

**ADVERTISING FEDERATION OF AUSTRALIA
SUBMISSION TO THE PRODUCTIVITY COMMISSION
6 December 1999**

INTRODUCTION:

[1] The AFA is the peak industry association representing companies that provide advertising and marketing communications services in Australia.

[2] Our membership consists of 78 agency groups with 120 offices in all states. These include large, medium and small advertising agencies, media specialists and creative consultancies. Over 90% of our members are small and medium businesses.

[3] Our members are responsible for \$5 billion of advertising expenditure in Australia (AFA survey), including approximately \$1.25 billion on the production of advertisements, with the lion's share being spent on TV and cinema commercials and the remainder on press and magazine advertisements, radio commercials and other forms of advertising including the internet.

FOCUS OF THIS SUBMISSION:

[4] AFA members believe that the Australian media environment must be allowed to develop at the same pace as the major overseas markets. Australia should not be left behind, and Australian advertising must continue to be at the cutting edge in the application of new digital technologies.

[5] Many of the major advertisers in Australia are global advertisers who will want to be able to communicate with consumers in the same ways they communicate in major overseas markets.

[6] Equally, Australia advertisers will want to be able to innovate and explore new ways of reaching consumers, taking advantage of the opportunities provided by digital technology.

[7] Whatever standards are introduced, the future media environment must provide economically viable options for advertisers to reach consumers.

THE ROLE OF ADVERTISING

[8] Advertising played a central role in the development of free to air television. Advertising provided the funding that enabled television to become an important part of family life and the primary source of news and information for the majority of Australians.

[9] Likewise, advertising will play a major role in the development of digital media.

[10] It will continue to be fundamental to the viability of commercial television to enable it to continue to provide a free service to consumers.

[11] New media players will also depend on income from advertisers to supplement that which they derive from subscriptions, pay per view services and commissions or fees related to transactions.

[12] Advertisers will choose where to invest their dollars according to the quality of the audience delivered by particular forms of media and the cost-effectiveness of reaching this audience.

ISSUES FOR ADVERTISERS:

[13] In formulating policy, we ask the government to consider the following issues:

HDTV:

[14] Once a significant number of households receive HDTV, major advertisers, especially global brand advertisers may want to take advantage of the benefits it will offer. However, the limited audiences (anticipated to be 5% of the population) in the early stages, will deter advertisers who need to reach mass audiences for their advertising to be effective.

[15] Many other advertisers, in particular retailers and regional advertisers will be seeking flexibility and audience reach ahead of high quality vision and sound. Accordingly, they will be better served by SDTV or other more cost-effective media options.

[16] As Australia is a very small market for TVs (Australians only upgrade their TVs every 8 years), we need to benefit from the economies of scale from larger markets. This is only possible if we are following a standard that other markets are using.

[17] From an advertising perspective HDTV will require additional production budgets. This will mean that our major brand advertisers with the bigger budgets will be the only ones that will be able to afford this. There may also be limited appeal from these advertisers particularly if a large proportion of people will be accessing DTV from set top boxes through their existing TV sets and not receiving the major benefits.

[18] Australian TV production houses are upgrading to digital but only to SDTV. To run HDTV commercials we will need to upgrade from SDTV but end consumers will not be able to spot the difference. Upgraded SDTV will not match the quality of commercials created in HDTV.

[19] Global advertisers will be producing materials in SDTV, rather than HDTV and may be disinclined to advertise in Australia if we cannot provide a suitable media environment for these materials.

[20] Affordability is key to the success of DTV. If we replace the existing proposal to mandate HDTV and allow it to develop in conjunction with SDTV, we will ensure a faster uptake of DTV with a picture and sound quality that will be acceptable to all Australians.

[21] The **SDTV** option will enable enhanced programming and multi-channeling to develop. From an advertising perspective this will create more options for advertisers and niche audiences, enabling advertisers to more accurately reach their targets

Multi-channeling:

[22] From an advertising perspective we will be able to target more accurately to reach specific niche markets with, for example, an interest in specific products & services or skewed to their entertainment habits. There will be a premium charged to the advertiser for this niche targeting, however this will be offset by reduced wastage in reaching our audience.

[23] **Datacasting** : allows for greater interactivity with end consumers which appeals to advertisers as end users will be able to request further information such as product specifications, distribution details etc. Back channel provides even further opportunities in allowing the viewer to send information back to the advertiser or purchase online. This will also bring the Web into more households hopefully seeing benefits over time in the reduction of online advertising costs.

Advertising Costs:

[24] As SDTV and on-line communications begin to develop in the marketplace, the increased competition should reduce the cost of advertising over time. There is also some thought that data-casters will give away set top boxes to enable greater uptake and make the services more accessible and popular. This incentive to build audiences will make media more attractive to advertisers.

[25] In making decisions about the future media environment, policy makers should ensure that all new services and standards represent economically viable options for advertisers, and therefore the media owners, in terms of the relevance and quality of the audience they are able to deliver and the cost.

International Experience:

[26] The AFA is watching the development of digital media in the USA and United Kingdom, with the view that experiences of advertisers overseas will provide an indication of likely patterns here.

USA:

[27] Reporting on early experience with HDTV in the USA, the American Association of Advertising Agencies has identified that:

- To date, HDTV programming is limited and it is too early to tell how advertisers may benefit from HDTV.
- High systems costs are limiting the number of consumers who have access to HDTV resulting in low penetration for advertisers.
- Technological problems such as lack of continuity, audio/video synch problems are not uncommon, and this does not encourage advertisers.

[28] Advertisers have shown an interest in a variety of services and media options and we expect that Australian advertisers will also want to develop these. They include:

- Enhanced programming
- Advertiser funded TV programming
- Targeted advertising opportunities on the basis of demographic, psycho-graphic and local or regional (Zip Coded) consumer profiles.
- Interactivity for lead generation, gathering consumer profiles etc

- E Commerce options

[29] With the ability of consumers to delete advertising, or to store and replay programs without the advertising, advertisers are looking at sponsoring whole programs on an exclusive basis and other strategies, such as buying rights to specific audiences.

United Kingdom:

[30] The UK experience has been very positive with 1.25m households upgrading to DTV in less than 12 months and it is likely the analogue switch off date may be moved forward. They have gone for an evolutionary approach launching with SDTV which makes spectrum available for datacasting & multi-channeling. This allows greater consumer benefit and lower cost of entry. The market will evolve to HDTV over time.

[31] In summary, we believe all new forms of media should be allowed to develop on the basis of their relevance and value to consumers and therefore, advertisers.

OTHER ISSUES:

1. Relaxing of foreign ownership restrictions

[32] Relaxing foreign ownership restrictions will provide a greater resource of media expertise, capital and technology from other markets. This will also encourage increased competition which should improve quality and diversity of product and services as well as providing competitive pricing.

[33] However we do need to make sure that any foreign owners are acting with the best interests of Australians in mind. This should be managed in line with Australia's policy on other foreign investments.

[34] We support a review of the Trade Practices Act to address public issues in relation to media ownership.

2. Australian Content:

[35] Quotas for Australian content in programming, including advertising must be maintained to ensure our media continues to reflect our unique Australian culture. A commitment to this principle will also foster local creative and production industries as well as Australian exports of programming and advertising.

[36] Beyond all of this, we support diversity in this market. Any fears of change or fragmentation of the market should not play a role in deciding the digital future of Australia. We need to be considering what is best for Australian consumers and advertisers and ensure this is what we are delivering the market,

[37] For further information : Lesley Brydon Executive Director, Advertising Federation of Australia 02-99587-3077 or lesleyb@afa.org.au