television channels but also due to advantages in planning and monitoring of campaigns), airtime purchasing through a media buying company can be defined as a distinct market. Under this market definition, the market share of the joint project in 2011 was approximately 29%.

28. This request, which is still pending, raises a few important issues that the IAA needs to consider. Most importantly, higher concentration in the media buying market is expected to raise the companies' market power vis a vis television channels.

29. This concern is magnified due to the television channels' cost structure. As mentioned, television channels are characterized by an inflexible cost function, which cannot change in the short term, even when the income of the television channel is substantially decreased. Therefore, large media buying companies have the ability of diverting advertisements from one television channel to the other in a manner that can pose a real threat to the channel.

30. Since the media buying partnerships also jointly sell airtime to advertisers and unaffiliated advertising agencies, a concentrated media buying market can also translate into increased market power vis a vis advertisers and advertising agencies. The likely outcome of such market power is that discounts and commissions received by large media purchasing companies are unlikely to be passed through to advertisers and unaffiliated advertising agencies.

31. Due to the vertical integration between the large media buying partnerships and their affiliated advertising agencies, it is also important to examine whether unaffiliated advertising agencies may be harmed by the increased market power of the media buying partnerships.

32. Additionally, expansion of media buying companies through partnerships allows them to increase their bargaining power without needing to compete over unaffiliated advertising agencies in order to expand. This may weaken their incentives to compete with each other on serving unaffiliated advertising agencies. The result is that less discounts and commissions are expected to be passed on to unaffiliated advertising agencies, and ultimately, to advertisers.