



Siobhan Walsh
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Ofcom
Riverside House
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22 July 2011

Dear Ms Walsh

Consultation on Competition Issues in the UK TV Advertising Trading Mechanism

I am pleased to attach our response to the above consultation.

Reckitt Benckiser Group PLC ("RB") is a leading producer of home, health and personal care products, with market-beating performance and sales in over 180 countries across the world.

You rightly identify us in your consultation document as one of the largest UK advertisers. Marketing and advertising is an integral part of our strategy worldwide and we have developed a team of in-house media professionals with extensive experience of the advertising industry. We hope that the attached responses provide you with an insight into how the relevant markets operate from an advertiser's perspective.

We would be happy to provide further information in person if you think that would be helpful.

We are happy for the contents of this response to be treated as non-confidential, but ask that you treat the identity (including job title) of individual RB employees as confidential, as this is a response on behalf of RB.

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Ofcom Consultation

Competition Issues in the UK TV Advertising Trading Mechanism

Response by Reckitt Benckiser Group PLC

Question 1: Do you think we have captured all the relevant market developments which might have had an impact on competition in the sector?

In our view, the consultation document accurately captures the key market developments relevant to the consultation.

Question 2: Are there standard measure systems being developed for tracking the effectiveness of internet display advertising? If so, are they likely to affect widespread take up of internet display advertising (and over what timescale)?

Standard measure systems for tracking the effectiveness of internet display advertising do exist in the industry. However, we do not have the same degree of confidence in figures compiled using such systems as we do in figures compiled by the Broadcasters' Audience Research Board ("BARB") in relation to TV advertising. Measures for internet display advertising are compiled on the basis of data provided almost entirely by the suppliers. In contrast to the approach taken by BARB, the methodology adopted in relation to internet display advertising is not tri-partite, since advertisers do not participate in any equivalent of the BARB Joint Industry Committee.¹

We are not in a position to assess whether this situation is likely to affect widespread take-up of internet display advertising. However, speaking for ourselves, this situation has led us to proceed with a degree of caution in the internet display advertising space.

We would hope that, as this aspect of the industry grows to maturity, advertisers will become more involved in the process. This would increase our confidence in internet display advertising measures.

Question 3: Do you agree with our conclusion that, at present, internet advertising does not constitute a sufficiently strong competitive constraint on TV advertising? Is this likely to change in the foreseeable future?

In our view, the competitive constraint that internet advertising imposes on TV advertising is limited somewhat by the issues outlined in response to Question 2, above.

In our experience, internet display advertising is also more expensive per impact than TV advertising. This may be linked to the auction system through which much of the advertising is sold. Our impression is that that system has the effect of driving prices up. We would not expect this to necessarily be the case (or perhaps not to the same extent) if advertising were sold through a reverse-auction or stock trading system.

Question 4: Do you agree with our market definition? Have we considered the appropriate market developments in forming our view?

We broadly agree with your approach to market definition. However, this view may need to be revised in due course as the market continues to evolve. We would recommend a further review

¹ On a related point, we note that some of the data relied on in the Ofcom consultation document is sourced from organisations wholly controlled and/or funded by broadcasters or media buyers.

in two years' time. We would suggest that the closely-related question of media buying practices be examined as part of the same review.

Question 5: Do you agree with our overview of the way TV advertising is traded? Are there any other characteristics of trading that we should consider?

We broadly agree with your overview. However, we would suggest that you also look at the mechanism by which long-form ('Infomercial') advertising is sold.

Question 6: Do we understand correctly that the market has essentially operated in the same way since the early 1990's? Does our analysis of why the market evolved from a slot traded ratecard model accurately reflect reality?

In our view the market has essentially operated in the same way since the early 1990s. We believe the current system benefits media buyers and broadcasting sales houses more than advertisers, and prices are higher than we would expect them to be under a looser system.

Question 7: Are there any other benefits associated with the current system of trading which we have not factored into our analysis?

Prices are probably more stable than they would be under a looser trading system. However, this perceived benefit is outweighed by the fact that prices are higher than we would expect them to be under a looser system.

Question 8: Can we draw any conclusions from features of TV advertising trading models in other countries about whether features in the UK market prevent, restrict or distort competition?

In our view, TV advertising pricing per impact in the UK is abnormally high by international standards, except when the UK is compared with markets where there are a restricted number of selling points, or where other, possibly restrictive, factors may be in play.

Question 9: How transparent is the pricing of TV airtime? Does it enable advertisers and media buyers to make informed decisions about the purchasing of TV advertising on different broadcasters?

From our perspective as an advertiser, the pricing of TV airtime is not transparent at all. This is due in large part to the existence of umbrella deals of the type described in paragraph 5.82 of the consultation document. We think it is likely that the pricing of TV airtime is more transparent to the media buyers.

Question 10: To what extent do advertisers switch between media buyers? What factors influence the decision and how easy is it to switch media buyers?

For an advertiser, there are high costs associated with switching between media buyers, in terms of management time, disruption and effort spent resolving issues regarding ownership of data, particularly for large advertisers. Often, the savings (if any) associated with switching will not justify such costs. Comparison of pricing and quality in the event of a tender is a very complex process, and often involves outside consulting for an unbiased opinion and to establish clarity amid the complexity.

Question 11: To what extent do any benefits associated with these features of the market offset or even outweigh the potential detriment?

Efficiency and stability may in the past have offered some justification for the trading system. We do not think they provide justifications in the current state of the market. From our perspective as

a large advertiser, the current trading arrangements benefit sales houses and media buyers, but certainly not advertisers.

Question 12: How has the recent consolidation in the market altered the relative bargaining relationships between sales houses and media buyers?

There has been consolidation both at the level of sales houses and media buyers. This is likely to have resulted in internal costs savings, but we do not have the impression that much of those savings have been passed on to us as an advertiser.

Question 13: To what extent has consolidation resulted in sales houses having a strong market position in relation to particular audience demographics?

We are not aware of such an effect from our own experience. We generally trade "broader" audiences as we are selling mass products. There could well be an effect for other, more specifically targeted, advertisers.

Question 14: What might be the implications of consolidation for competition e.g. in terms of media buyers switching between broadcasters?

In our experience, every major media buyer has a trading relationship with every major sales house. Disputes resulting in such relationships being terminated appear to occur infrequently. This underscores our impression, as an advertiser, of a fairly cosy set of arrangements that benefit sales houses and media buyers, but not necessarily advertisers.

Question 15: To what extent does the bundling of commercial impacts across channel schedules and between channels, constrain the ability of media buyers/advertisers to switch expenditure between broadcasters?

Please see our response to Question 14, above.

Question 16: How important are the possible benefits to advertisers, media buyers and sales houses from the bundled sale of airtime across a schedule? Are there other benefits that we have not considered?

From our perspective as an advertiser, we are unaware of any benefits at the advertiser level.

Question 17: To what extent does the interaction of umbrella deals and annual SoB deals act to prevent, restrict or distort competition in the market for TV advertising?

Umbrella deals and share of broadcast deals are restrictive to a fleet-of-foot advertiser attempting to respond to market place or internal developments (e.g. changes in launch dates for new products) or to changes in schedules. The current system seems to work primarily in the interests of the sales houses, by providing them with an early and predictable revenue stream.

Question 18: To what extent does the ability of advertisers to switch between media buyers serve to impose an effective constraint on media buyers' behaviour?

Overall, this does not, in our view, provide a significant constraint.

We would not expect the threat of switching between two media buyers within the same group to provide any such constraint, as one brand within a media buyer group is unlikely to cannibalise another group entity in this way.

Since an advertiser will not normally see what types of arrangements top level companies within one of the large media buying groups (as opposed to the lower level brands within such a group,

i.e. the entities that typically enter into agreements with advertisers) enter into with sales houses, such an advertiser will not normally be in a position to scrutinise the media buyer's behaviour effectively. It is therefore difficult to compare the offerings of different media buyers. This makes the threat of switching between media buyer groups less credible and less of a constraint on media buyers' behaviour.

A further issue is that competitive conflicts may occur between advertisers active in the same sector. This may constrain the ability of an advertiser to switch to other media buying groups, or between brands within the same group.

Question 19: To what extent does the way in which media buyers are remunerated help to align incentives between advertisers and media buyers? Does it have any adverse effects?

It is our understanding that media buyers will often receive value transfers from sales houses at the group level, or other levels within their organizations, which will not be allocated to individual advertisers. To the extent that that occurs, it brings the incentives of media buyers and advertisers out of alignment.

Question 20: To what extent do the benefits of umbrella deals and annual SoB deals outweigh any concerns?

In our view, such deals have almost no benefit for advertisers.

Question 21: Do respondents agree that CRR has had an effect on contract negotiations and/or innovation in the way airtime is traded?

We are not in a position to comment on this.

Question 22: To what extent do the new methods of distributing and consuming content require the development of alternative trading arrangements? Can the market adapt and develop under the current trading mechanism? Is the current trading model likely to prevent other possible developments in the sector?

In our view, the current system inhibits the development of the market.

New methods for the distribution and consumption of content (e.g. product placement) are, in our experience, often rolled into existing umbrella deals. Such deals have tended to become increasingly complex. As a result, it can be difficult for an advertiser to assess its return on investment in relation to advertising placed under the current system. These developments may further reduce transparency.

Question 23: To what extent have broadcasters become more risk averse when considering acquiring or commissioning new programming? Is this the result of the operation of the current airtime trading mechanism?

We are not in a position to comment on this.

Question 24: To what extent have media buyers/advertisers been restricted or prevented from experimenting with new marketing approaches as a result of the current airtime trading mechanism?

In our view, such experimentation may have occurred less under the current system than it might otherwise have done. To use the example of product placement (see the response to Question 22, above), the lack of transparency under typical umbrella arrangements as to possible benefits

(in terms of return on investment) for an advertiser of a particular initiative, may have inhibited experimentation in this area.

Question 25: *Are there any offsetting benefits of the current trading mechanism for viewers?*

We suppose that most viewers are unaware of the existence of the arrangements that are the subject of this consultation. We are not aware of any benefits that such viewers would receive from the current system, when compared with a looser system.

Question 26: *In light of the OFT's guidance on factors to take into account in considering a market reference, what is your view about the proportionality of a reference?*

We agree with the conclusion in paragraph 7.27 of the consultation document.

Question 27: *What are your views of the availability of possible remedies to address concerns?*

We agree with the analysis set out in paragraphs 7.28 to 7.31 of the consultation document.

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