

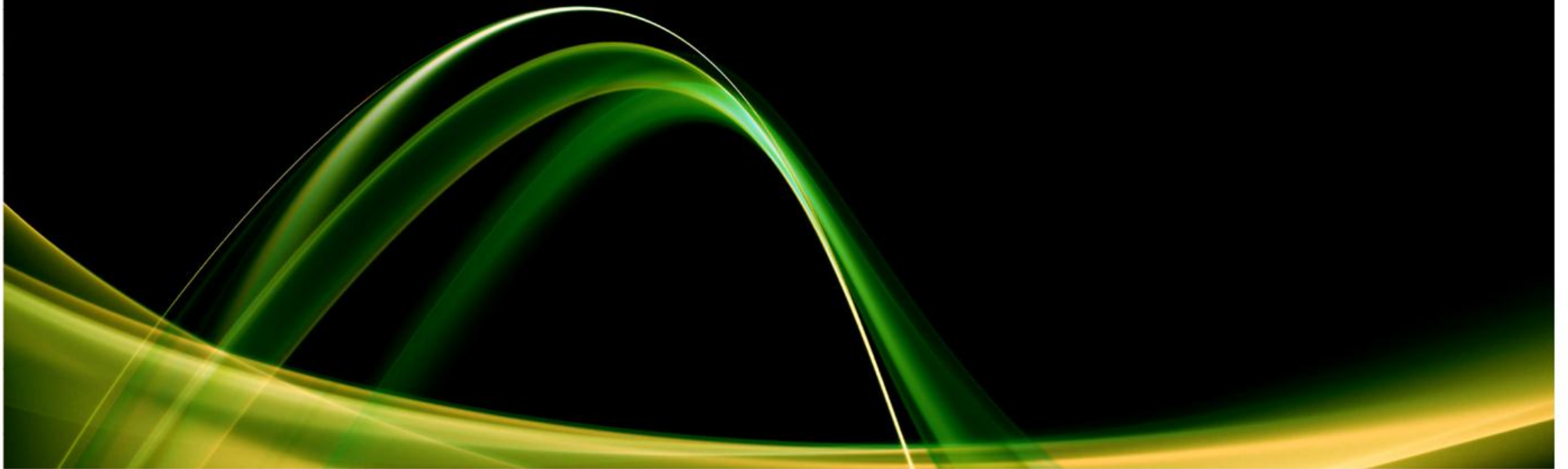


Advisory

A comparison of international television advertising markets

A report by Oliver & Ohlbaum Associates for ITV plc

3rd August, 2011



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Section 2: How has the price of TV airtime evolved in major markets?

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Executive summary

Key findings



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There is no evidence to suggest that the structure of the UK television advertising market and its particular trading practices have led to a lack of competition, price inflation or consumer harm relative to other major developed markets

On the contrary, the UK appears to be among the most competitive TV advertising markets. The average price of television airtime has fallen faster and further in the UK than in any other major market and there are more major sales houses than in all other markets, with the exception of the US

At the same time, the UK TV market is characterised by a high level of investment in indigenous original programming relative to other major markets and the supply of indigenous channels is among the highest of the major developed markets

How has the price of TV airtime evolved in major markets?

- The average price of television airtime in the UK fell by 32% in nominal terms from 2000 to 2010. This decline in average price is a greater decline in price than can be seen in any other major developed market
- The fall in UK average airtime prices is in stark contrast to the US, Canada, Spain and the Netherlands which have all seen the average price of airtime increase since 2000
- This trend is mirrored for the main terrestrial commercial network segment in the UK (ITV1, Channel 4 and Five combined) which has also seen prices fall further and faster than the main networks in most other major markets
- The combined major broadcast network channel CPT premium over the total market average CPT is lower in the UK than the average network premium in all other major developed markets, apart from Germany

Is the TV airtime sales market different in the UK?

- The UK is highly competitive in terms of TV advertising sales points – the UK has a greater number of major sales houses (4) than all other major markets, with the exception of the US

Is there any evidence of consumer harm in the UK?

- There is no evidence of consumer harm arising from the model of airtime trading in the UK and the practices of major broadcast sales houses
- Consumption levels are high and the UK has a greater number of indigenous channels than all other markets, by comparison with other major developed markets
- The UK is one of the world's largest indigenous content markets in terms of total investment and has a greater spend per capita than all other major markets apart from Japan and Canada

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How has the price of TV airtime evolved in major markets?

Summary



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The average price of television airtime in the UK fell by 32% in nominal terms from 2000 to 2010. This decline in average price is a greater decline in price than can be seen in any other major developed market

The fall in UK average airtime prices is in stark contrast to the US, Canada, Spain and the Netherlands which have all seen the average price of airtime increase since 2000

This trend is mirrored for the main terrestrial commercial network segment in the UK (ITV1, Channel 4 and Five combined) which has also seen prices fall further and faster than the main networks in most other major markets

Although ITV1, Channel 4 and Five trade at a combined premium above the UK market average, this premium is lower than the major network premia in all other major developed markets, with the exception of Germany

How have recent total market price and volume trends in the UK compared to other major markets?

- The supply of impacts in all markets has grown strongly since 2000, but in recent years supply has grown more strongly in the UK than in any other major developed market
- The average price of television airtime has fallen further and faster in the UK than in any other major developed market
- The market average CPT in the UK fell by 32%, in nominal terms, from 2000 to 2010

How have major commercial network price trends in the UK compared to other markets?

- The average price of airtime for the major commercial terrestrial networks in the UK has fallen further and faster than in most other major markets, mirroring the relative fall in price for the total market
- Similarly to the UK, both Canada and Germany have seen prices for its major commercial networks fall by approximately the same amount as the UK since 2000
- The combined major broadcast network channel CPT premium over the total market average CPT is lower in the UK than the average network premium in all other major developed markets, apart from Germany
- All three of the major network broadcasters in the UK have seen nominal CPT price falls from 2000 to 2010
- By contrast, at least one or more of the major networks in each of the US, Spain, France, Italy and the Netherlands have seen CPT prices rise from 2000 to 2010

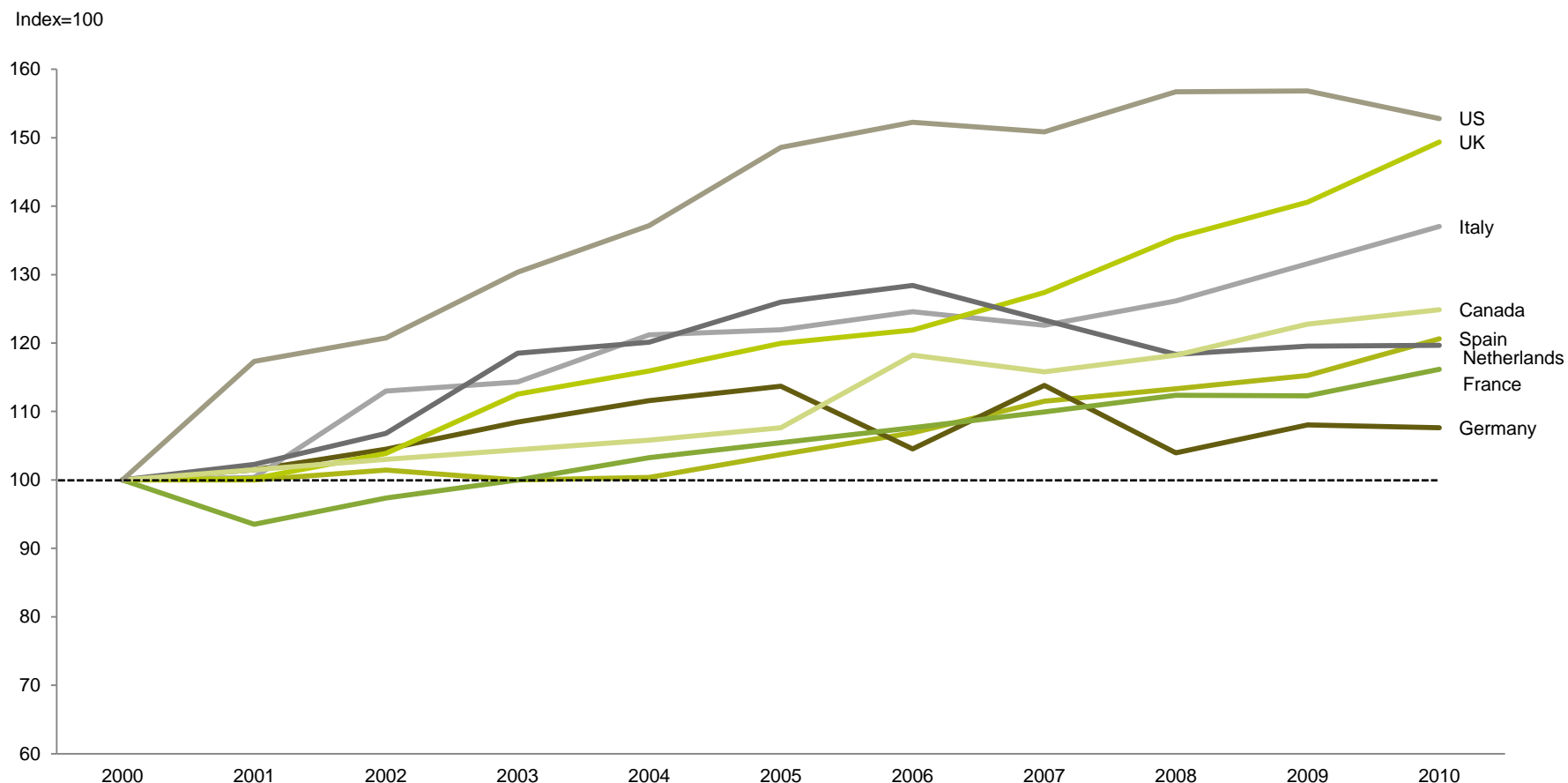
How has the price of TV airtime evolved in major markets?

Inventory supply



The supply of impacts* in all markets has grown since 2000 – since 2005 the supply of impacts has grown more strongly in the UK than in any other major developed market

Index of total television market all adults impacts sold by country, 2000-2010*



Note: *equivalent thirty second duration weighted adult impacts, calculated on a normalised basis for all markets and assuming a 100% sell out rate
See Appendix for detailed methodology outline

Source: See Appendix for full list of sources by country, Oliver & Ohlbaum Analysis

How has the price of TV airtime evolved in major markets?

Change in market average CPT



The average price of television airtime has fallen further and faster in the UK than in any other major developed market – the market average CPT in the UK fell by 32%, in nominal terms, from 2000 to 2010

Index of the total television market average all adults CPT by country, 2000-2010



Note: ARD 2010 revenue is an Oliver & Ohlbaum estimates, US cable networks are a sample size of 75% of total cable network ad revenues
See Appendix for detailed methodology outline

Source: See Appendix for full list of sources by country, Oliver & Ohlbaum Analysis

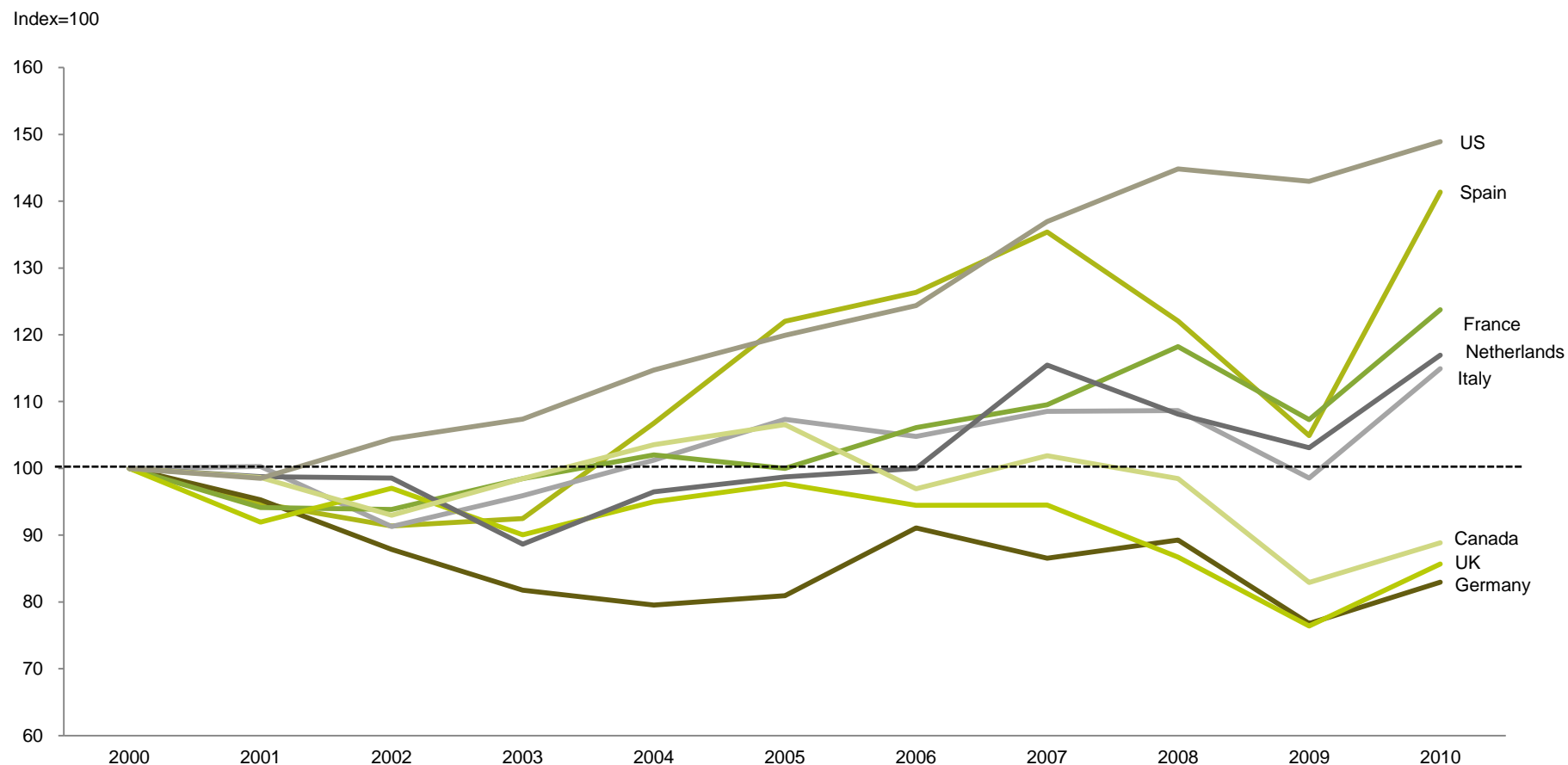
How has the price of TV airtime evolved in major markets?

Change in combined major networks CPT



The average price of airtime on the major commercial networks in the UK has also fallen further and faster than most major markets, with the exception of Germany

Index of combined major commercial broadcast networks all adults CPT by country, 2000-2010



Note: ARD 2010 revenue is an Oliver & Ohlbaum estimates, US cable networks are a sample size of 75% of total cable network ad revenues
See Appendix for detailed methodology outline

Source: See Appendix for full list of sources by country, Oliver & Ohlbaum Analysis

How has the price of TV airtime evolved in major markets?

Network price premia – channels included as major commercial networks



When considering the major network channels' premium versus the total market average price in each market, only major commercial networks which *do not* receive public funding and *without* significant minutage restrictions are included

Broadcaster groups and channels included in assessment of major commercial network CPTs

COUNTRY	CHANNELS INCLUDED AS "MAJOR COMMERCIAL BROADCAST NETWORKS"	OTHER NETWORKS NOT INCLUDED	RATIONALE FOR NETWORK EXCLUSIONS
Italy	<ul style="list-style-type: none"> MEDIASET 	<ul style="list-style-type: none"> RAI 	<ul style="list-style-type: none"> Low ad minutage and significant public funding
Germany	<ul style="list-style-type: none"> RTL, PRO7SAT1 	<ul style="list-style-type: none"> ARD, ZDF 	<ul style="list-style-type: none"> Low ad minutage and significant public funding
France	<ul style="list-style-type: none"> TF1, M6 	<ul style="list-style-type: none"> FRANCE TELEVISION 	<ul style="list-style-type: none"> Low ad minutage and significant public funding
UK	<ul style="list-style-type: none"> ITV1, CHANNEL 4, FIVE 	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> n/a
Spain	<ul style="list-style-type: none"> TELECINCO, ANTENA3, LA SEXTA, CUATRO 	<ul style="list-style-type: none"> RTVE 	<ul style="list-style-type: none"> No advertising sold after 2009 and significant public funding
Netherlands	<ul style="list-style-type: none"> RTL, SBS 	<ul style="list-style-type: none"> NOS 	<ul style="list-style-type: none"> Low ad minutage and significant public funding
Canada	<ul style="list-style-type: none"> CTV, TVA, TQS 	<ul style="list-style-type: none"> CBC, SRC 	<ul style="list-style-type: none"> Significant public funding
USA	<ul style="list-style-type: none"> FOX, NBC, CBS, ABC 	<ul style="list-style-type: none"> My Network TV, The CW, UPN, The WB 	<ul style="list-style-type: none"> Minor networks with limited national reach

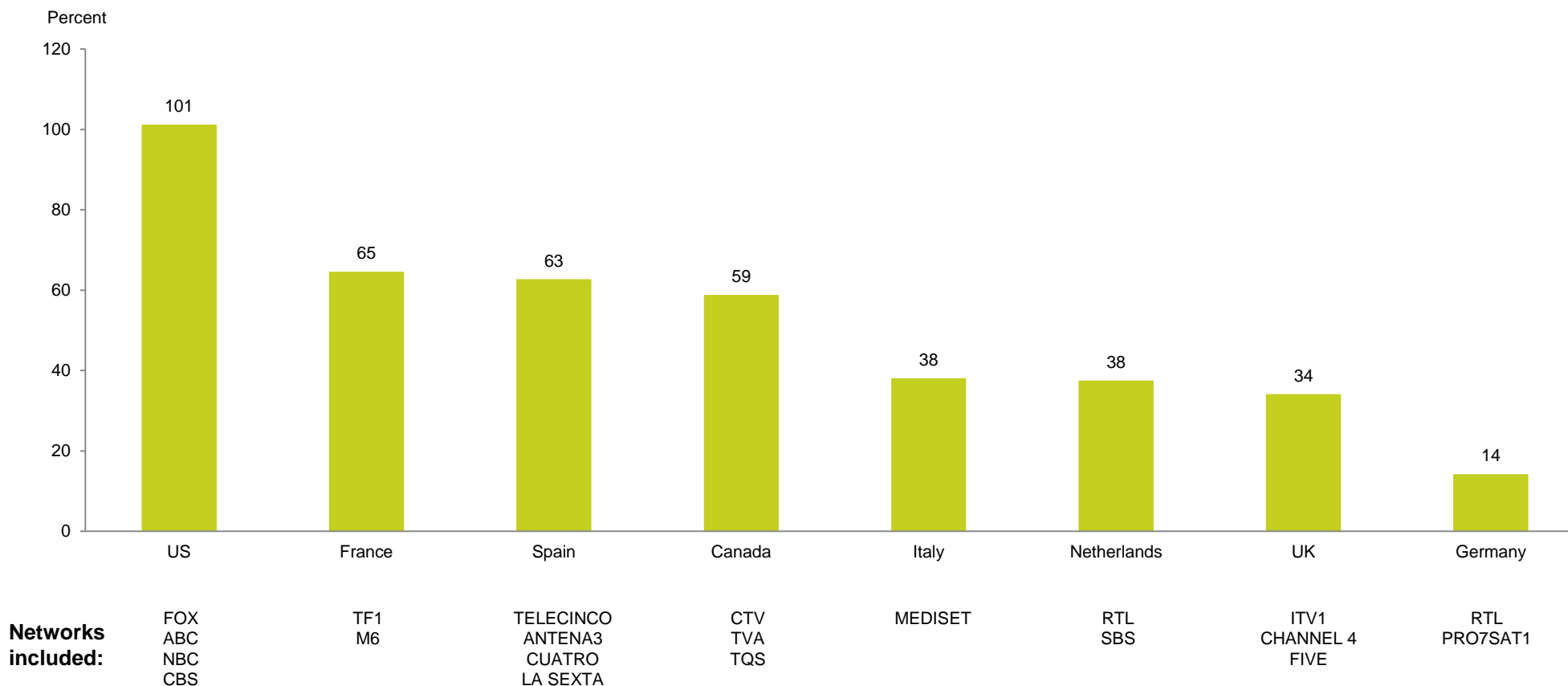
How has the price of TV airtime evolved in major markets?

Network price premia



The UK's major commercial networks combined command a relatively low price premium above the total market average CPT, by comparison with the major commercial networks in other markets

Combined major commercial broadcast networks all adults CPT premium above the total market average by country, 2010



Note: ARD 2010 revenue is an Oliver & Ohlbaum estimates, US cable networks are a sample size of 75% of total cable network ad revenues
See Appendix for detailed methodology outline

Source: See Appendix for full list of sources by country, Oliver & Ohlbaum Analysis

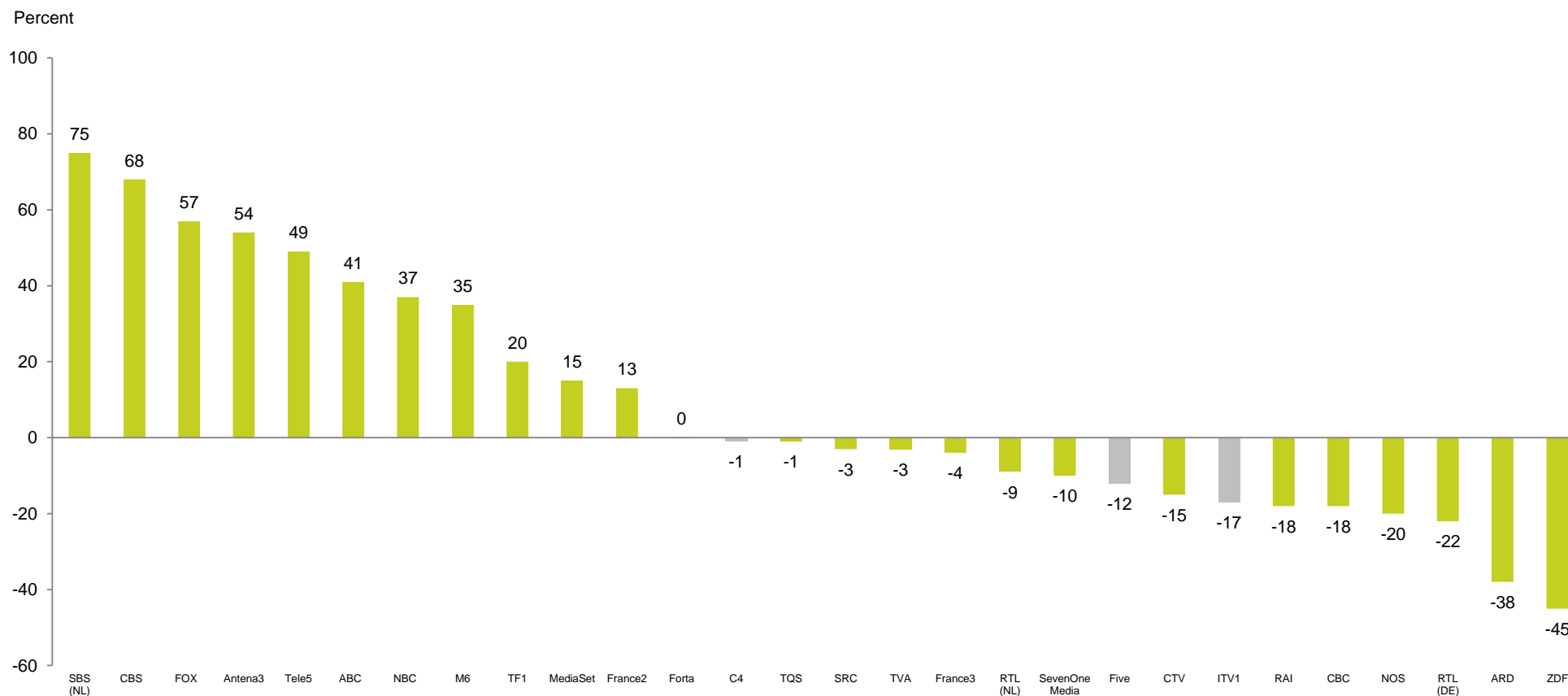
How has the price of TV airtime evolved in major markets?

Major network broadcaster's change in CPT



All three of the major network broadcasters in the UK have seen a nominal CPT price fall since 2000 – by contrast, at least one or more major networks have increased prices in the US, Spain, France, Italy and the Netherlands since 2000

Absolute percentage change in major commercial network broadcaster all adults CPT, 2000-2010



Note: ARD 2010 revenue is an Oliver & Ohlbaum estimates; RTVE, Cuatro and La Sexta are not included because they launched after 2000

Source: See Appendix for full list of sources by country, Oliver & Ohlbaum Analysis

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Is the TV airtime sales market different in the UK?

Summary



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The UK is highly competitive in terms of TV advertising sales points by comparison with other markets – there are four major TV airtime sales points which is more than in all other major markets, with the exception of the US and Spain

How does the TV airtime sales structure in the UK compare to other major markets?

- On the sales side the UK has a highly competitive structure with 4 major players and 12 smaller houses – only the US has more major sales points
- Although ITV has a large share of the UK TV advertising market it is by no means an exception – the leading sales houses in both France and Italy have a higher share than ITV does in the UK
- The UK TV airtime sales sector is less concentrated than the sales sector in Italy, Germany and France (using a Herfindahl-Hirschman Index measure)

Is the TV airtime sales market different in the UK?

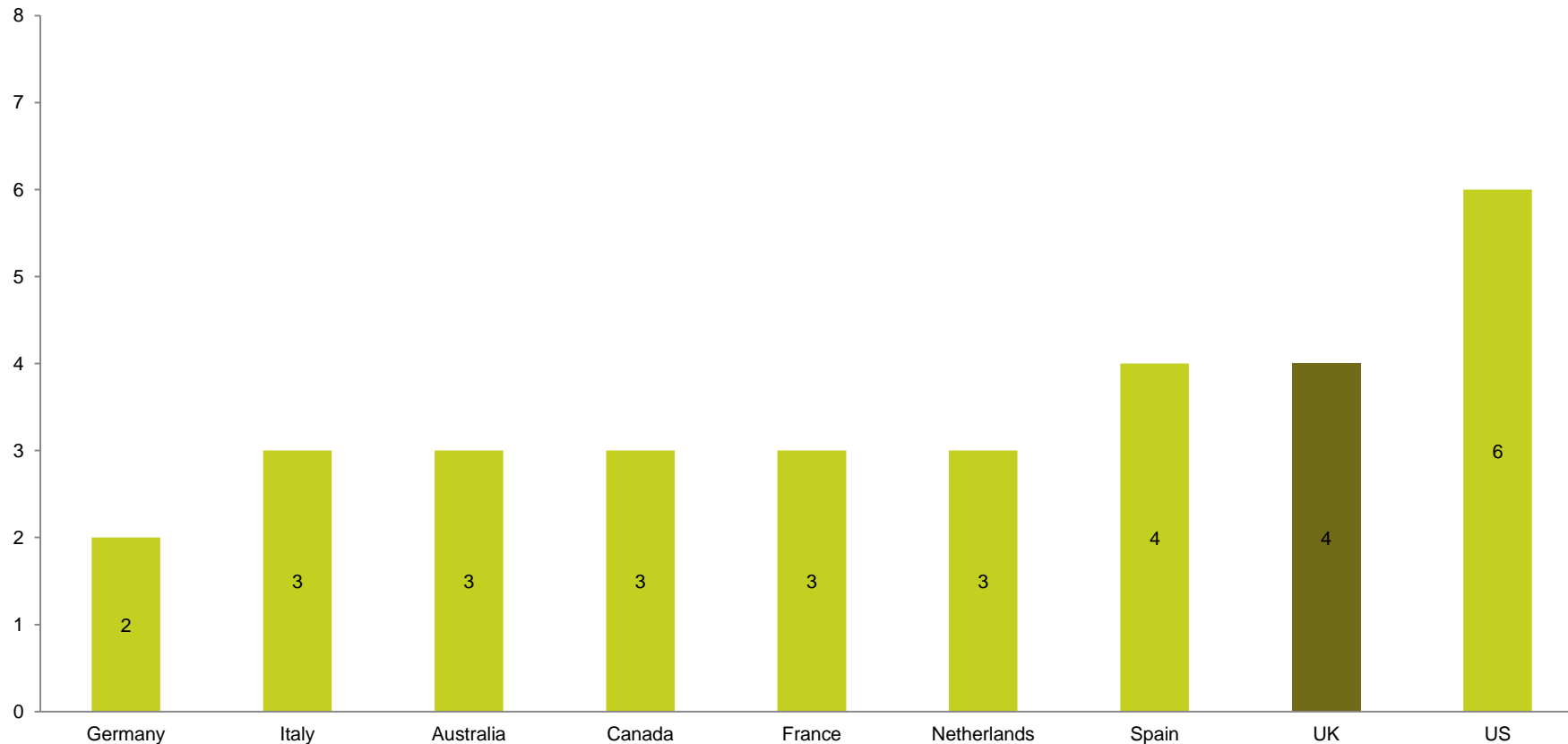
Major TV sale houses



On the sales side the UK has a highly competitive structure with 4 major players and 12 smaller houses only the US has more major players

Number of major sale houses by market, 2009

Sale houses



Note: Major sale houses are defined as those having a market share of more than 5% of total market revenues

Source: CEASA, TNS, W&V Spots, Fairbrother Lenz Eley, Oliver & Ohlbaum Analysis

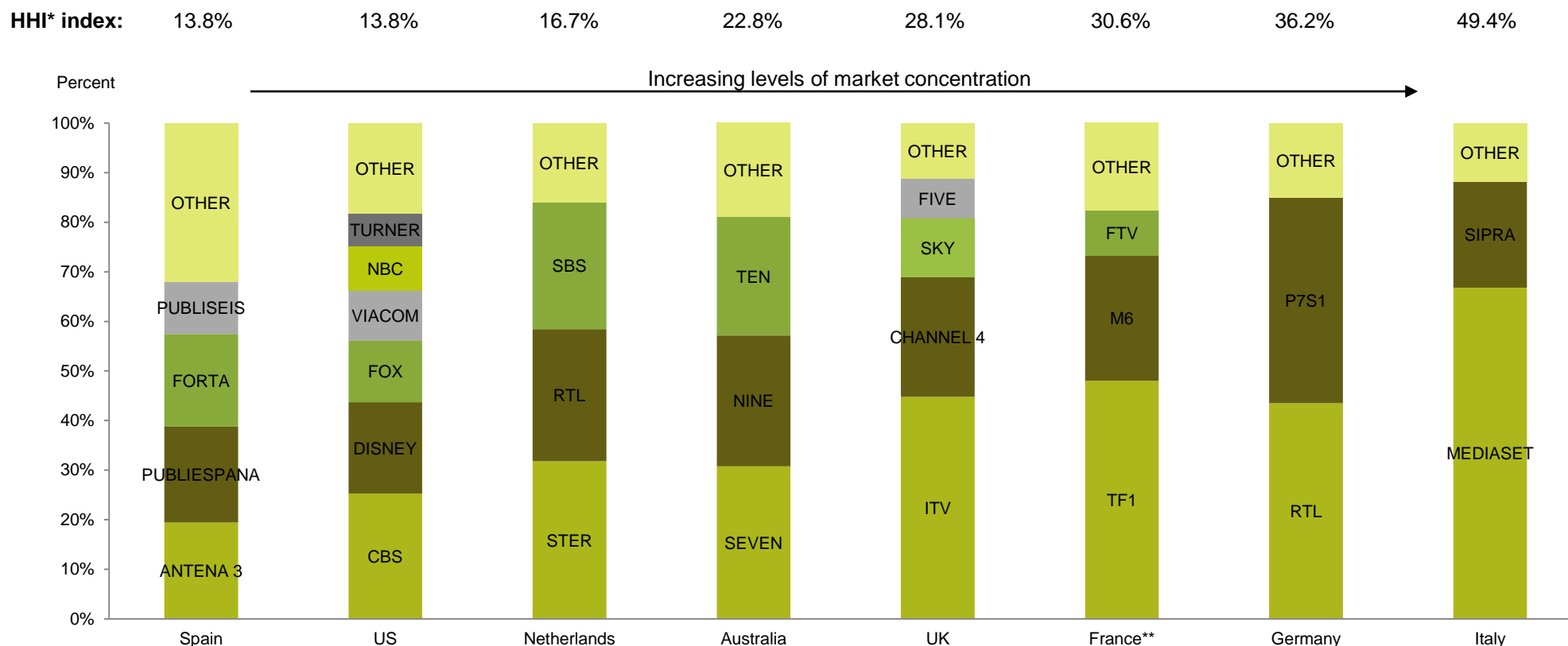
Is the TV airtime sales market different in the UK?

Market power of TV sale houses



The UK TV airtime sales market is not particularly concentrated and while ITV has a large share of the UK TV advertising market it is by no means an exception: both TF1 and MediaSet have a higher share than ITV does in the UK

Market share of TV airtime sale house gross advertising revenues by market and ranked by concentration ratio*, 2009



Note: *the concentration ratio used is a Herfindahl index, also known as Herfindahl-Hirschman Index or HHI, a measure of the size of firms in relation to the whole industry and an indicator of the level of concentration in the market (index of 0-100%: the higher the index the more concentrated the market). The Herfindahl index has been calculated based on an assumption that the share of small sale houses is split equally amongst all small sales houses.

**France data is based on DTT channel gross ad revenues only

Source: CEASA, TNS, W&V Spots, Fairbrother Lenz Eley, Oliver & Ohlbaum Analysis

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Is there any evidence of consumer harm in the UK?

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There is no evidence of consumer harm arising from the model of airtime trading in the UK and the practices of major broadcast sales houses

Consumption levels are high and by comparison with other major developed markets the UK has a high number of major broadcast network owners and a greater number of indigenous channels than all other markets

The UK is one of the world's largest indigenous content markets in terms of total investment, and has a greater spend per capita than all other major markets, apart from Japan and Canada

Levels of viewing and the supply of channels:

- Levels of television viewing in the UK are healthy and broadly similar to other major developed markets
- By comparison with other major developed markets, the UK has a high number of major broadcast network owners
- The UK has a high number of TV channels and the highest number of indigenous channels – this demonstrates that there are few, if any, barriers to successful entry into the UK channels market

Investment in original indigenous content:

- The UK is one of the world's largest indigenous content markets in terms of total investment
- The UK has an especially high level of spend on originations per capita, relative to other major developed markets
- 48% of all original content investment in the UK is by advertising funded commercial network channels – this is a higher proportion than all markets apart from the US and Spain (where the public service broadcasters are underfunded by comparison with other major markets)

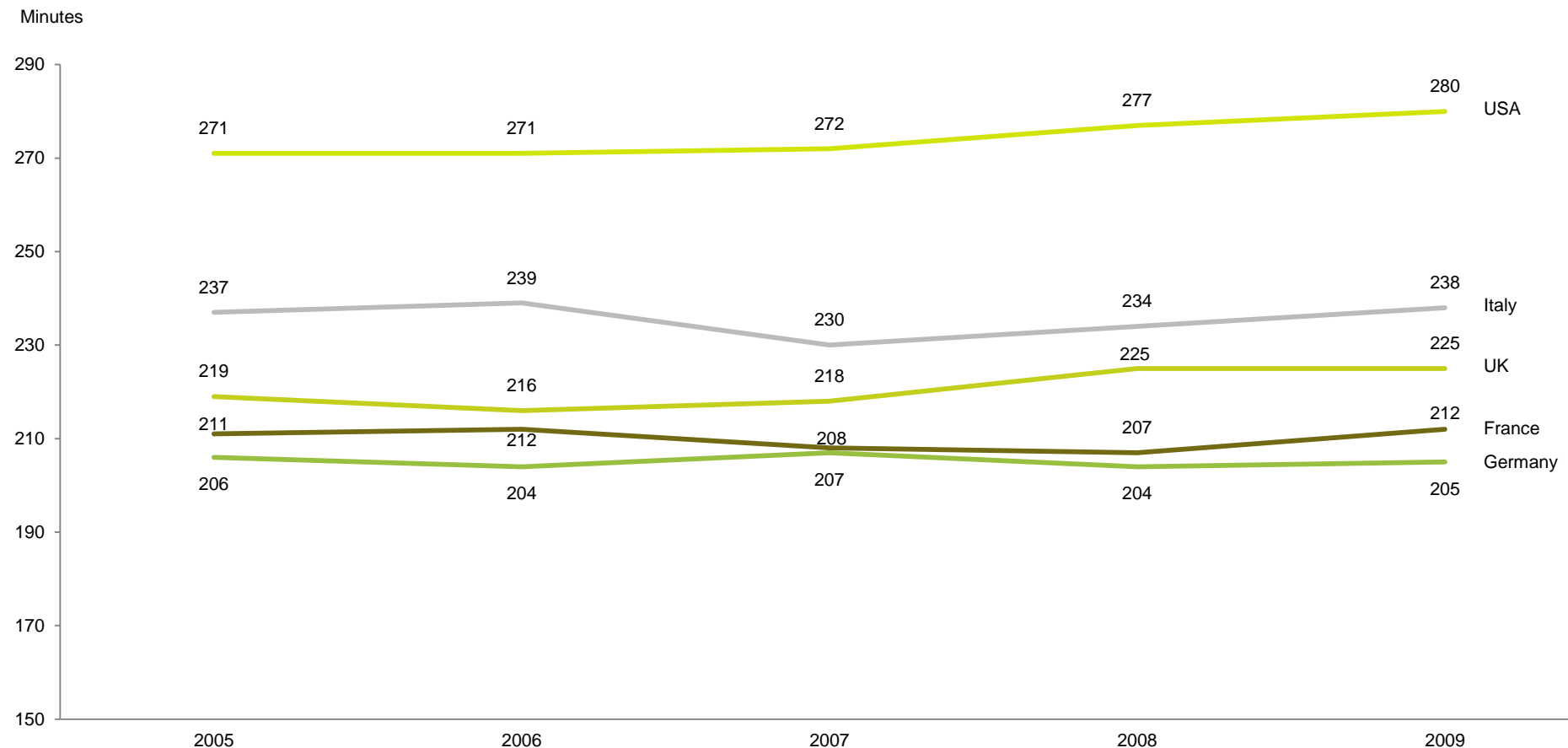
Is there any evidence of consumer harm in the UK?

TV viewing habits over time



Levels of television viewing in the UK are broadly similar to other major developed markets and have grown slightly in the last few years

Average daily individual television viewing, 2005-2009



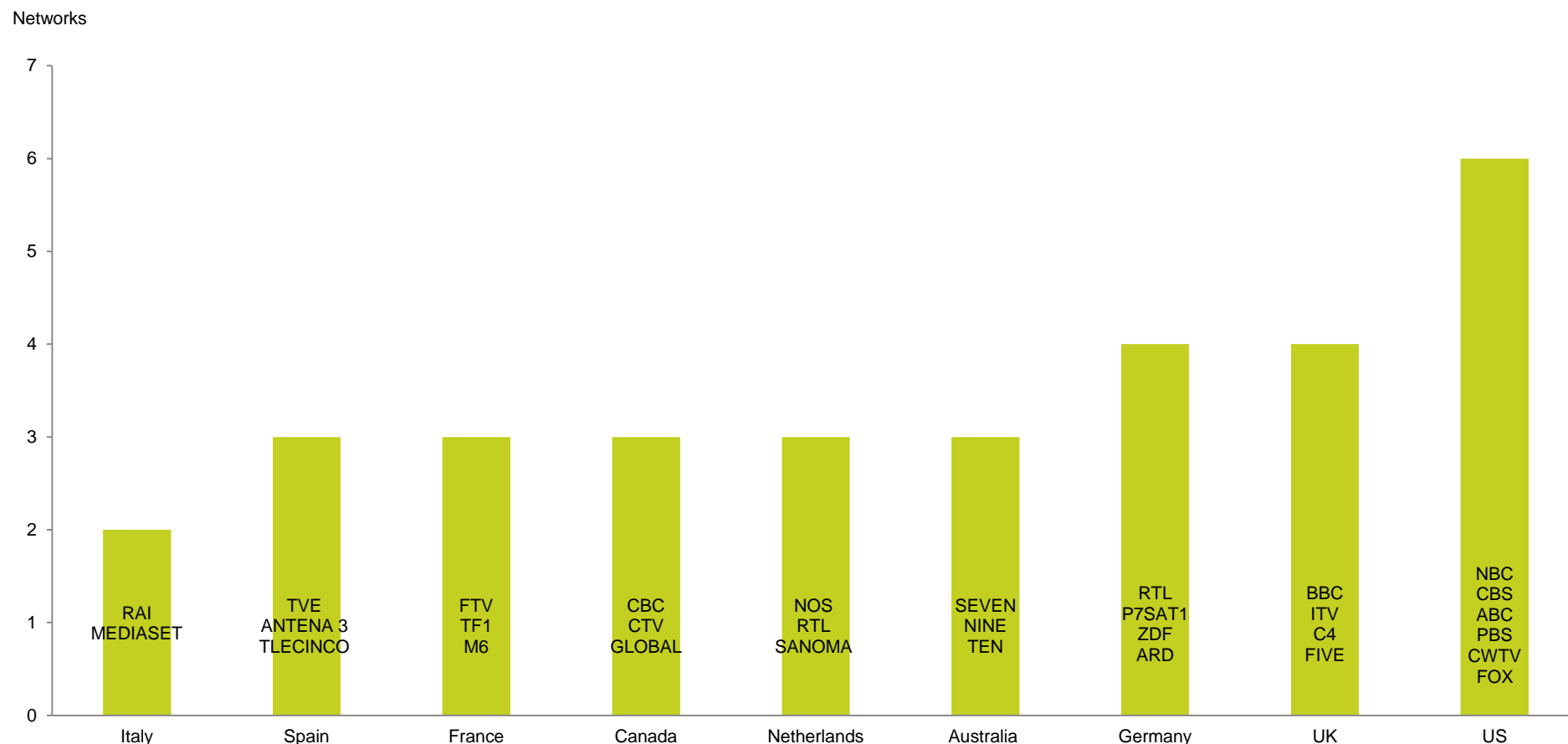
Is there any evidence of consumer harm in the UK?

Major terrestrial broadcasters



By comparison with other major developed markets, the UK has a high number of major broadcast network owners

Number of major terrestrial broadcast groups / owners*, 2011



Note: *some groups own more than one network

Source: Oliver & Ohlbaum Analysis

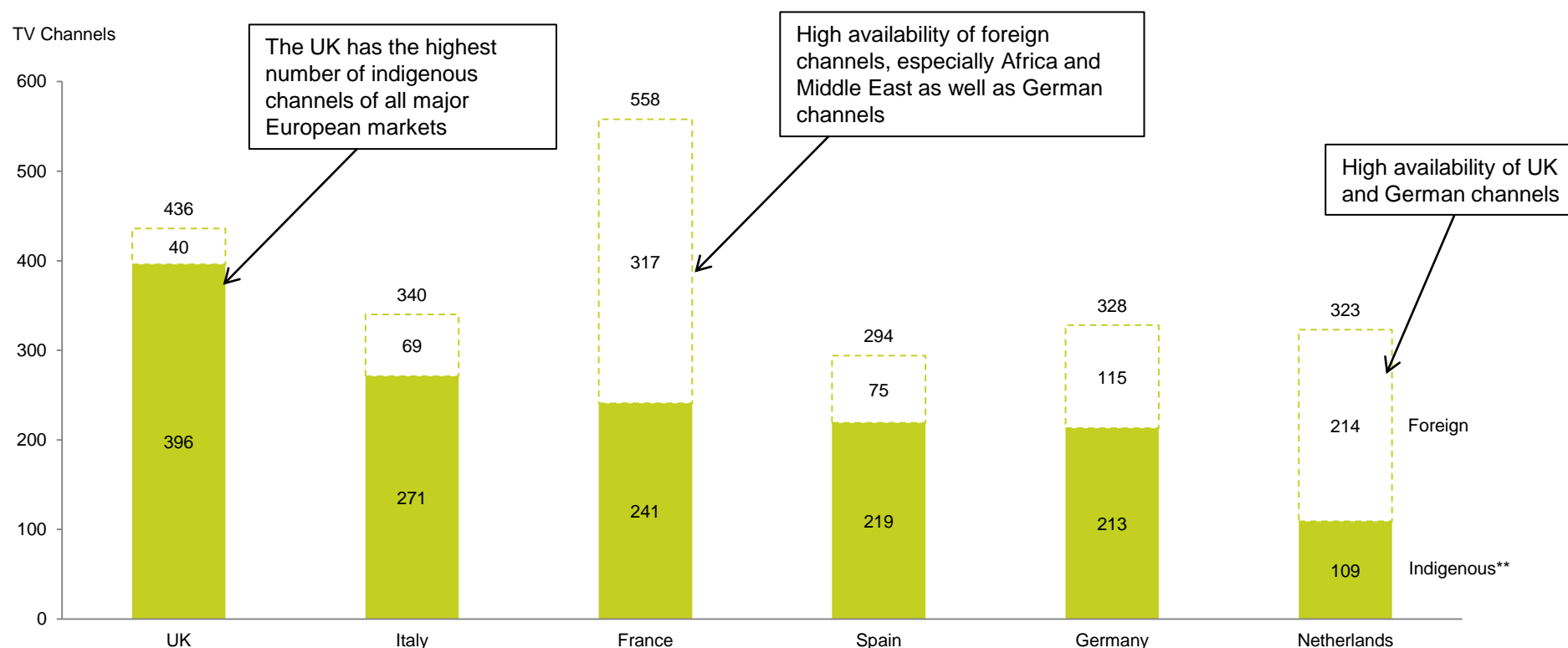
Is there any evidence of consumer harm in the UK?

Indigenous and foreign channels



The UK has the highest supply of indigenous channels of all major European* markets – this demonstrates that there are few, if any, barriers to successful entry into the UK channels market

Total number of TV channels by market by type**, 2011



Note: *Data not available for the USA or Australia
 *HD simulcast and +1 channels are not included in the sample
 *Channel genres excluded: adult channels, games, betting & lottery channels, home shopping & promotional channels, regional, local or window channels
 **The OBS Mavise database consists of a complete survey of over 7 000 pan-European, national, regional or local channels broadcast in the EU and two candidate countries (Croatia, Turkey) – the indigenous definition refers to the “main targeted country” question of the survey

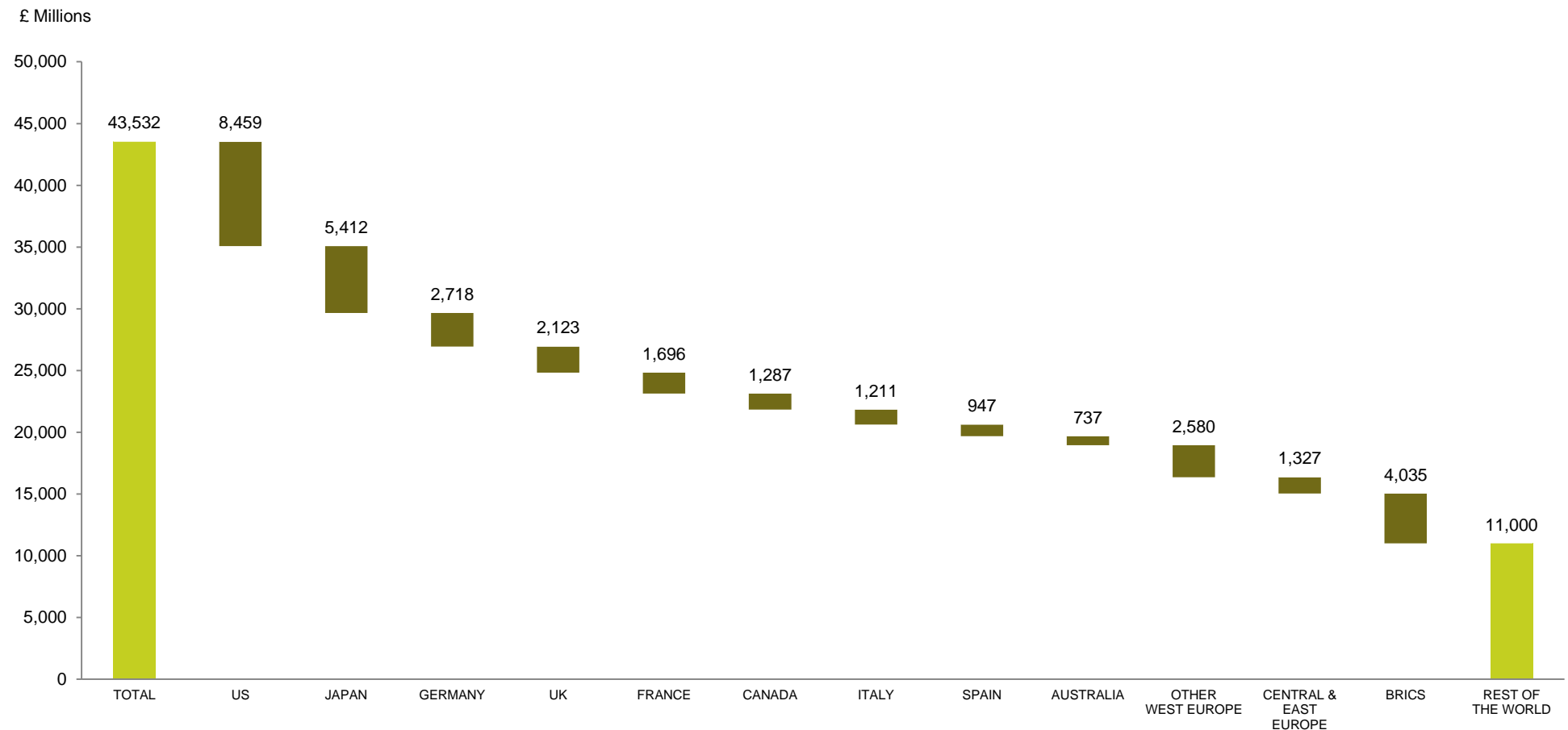
Is there any evidence of consumer harm in the UK?

Top originated content markets



The UK is the world's fourth largest original indigenous content market in terms of total broadcaster investment

Estimated global original indigenous TV content investment market size and country, 2009*



Note: *data excludes spend on news and sports programming, but includes syndication expenditure in the US

Source: OBS, SNL Kagan, Company reports, Oliver & Ohlbaum Analysis

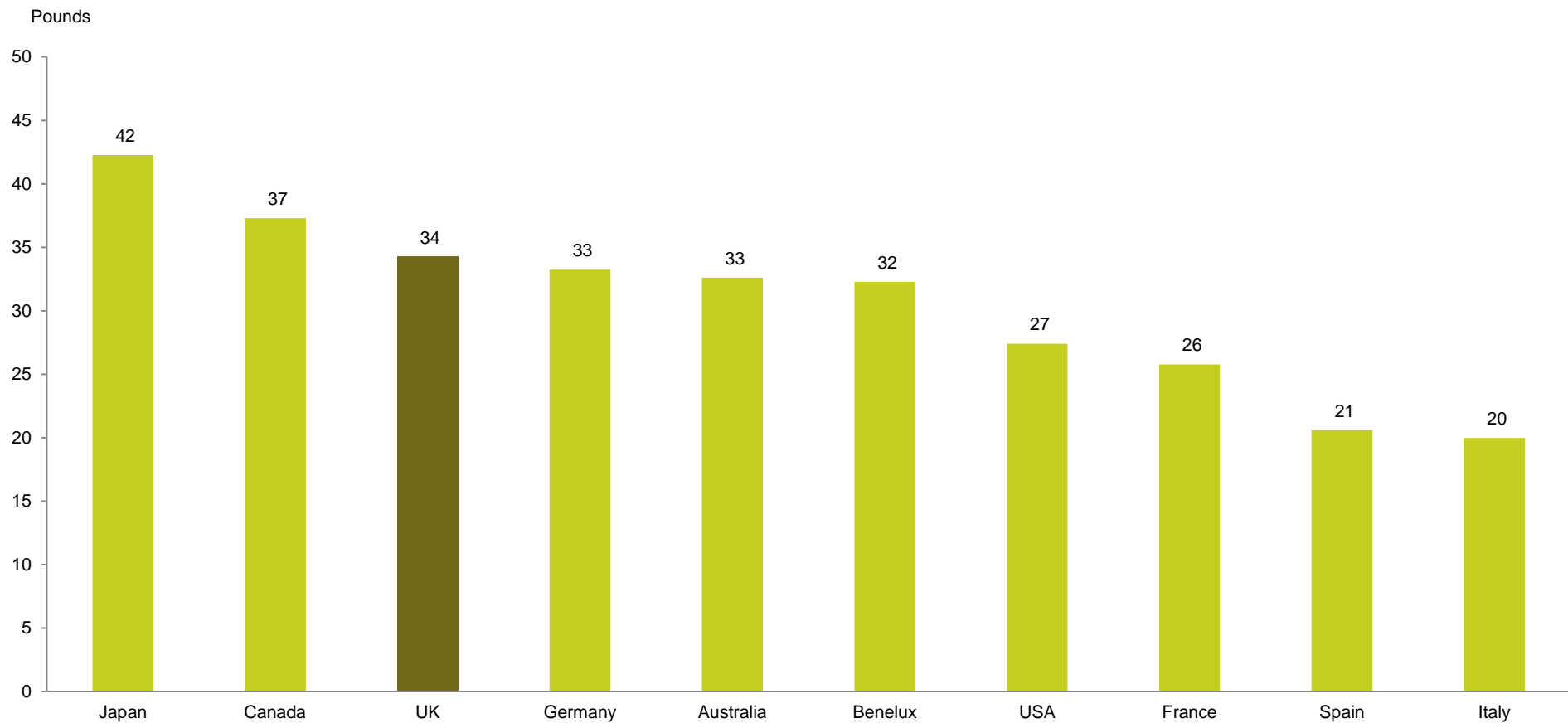
Is there any evidence of consumer harm in the UK?

Originated content spend per capita



The UK has an especially high level of spend on originations per capita, relative to other major developed markets

Originated TV content spend per capita, 2009



Note: *data excludes spend on news and sports programming, but includes syndications

Source: OBS, SNL Kagan, Company reports, Oliver & Ohlbaum Analysis

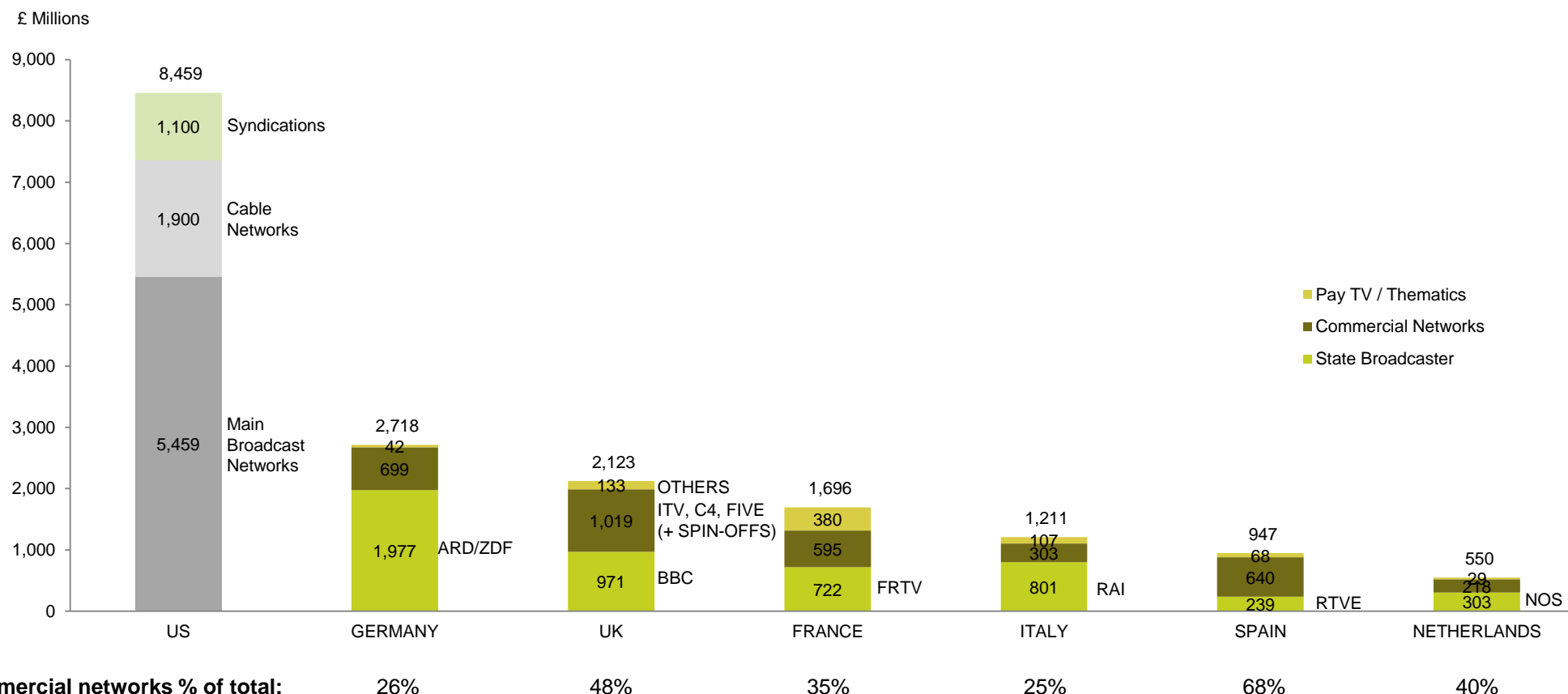
Is there any evidence of consumer harm in the UK?

Top markets by type of broadcaster



48% of all original content investment* in the UK is by advertising funded commercial network channels – this is a higher proportion than all markets apart from the US and Spain**

Leading TV originated content markets by type of broadcaster, 2009



Note: *data excludes spend on news and sports programming, but includes syndication expenditure in the US

**Spain and the US have low levels of public funding of broadcasters

Source: OBS, SNL Kagan, Company reports, Oliver & Ohlbaum Analysis

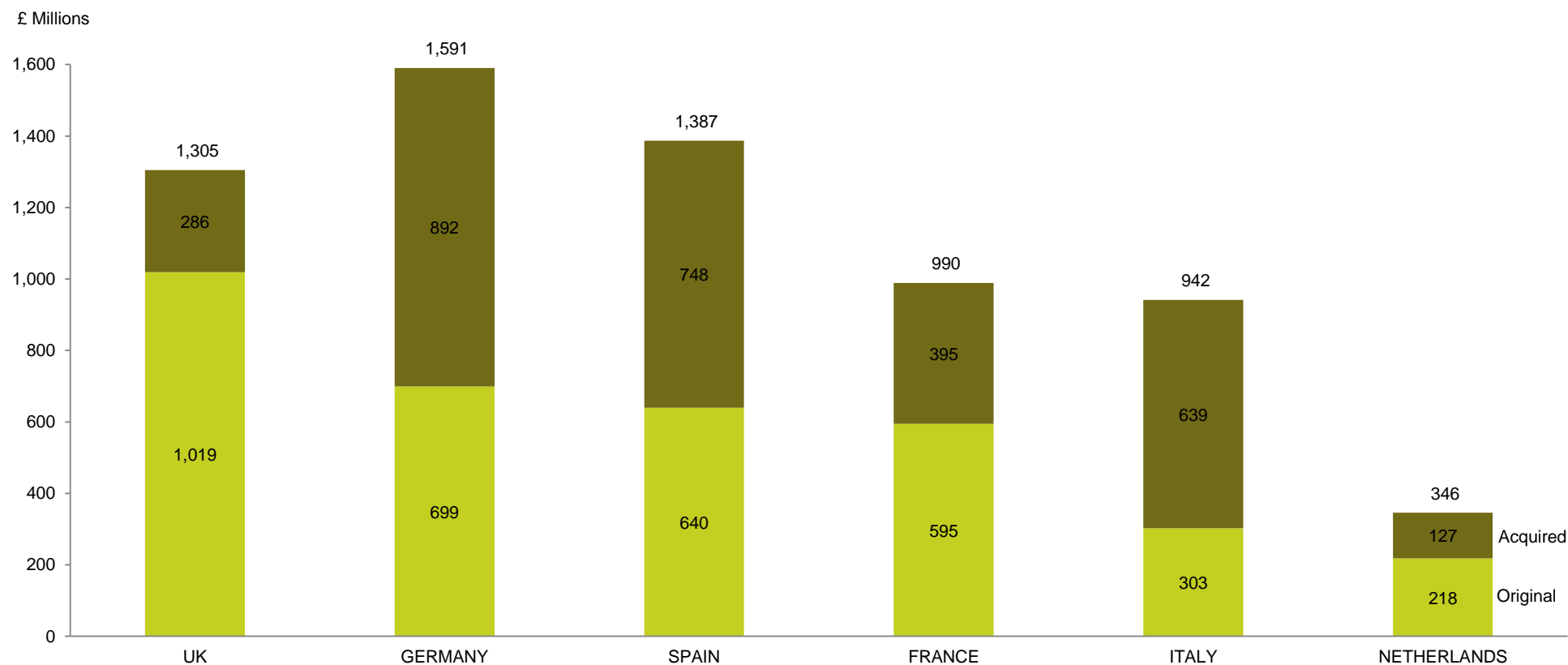
Is there any evidence of consumer harm in the UK?

Commercial broadcaster investment in originations



The UK's main commercial advertising funded network groups spend more on original indigenous programmes than their peers in all major European markets (both proportionately and in absolute terms)

Leading TV originated content markets by leading commercial broadcasters, 2009



Channels (including spin-offs): ITV, C4, FIVE

RTL, PRO7SAT1

ANTENA3, TELE5, LA SEXTA, CUATRO

TF1, M6

MEDIASET, LA7

RTL, SBS

Note: *data excludes spend on news and sports programming
 Source: OBS, SNL Kagan, Company reports, Oliver & Ohlbaum Analysis

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Methodology – data inputs used



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Television advertising market inventory and prices have been calculated from published public data sources relating to viewing trends and broadcaster revenues in each major market

Data inputs used to calculate television advertising inventory and CPTs in each markets

DATA	DESCRIPTION	DETAIL
AUDIENCE DATA	<ul style="list-style-type: none"> • Adult population by country • Television set penetration of households (percentage) • Average minutes of television viewed per capita per day • Audience viewing share by channel (percentage) 	<ul style="list-style-type: none"> • Allows calculation of total market television viewing hours • Viewing shares allow calculation of viewing hours by channel
ADVERTISING METRICS	<ul style="list-style-type: none"> • Average number of advertising minutes broadcast by channel (minutes) • Advertising inventory sell out rate (percentage) 	<ul style="list-style-type: none"> • Used to calculate advertising inventory available and sold
REVENUE DATA	<ul style="list-style-type: none"> • Gross TV advertising revenue by channel or broadcast group (after discounts but before commissions) • Net TV advertising revenues after paid commissions • Average rate of commission paid by each channel 	<ul style="list-style-type: none"> • Net advertising revenues and commission rates used to calculate gross advertising revenue when no published source of gross revenue is available
INTERNATIONAL WEIGHTING FACTORS	<ul style="list-style-type: none"> • Annual exchange rate purchasing power parity for GDP weighting factors • Annual currency exchange rates 	<ul style="list-style-type: none"> • Allows direct comparison of international markets on a directly comparable basis

Appendix

Methodology – calculations



Television advertising market inventory and prices have been calculated using a consistent methodology in each market in order to directly compare market trends across markets

Calculations steps used to derive advertising inventory and CPTs in each market

OUTPUT	CALCULATION STEP	CALCULATION
ADVERTISING INVENTORY (30 SECOND DURATION WEIGHTED IMPACTS)	• Total market viewing hours	<ul style="list-style-type: none"> • Average viewing minutes per capita per day multiplied by adult population • Then multiplied by TV set penetration and by the number days in each year
	• Viewing hours by channel	• Total market viewing hours multiplied by channel % audience share
	• Annual total ad minutes viewed by channel	• Annual channel viewing hours multiplied by average hourly ad minutes per year
	• Total 30 second duration weighted impacts available	• Total ad minutes viewed per year by channel multiplied by two
	• Total 30 second duration weighted impacts sold	• Total impacts available multiplied by the sell out rate for each channel
COST PER THOUSAND IMPACTS (CPT IN LOCAL CURRENCY)	• Gross advertising revenue (after discounts)	• Net advertising revenues (after commissions) divided by the rate of commission paid for each channel
	• Channel CPT	• Channel gross advertising revenues divided by total impacts sold then multiplied by 1,000
	• Market CPT	• Total market gross revenues divided by total impacts sold then multiplied by 1,000

Appendix

Sources (1/3)



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	DATA TYPE	SOURCE
UK	Revenues	<ul style="list-style-type: none"> FLE, 2000-2010
	Audience Share	<ul style="list-style-type: none"> FLE, 2000-2010
	Viewing volumes & advertising minutage	<ul style="list-style-type: none"> FLE, 2000-2010
Canada	Revenues	<ul style="list-style-type: none"> FLE, 2000-2010
	Audience Share	<ul style="list-style-type: none"> FLE, 2000-2010
	Viewing volumes & advertising minutage	<ul style="list-style-type: none"> CRTC 2000-2010 TV Basics Year Book 2000-2010 Informa 2000-2010
US	Revenues	<ul style="list-style-type: none"> SNL Kagan 2000-2010
	Audience Share	<ul style="list-style-type: none"> n/a
	Viewing volumes & advertising minutage	<ul style="list-style-type: none"> Calculated from SNL Kagan CPM and Gross Ad Revenue data, 2000-2010
Spain	Revenues	<ul style="list-style-type: none"> 2000-2010 CMT annual reports which includes sponsorships
	Audience Share	<ul style="list-style-type: none"> OBS 2000-2010
	Viewing volumes & advertising minutage	<ul style="list-style-type: none"> European Commission 2000-2010 CMT 2000-2010 OECD 2000-2010

Appendix

Sources (2/3)



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	DATA TYPE	SOURCE
Germany	Revenues	<ul style="list-style-type: none"> ZAW, ProSieben Sat 1, ZDF and KEK 2000-2010 ARD 2010 revenue Oliver and Ohlbaum estimate
	Audience Share	<ul style="list-style-type: none"> Data from OBS 2000-2010
	Viewing volumes & advertising minutage	<ul style="list-style-type: none"> Die-medianstalten 2000-2010 OBS 2000-2010 Bundesamt 2000-2010 Informa 200-2010
Italy	Revenues	<ul style="list-style-type: none"> Zenith 2000-2010 2000-2010 RAI annual reports 2000-2010 Mediaset annual reports and presentations
	Audience Share	<ul style="list-style-type: none"> Data from OBS 2000-2010
	Viewing volumes & advertising minutage	<ul style="list-style-type: none"> 2000-2010 Zenith 2000-2010 from OBS 2000-2010 from OECD Informa 2000-2010
Netherlands	Revenues	<ul style="list-style-type: none"> 2000-2010 from STER annual report 2010 2000-2010 from RTL Group annual reports SBS 2000-2010 derived from RTL estimate of SBS market share b
	Audience Share	<ul style="list-style-type: none"> OBS 2000-2010
	Viewing volumes & advertising minutage	<ul style="list-style-type: none"> SPOT – verbal confirmation for 2000-2010 2000-2008 OECD, population assumed flat post 2008 2000-2010 from Informa
France	Revenues	<ul style="list-style-type: none"> 2000-2009 TF1 Annual Report. TF1 revenues 2010 from RTL 2000-2009 from FRTV Annual Report. FRTV 2010, FLE 2000-2010 M6 Annual Report
	Audience Share	<ul style="list-style-type: none"> Data from OBS 2000-2010
	Viewing volumes & advertising minutage	<ul style="list-style-type: none"> OBS 2000-2010 2000-2002 INSEE, 2002-2009 OECD, 2010 CIA World Factbook

Appendix

Sources (3/3)



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	Measure	Source
MULTI-COUNTRY METRICS	Currency exchange rates	<ul style="list-style-type: none">OANDA.com
	Purchasing power parity exchange Rates (PPP)	<ul style="list-style-type: none">OECD, 2000-2010
	Agency commission	<ul style="list-style-type: none">FLE, industry expert interviews