

Methodology of the Monthly Index of Services

Advertising Industry Review

Introduction

At the launch of the experimental Index of Services (IoS) in December 2000, a commitment was made to review and improve where practical, the sources and methods used to measure the service sector. This paper outlines the findings of the Advertising Industry Review.

Summary

The industry review for Advertising has made the following recommendations.

- The introduction of the recently published Services Producer Price Index (SPPI) for the placement of advertising to the deflation of the Advertising Industry.

Although the methodology will be changed all the way back to 1994 in the IoS and GDP(O) systems, only the period from 2005 will be revised.

How important is the Advertising industry?

In terms of gross value added (GVA) weights in 2003, advertising SIC¹ 74.40) represents:

- 0.8% of the IoS
- 0.6% of Total GVA

Advertising is published as part of the Business Services and Finance² component within the IoS.

¹ The SIC is the Standard Industrial Classification, and this is the classification system used in the UK to define industrial groupings. The 4-digit refers to the level of detail and is generally the level at which data is collected and aggregated from within GDP(O) and IoS. More detail on this can be found in the IoS Methodology documentation

² This covers the following sections of the UK SIC: J Financial Intermediation, K Real Estate, Renting and Business Activities

Methodology

Previous methodology³

Table 1 below gives the detail of the group as well as the methodology that was previously used:

Table 1

SIC	Description	Indicators	Source	Deflator	Weight* (IoS=1000)	Weight* (GVA= 1000)	ABC
Other Business Activities					129.4	96.2	
74	74.40 Advertising	Deflated gross turnover.	MIDSS	Weighted average of RPIY and the AEI (real estate etc) adjusted for changes in productivity	8.4	6.2	C

MIDSS – Monthly Inquiry into the Distribution & Service Sector, AEI – Average Earnings Index, RPIY - ONS Retail Prices Index excluding mortgage interest payments and indirect taxes

* Weights in the table above refer to GVA weights in 2003 consistent with Blue Book 2007.

Reasons for review

A review of the deflation of the advertising industry was required in order that we may assess the application of the Services Producer Price Index (SPPI) applicable to the advertising industry developed by the Office for National Statistics.

What should we be doing?

In 2001, Eurostat (European Union's Statistical Office) published the '[Handbook on Price and Volume Measures in National Accounts](#)'. The handbook provides guidance by product, on what price and volume methods should ideally be used (A methods), are acceptable methods (B methods) and those methods that should not be used (C methods). The handbook has been written in the context of annual data but the same rules apply to sub-annual data.

The Eurostat Price & Volume Handbook highlights the two distinct services forming the bulk of the advertising industry, namely creation & placement. While prices for placement maybe clearly defined as standard, the "thinking" process of the bespoke creative element is difficult to financially define.

For the creative element, Eurostat set out that an A method would be based on contract prices, whilst B methods could be charge out rates or hourly fees due to the lack of intermediate consumption in this "thinking" stage.

³ In this report, the previous methodology refers to the methodology used prior to Blue Book 2006, and the new methodology to the methodology taken on at Blue Book 2006

For placement, collecting actual contract prices including all media from TV, newspapers & magazines through to consumer magazines, telephone directories, radio, cinema and static ads, whilst adjusting for quality would be an A method.

The current indicator for the industry has been awarded a Eurostat rating C.

Issues faced by the industry review

Background and coverage of SPPI price series

The Office for National Statistics has developed a Services Producer Price Index (SPPI) for the advertising placement industry. The advertising placement SPPI monitors the price of advertising space on television and in printed publications.

The television advertising SPPI was created using unit prices estimated from audience and revenue figures, weighted together using revenue figures fixed in the base year 2000.

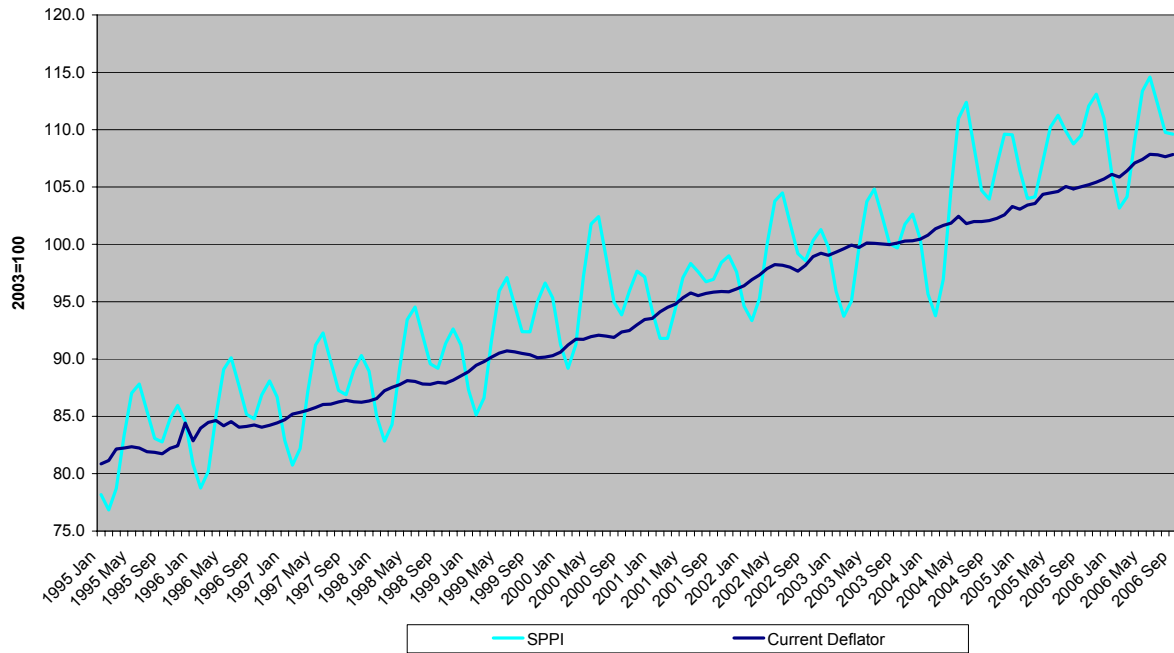
Prices for advertising space on television are affected by a number of factors: The time of day and year, the audience size and demographic and the buying power of the advertisers (by buying lots of ad space an advertiser can secure large discounts). This makes direct measurement of television advertising prices difficult. To make things simpler a proxy price index has been created, using a combination of advertising audience figures, revenue data and average Cost per Thousand (CPT) values. These figures have been supplied to the ONS by Nielsen Media Research. The figures are supplied on a quarterly basis for every television channel broadcasting in the UK.

A printed media advertising SPPI is created using unit prices estimated from advertising rate card prices, adjusted by audience and discounting factors, weighted together using advertising revenue figures fixed in the base year 2000.

Figure 1 below compares the SPPI for advertising with the AEI deflator that was previously used.

Figure 1

Deflation of the Advertising Industry (74.4)



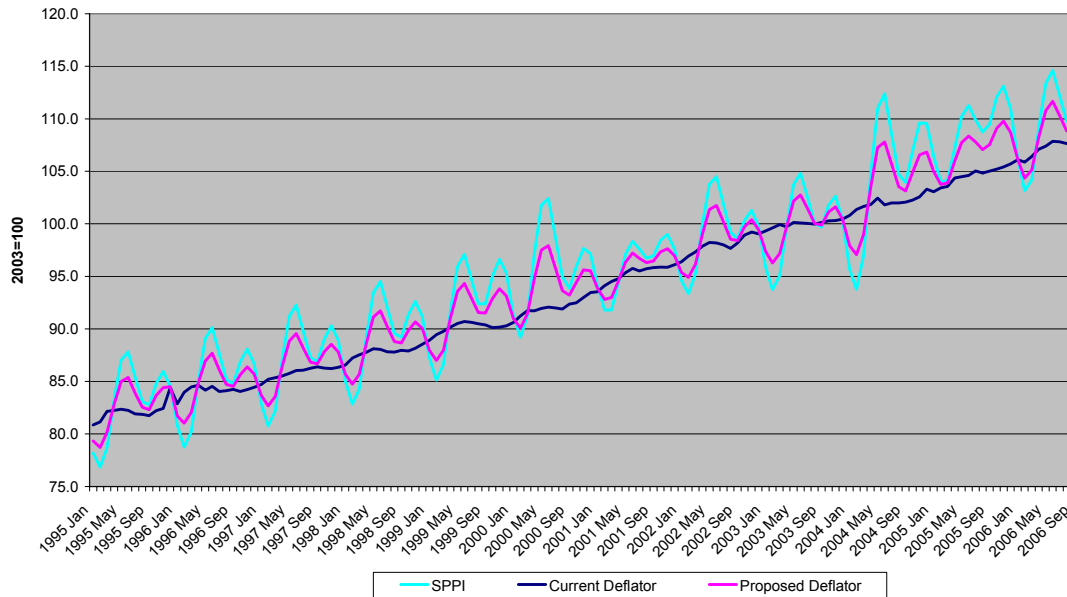
Whilst the review accepted that the SPPI for advertising was a conceptual improvement, the deflator is only relevant to the placement of advertising and left the creation of advertising without a specific deflator.

Weighting series together to create a single deflator

The review concluded that the previous AEI deflator series needed to be retained in order to cover the creative aspect of the industry. In order to do this weights are required to combine the current indicator with the SPPI. These can be derived from Annual Business Inquiry (ABI) data. Figure 2 shows the composite deflator and its component series.

Figure 2

Deflation of the Advertising Industry (74.4)



Recommendation

1. Introduce SPPI for the placement of advertising to the deflation of the advertising industry weighted with current deflator

Who was consulted as part of the Industry Review process?

Within the ONS, there was comprehensive consultation with relevant teams both within National Accounts, survey areas and methodologists.

Benefits and issues of new methodology

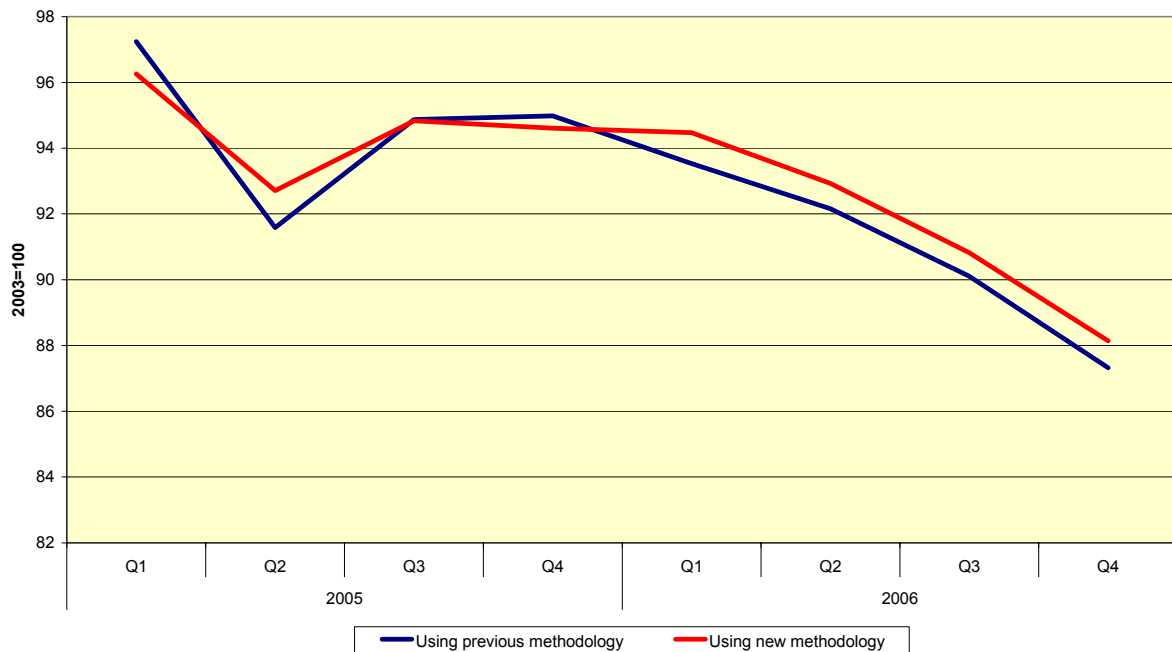
Benefits		Assumptions
A move from a general business services deflator to a more representative price series specifically taking into account the placement of advertising.	V	That the cost of labour is directly proportional to the output prices charged for the creation of adverts
Deflator is calculated harmonically in order to maintain consistency with ONS methodologist's recommendations.		

Impact of new methodology

The graph below shows the impact of the new methodology on the advertising industry. The data has been revised back to January 2005. This in line with the open period for revisions set-out in the National Accounts Revisions Policy for Blue Book 2007.

Figure 3

Advertising (SIC 2003 - 74.4) - constant prices seasonally adjusted



Contact Information

Any questions or comments on this article are welcome, as are offers to participate in the process of improving industry sources and methods. Any enquiries should be addressed to:

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