

## Advertising

1. This appendix sets out the factors involved in the negotiation of advertising deals between advertisers and sales houses, and with the measurement of market share in television advertising.

### Calculation of prices for television advertising

2. The SAP is an average price per impact<sup>1</sup> across a channel or set of channels (a 'station'). There is a different SAP for different target demographic groups. For example, the SAP for ABC1 males is calculated as:

$$SAP_{ABC1Males} = \frac{\text{Total revenue committed to that station (all audiences)}}{\text{Total ABC1 male impacts}}$$

3. The SAP is calculated retrospectively on a monthly basis. In the past, other sales houses often offered deals expressed as a discount to the ITV SAP. However, the majority now use either their own SAP, or an adjustment to the price in the previous year which takes into account changes in the number of impacts and the revenue. A few programmes may be excluded from the overall pricing mechanism, for example BSkyB has a separate pricing structure for advertising during FA Premier League and Champion's League Matches.
4. Many advertisers and buyers will have specific requirements tied to their purchases. This includes, for example, the target audience, the time of year (October, November and December being particularly popular), the time of day, the day of the week (particularly important where advertising is tied to a particular event such as a sale or product launch), the spread of the advertisements (some advertisers need many

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<sup>1</sup>One impact represents one viewer who sees a particular advertisement once.

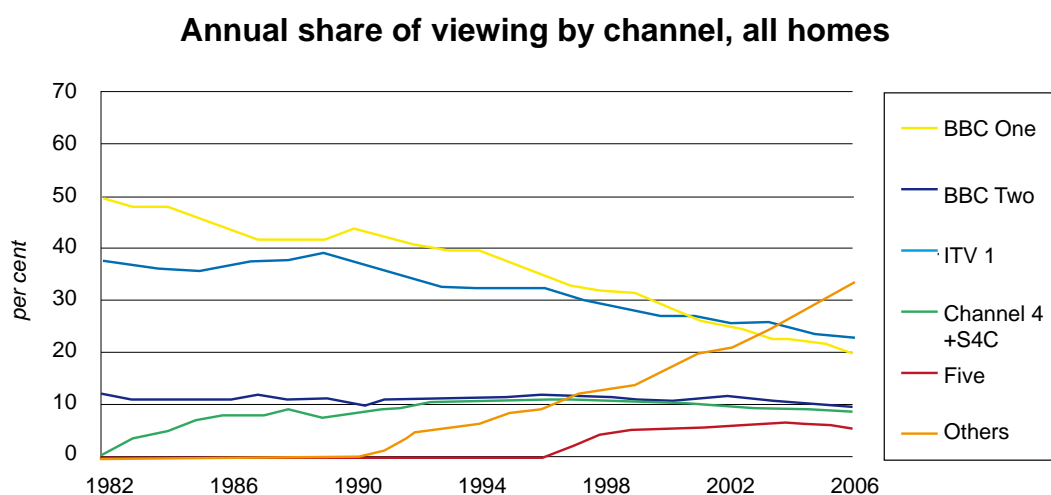
impacts in a short space of time, others prefer them to be spread out), and where in a commercial break an advertisement appears. All else being equal, the more specific the demands of an advertiser, the higher the premium that they will pay.

5. Deals are only agreed after several rounds of negotiation, and buyers will stay in touch with sales houses throughout the year to ensure that their needs are being met in the light of developing programming schedules.

### Market shares in television advertising

6. The number of impacts on offer by a particular channel is determined by a combination of the number of minutes of advertising carried during programmes, and the number of viewers. This in turn dictates the supply of television advertising. The number of impacts is also a major determinant of the importance of a particular channel to advertisers. Figure 1 shows how the importance of the terrestrial channels has evolved over time, compared with those available on multi-channel platforms.

FIGURE 1



Source: Ofcom, BARB, TAM JICTAR and Ofcom estimates (Ofcom *The Communications Market Report 2007*, Figure 2.73.)

7. Market shares by revenue are shown in Table 1. ITV is still the largest supplier of television advertising, with 42.5 per cent of the market. Sky Media is the third largest

supplier, with [✂] per cent share (including its wholly-owned channels, its joint-venture channels, and airtime sold on behalf of third party channels).

TABLE 1 **Market shares (by share of net advertising revenue)**

|                    | <i>Market share<br/>2006<br/>%</i> |
|--------------------|------------------------------------|
| ITV                | 42.5                               |
| Channel 4          | 19.2                               |
| Sky Media          | [✂]                                |
| Channel 5          | 8.3                                |
| IDS (Virgin Media) | [ ✂ ]                              |
| GMTV               |                                    |
| Viacom             |                                    |
| Turner             |                                    |
| Other              |                                    |

Source: Ofcom and BSkyB estimates, CC analysis.

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