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24th August, 1999.

Prof. Richard Snape,
Deputy Chairman,
Productivity Commission,
LB2 Collins Street East,
MELBOURNE. VIC. 8003.

Dear Professor Snape,

The following text is a "paper" I have written at the suggestion of the Federation of Australian Commercial Television Stations which hopefully you may find of some interest.

Many of the issues covered within this paper are simply written confirmation of my concerns for matters which I strongly believe are having a detrimental effect on the Advertising and Marketing industries with a flow-on affecting TV Station/ Network revenue.

I have been very outspoken on these issues, and my concerns and stance on some of them has received extensive trade and business press coverage, particularly over the past twelve months.

So, as I said at the beginning, it is at F.A.C.T.S. suggestion that I write, however, the views expressed herein are my own.

I have been a Media Planning and Buying practitioner for just over forty years.

Page 2.

BACKGROUND

As far as the TV industry is concerned, it appears that when looking at the share of advertising revenue bar chart covering 1961 to 1998, it seems to be a classic case of the 'law of diminishing return' and probably at best will flatten out.

However, due to pressure from (in the main) new media forms, it could decrease slightly. It is extremely unlikely to increase in share percentage terms due to the dollar influx that would be needed to move that share upwards.

On the one hand, the TV industry needs to increase rates in tune with other main media forms to maintain share and this is almost impossible due to the scrutiny the TV industry comes under from the buyer/ advertiser level. Totally unfair, but a fact of life.

We are all only too well aware that a furore erupts when anything approaching double digit increases in advertising rates for television occurs, whereas virtually all other media forms can raise rates almost with impunity, and certainly with very little industry outcry.

In trying to draw some conclusion in terms of the revenue effect of a new licence, it is probably worth reflecting on some of the factors currently affecting the TV industry as a whole.

In an attempt to help paint the picture I have made reference in the first part to the 'past' which I have basically defined as anytime prior, say, the mid-late '80s, and the 'current' situation which is post the mid-late '80s until the present point in time.

'THE PAST'

The pre-late '80s was totally different and is what I have described on other occasions as almost like a 'Persian bazaar' environment in terms of what people bought and what people paid.

Because of the lack of measurement tools at that point in time, there was a basic unsophistication in terms of the buying of television. There were certainly far less concerns for cost per rating point or cost per thousand, and far more concern for what I might loosely call rating performance or placement.

In other words, almost regardless of cost, placement was of prime importance and there was an ongoing battle to secure placement in the top ten or twenty peak night programmes.

Up until the '80s there was also the introduction into the market of many brands to television under the back-to-back scenario, and this was simply when rate card provision provided a situation where two thirties could be bought back-to-back for the one advertiser at approximately eighty (80) per cent of that of a sixty second.

This made the medium more accessible to many brands who may not have advertised on television under normal circumstances. They found they could simply piggyback on to a major brand and at least obtain some exposure on television.

There was also far more reliance on 'high cost' peak night because, as I said earlier, measurement tools that were necessary to analyse zone usage in a directional or actionable way were not available, greater reliance on peak night was simply the accepted thing to do.

In those days too, a budget was simply recognised as a budget, and the objective was the effective utilisation of that budget, ie. obtain awareness for the brand, and detailed cost analysis of zone options did not really come into the equation.

THE CURRENT SITUATION.

In the current situation, which as I say, I have defined as any time later than the mid to late eighties, there was a noticeable shift in focus from the criteria of 'effectiveness' to what might be loosely termed 'efficiency'.

The introduction of the peplemeter system to measure viewing audiences brought with it at least two new measurement tools which had the effect of shifting strategies from a so-called 'over reliance' on peak night.

Page 4.

What may have been (say) an eighty percent peak night twenty percent off peak strategy, became say, sixty percent peak and forty percent off peak. Buyers now had the ability to measure longer term effect of schedules past what had been, up until then, simply a oneweek factor.

It also saw the greater utilisation of frequency distribution patterns which was then further interpreted into effective reach levels. There was also some work done on what was loosely termed the 'light viewer' analysis, and these factors (amongst others) had a not insignificant effect on revenue, but it is only one factor. Moving away from a fundamentally high peak night component, to a lower peak night component has an obvious effect on revenue. Refer ATTACHMENT 3.

MEDIA 'AUDITORS'.

In the late '80s – early '90s there was the introduction to the Australia market of people who positioned themselves to the Industry as media 'auditors'. The measurement systems that they actively promoted became a 'double whammy' for the Industry, because not only was there evolving a significant shift from higher peak night components and therefore reducing cost/ revenue, but by the 'auditors' introducing a criteria where, via analysis, lowest cost per thousand was the 'winner', became this 'double whammy' for the television industry.

Whilst the peak night component had been reduced, what simply happened under this so-called auditing system, was that within the designated (yet reduced) peak night component, you bought the cheapest possible peak night programmes.

My recent observations (via analysis) strongly suggests that this concept of 'buy cheapest' is widespread, and extends well beyond those clients/ advertisers who are subject to these 'audit' procedures.

Many agencies/ buyers are 'embracing' this philosophy/ concept for other advertisers within their stable for what I strongly believe are two primary reasons. viz.

- a. Whether they buy cheap 'rubbish' or not does not affect their revenue and...

- b. Other clients may be measured using the same criteria and the unfortunate perception that is drawn from this is that if you are paying a higher cost-per-thousand, then quite simply you are not 'buying' as well as the other party.

I have gone 'public' on this issue on many occasions as I believe this 'auditing' system is not only totally misleading, it is a sinister development which will (at least in my view) hasten the demise of brands that are involved. (This is best described in ATTACHMENT ONE where I cover it in more depth).

OPTIMISERS/ COST MINIMISERS.

In the mid 1990s the use of 'optimisers' came into vogue, although in many instances they are not 'optimisers' as such but rather 'cost minimisers'. Basically what the programme does is provide the information necessary on what programmes to buy (and why) within a particular zone for the least cost. So basically what it does is simply provide the same criteria under which the media auditors operate.

In most cases it is not a system that maximises effectiveness, it maximises so-called efficiency. But of course it doesn't matter what they use it for, it is again detrimental to TV industry revenue. When all these little 'numbers games' are played, you have a base CPM against a particular strategy and if you employ the same strategy next year, then it is possible to measure with a fair degree of accuracy what the actual rate increases are year on year.

And when you compare the options contained in ATTACHMENT ONE (Sydney only Example GB ChO-17) it can be readily seen that it only requires 'disguised modification' in buying strategy to move your CPM down from say (and by way of example only) \$76.60 per Option D. to \$74.10 per Option C. ie less quality, therefore less premium and trending the wrong way in revenue terms.

I said earlier we know the mood of the advertising market in trying to get through any increases above CPI, and if you are being already evaluated on the lowest cost criteria, then it is not going to make any substantial and/ or difference to revenue when compared year on year.

PRODUCTION COSTS.

One of the areas that I believe has also had a significant impact on the TV industry in terms of revenue, particularly in the 1990s, is the element of production costs. Where historically production budgets may have been set at around ten percent of total ad budget, I am now seeing consistent evidence of where sometimes in excess of thirty (30) percent of the total budget is taken up in TV production. This is all to do with protection of agency margins. This is where agencies are making their margins these days – from the markup on production costs.

The obvious corollary to all this of course, is that it's less dollars available for media. Another concern I have is that there is little longevity in most of these commercials. It is almost like "that's the end of the financial year, it's time to make another commercial", whereas, in fact, the exposure levels of many of these commercials out in the real world is probably at very low levels.

If we talk about vested interest, here is a classic case where you want to get those commercials produced at least once a year.

SECURITY BLANKET FALLACY.

A problem that the whole industry is experiencing, which probably falls under the overall banner of everything that precedes this, is what I would call the 'security blanket' fallacy. It appears as though people like the 'auditors', but by no means only them, are 'allowing' advertisers to believe that this lowest cost per thousand situation can be interpreted as buying better/ cheapest which supposedly equals best practice. The trouble here is that we have a media measurement tool, via cost per thousand, being confused with corporate efficiency. It is certainly not best practice. In many cases where I have had occasion to post audit, there appears to be a total abrogation of responsibility on the part of marketing people. This situation is not helped by the duplicity at buyer level where it doesn't matter whether you do an effective job or not – the fact of the matter is that a budget is a budget, and agency revenue is unaffected.

'NEW LICENCE'

- * All the criterion listed under 'CURRENT and their negative effect on the free-to-air licences revenue can be expected to (at least) equally affect any new licence.

There is absolutely NO EVIDENCE to support the contention that:

The introduction of a new licence would increase revenue into the market because:

- A Budget is a Budget.
- The market cannot (will not) support high level rate (cost) increases.
- Advertisers plan and buy to TARP/ or Rating point levels pre-determined in
- Protection of S.O.V. (Share of Voice) etc.

There is, however, (at least in my view) considerable evidence to support the contention that:

The introduction of a fourth licence will simply dissipate the funds currently expended in the free-to-air commercial networks.

- Dissipation = higher costs for access to market/ potential.
- = Exit the medium?
- = lower industry revenue
- = Access to programming? Quality?
- = Effect on viewing levels?
- = Lowering of rates of existing stations?
- = EFFECT ON TOTAL INDUSTRY REVENUE.

I have not touched on the mid-long term effect of Pay, Internet, P.O.S.T. etc nor the cost/ cause and effect of any technological developments, whether in television or other mass media forms, that could potentially affect revenue and growth.

Page 8.

Revenue growth (or otherwise) will continue to be determined by those factors (and no doubt others) as I have listed under 'CURRENT' – post mid '80s.

I hope the foregoing is of some use, and please don't hesitate to give me a call if anything needs further clarification.

Yours sincerely,

D.L. MERCHANT. O.A.M.

See Attachment: Seven(7) Pages.

The following section contains attachments totalling six (6) pages. viz:

1. Intro. to Attachment(s), One, Two (a) and (b).
2. 60/ 40 Overall Strategy with CPM Definition.
3. Attachment 2 (a)
4. Attachment 2 (b)
5. Intro. to Attachment 3.
6. Attachment 3.

Let me refer back to Attachment One which is shown on the next page. Attachment One shows six options that are available under the loose definition of sixty (60) percent peak night and forty (40) percent off peak.

A buyer who wishes to satisfy this so-called 'audit criteria', or a marketing person who wants to show management that they are being good corporate citizens, may very well opt for Option (a), where it shows a cost per thousand of approximately fifty six dollars.

The more likely scenario pre the late '80s would more likely to have been in the order of that shown as Option (e) so you can see that just by the comparison of the cost per thousand, that it only requires an advertiser to adopt Option (a) to see the significant variance to potential revenue that this would mean to a station or to the industry.

Attachments 2 (a) and (b) I think bring this home more fully.

Attachment 2 (a) is the type of schedule placement you would expect for Option (a), whereas 2 (b) reflects the schedule for Option (e).

As can be seen it is quantity vs quality and without going into all the intricacies involved, and whether or not Option (a) provides the appropriate buying strategy (which in my view it doesn't and cannot) the effect on industry revenue is obvious.

Option 2 (a) Schedule cost = \$80,393.

Option 2 (b) Schedule cost = \$121,595.

ATTACHMENT 3.

The following page (Attachment 3) is a summary of the A.C. Nielsen Light Viewer Analysis conducted in 1992.

It was simply another factor introduced to certain 'buyer' sections of the industry which contributed to less reliance by advertisers on the peak night (zone) component.

Because Daytime M-F was the only off-peak zone measured, it is reasonable to assume that the reliance on peak night for male audiences would be considerably less than that suggested in this chart if, for example, late night and/ or weekend daytime was introduced.

This chart can be interpreted for example via:

39% of Grocery buyers can only be reached via Peak Night.

EXAMPLE ONLY

CPM COMPARISON

<p>a) 'No constraints'</p> <p>Peak multi spot - up to 3 per programme Peak programmes by lowest CPM regardless of rank Off Peak multi spot - up to 5 per programme (2 x 0.5 hour, 3 x 1 hour, 4 x 1.5 hours, 5 x 1.5+ hours) No 'mandatory' Off Peak dayparts (e.g. Nine Daytime, Fringe 5.00-6.00pm, Weekend) No 'mandatory' day-of-week emphasis No 'mandatory' Network share split</p>	
CPM	\$55.9
Step-on-step Increase	0.0%
Cumulative Increase	0.0%
<p>b) Max multi spot in Peak = 2; Includes Nine women's daytime; 5.00-6.00pm; Weekend Daytime.</p> <p>Peak multi spot - up to 2 per programme Peak programmes by lowest CPM regardless of rank Off Peak multi spot - up to 5 per programme (2 x 0.5 hour, 3 x 1 hour, 4 x 1.5 hours, 5 x 1.5+ hours) Some 'mandatory' Off Peak dayparts: Nine Women's Daytime; Fringe 5.00-6.00pm; Weekend No 'mandatory' day-of-week emphasis No 'mandatory' Network share split</p>	
CPM	\$59.3
Step-on-step Increase	6.1%
Cumulative Increase	6.1%
<p>c) 'Selective' Peak Night placement; Max multi spot in Peak = 2; Includes Nine women's daytime; 5.00-6.00pm; Weekend Daytime.</p> <p>Peak multi spot - up to 2 per programme Peak programmes by lowest CPM but ranked within Top 15 by TARP Off Peak multi spot - up to 5 per programme (2 x 0.5 hour, 3 x 1 hour, 4 x 1.5 hours, 5 x 1.5+ hours) 'Mandatory' Off Peak dayparts - only: Nine Women's Daytime; Fringe 5.00-6.00pm; Weekend No 'mandatory' day-of-week emphasis No 'mandatory' Network share split</p>	
CPM	\$74.1
Step-on-step Increase	25.0%
Cumulative Increase	32.6%
<p>d) 'Selective' Peak Night placement; No Peak Night multi spot; Max multi spot in Off Peak = 2; Includes Nine women's daytime; 5.00-6.00pm; Weekend Daytime.</p> <p>No Peak multi spot Peak programmes by lowest CPM but ranked within Top 15 by TARP Off Peak multi spot - up to 2 per programme (2 x 0.5+ hours) 'Mandatory' Off Peak dayparts - only: Nine Women's Daytime; Fringe 5.00-6.00pm; Weekend No 'mandatory' day-of-week emphasis No 'mandatory' Network share split</p>	
CPM	\$78.6
Step-on-step Increase	6.1%
Cumulative Increase	40.6%
<p>e) 'Selective' Peak Night placement; No Peak Night multi spot; Max multi spot in Off Peak = 2; Includes Nine women's daytime; 5.00-6.00pm; Weekend Daytime.</p> <p>No Peak multi spot Peak programmes by rank within Top 15 by TARP Off Peak multi spot - up to 2 per programme (2 x 0.5+ hours) 'Mandatory' Off Peak dayparts - only: Nine Women's Daytime; Fringe 5.00-6.00pm; Weekend Activity spread across the week No 'mandatory' Network share split</p>	
CPM	\$84.3
Step-on-step Increase	7.3%
Cumulative Increase	50.8%
<p>f) 'Selective' Peak Night placement; No Peak Night multi spot; Max multi spot in Off Peak = 2; Includes Nine women's daytime; 5.00-6.00pm; Weekend Daytime.</p> <p>No Peak multi spot Peak programmes by rank by station Off Peak multi spot - up to 2 per programme (2 x 0.5+ hours) 'Mandatory' Off Peak dayparts - only: Nine Women's Daytime; Fringe 5.00-6.00pm; Weekend Activity spread across the week 10:10:30 Network split</p>	
CPM	\$90.1
Step-on-step Increase	6.9%
Cumulative Increase	61.2%

CPM COMPARISON

- 1) 60:40 Peak:Off Peak
- 2) 300 TARPs = 1,422k = 853k Peak : 569k Off Peak

a) 'No constraints'

Peak multi spot - up to 3 per programme
 Peak programmes by lowest CPM regardless of rank
 Off Peak multi spot - up to 5 per programme (2 x 0.5 hour, 3 x 1 hour, 4 x 1.5 hours, 5 x 1.5+ hours)
 No 'mandatory' Off Peak dayparts (e.g. Nine Daytime, Fringe 5.00-6.00pm, Weekend)
 No 'mandatory' day-of-week emphasis
 No 'mandatory' Network share split

Sn	Day	Time	Programme	\$	Total \$	CPM	M	Spots	Gross M	Cum M
OFF PEAK										
7	M-F	0900-1000	A Country Practice	217	1,302	19.7	11	6	66	
10	THR	2330-0030	The Watcher	175	525	19.4	9	3	27	66
10	M-F	1530-1600	Judge Duty	310	1,860	22.1	14	6	84	93
9	M-F	0900-0930	Here's Humphrey	160	960	22.9	7	6	42	177
7	M-F	1400-1500	Ricki Lake	578	3,468	26.3	22	6	132	219
9	M-F	1130-1200	Ent Tonight	420	2,520	26.3	16	6	96	351
7	M-F	1000-1100	Morning News	217	1,302	27.1	8	6	48	447
10	SAT	2330-0030	News/Sports Tonight	175	525	29.2	6	3	18	495
9	M-F	1100-1130	Whats Cooking	400	1,600	30.8	13	4	52	513
									0	565

PEAK										
7	TH-F	1830-1900	Today Tonight	3,384	13,536	69.1	49	4	196	0
7	SAT	2030-2130	The Sentinel	3,069	9,207	74.9	41	3	123	196
10	FRI	1930-2030	Team Nightrider	2,870	8,610	75.5	38	3	114	319
7	FRI	2030-2230	Movie	3,881	11,643	77.6	50	3	150	433
7	FRI	1930-2030	Buffy	4,445	13,335	80.8	55	3	165	583
9	TUE	2130-2230	The Pretender	5,000	10,000	80.6	62	2	124	748
									0	872

80,393 55.9 1,437

CPM COMPARISON

- 1) 60:40 Peak:Off Peak
- 2) 300 TARPs = 1,422k = 853k Peak : 569k Off Peak

b) Max multi spot in Peak = 2; Includes Nine women's daytime; 5.00-6.00pm; Weekend Daytime.

Peak multi spot - up to 2 per programme

Peak programmes by lowest CPM regardless of rank

Off Peak multi spot - up to 5 per programme (2 x 0.5 hour, 3 x 1 hour, 4 x 1.5 hours, 5 x 1.5+ hours)

Some 'mandatory' Off Peak days: Nine Women's Daytime; Fringe 5.00-6.00pm; Weekend

No 'mandatory' day-of-week emphasis

No 'mandatory' Network share split

Sin	Day	Time	Programme	\$	Total \$	CPM	M	Spots	Gross M	Cum M
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OFF PEAK

7	M-F	0900-1000	A Country Practice	217	1,302	19.7	11	6	66	
10	THR	2330-0030	The Watcher	175	525	19.4	9	3	27	66
10	M-F	1530-1600	Judge Duty	310	1,860	22.1	14	6	84	93
9	M-F	1330-1430	Days of Our Lives	1,050	6,300	38.9	27	6	162	177
9	M-F	1730-1800	Price Is Right	1,800	7,200	40.9	44	4	176	339
7	SUN	1200-1600	Movie	564	1,692	33.2	17	3	51	515
									0	566

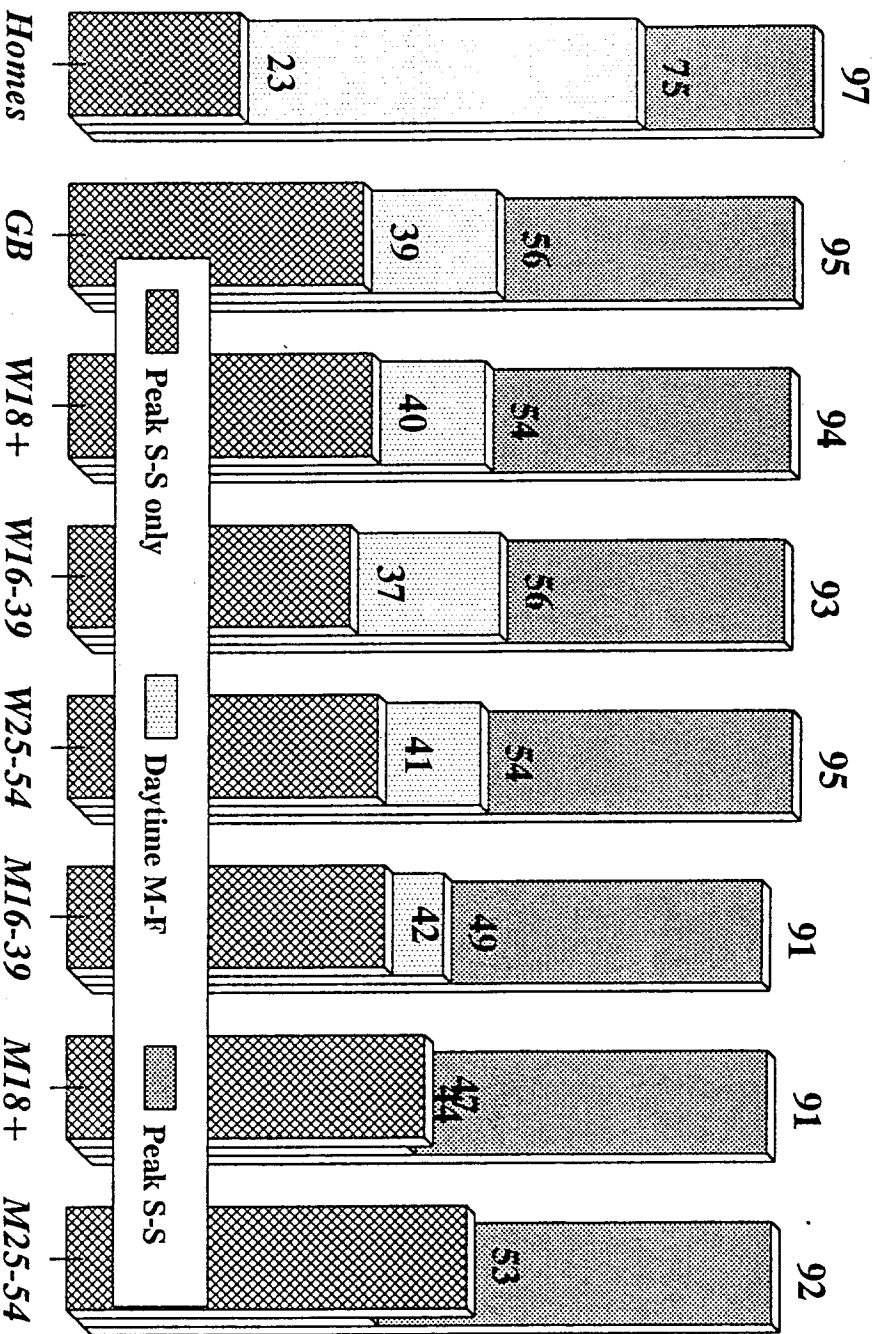
PEAK

7	TH-F	1830-1900	Today Tonight	3,384	13,536	69.1	49	4	196	0
7	SAT	2030-2130	The Sentinel	3,069	6,138	74.9	41	2	82	196
10	FRI	1930-2030	Team Nightrider	2,870	5,740	75.5	38	2	76	278
7	FRI	2030-2230	Movie	3,881	7,762	77.6	50	2	100	354
7	FRI	1930-2030	Buffy	4,445	8,890	80.8	55	2	110	454
9	TUE	2130-2230	The Pretender	5,000	10,000	80.6	62	2	124	564
10	FRI	2030-2230	Movie	3,390	6,780	80.7	42	2	84	688
10	SAT	1930-2030	Hercules	2,910	5,820	80.8	36	2	72	772
									0	844

83,545 59.3 1,410

REACH DIFFERENTIALS (%)

Sydney 1992, All Commercial Stations



Source: Nielsen Special Report #1,
Light Viewers
Merchant & Partners