

ANALYSIS OF THE ROLE OF OUTDOOR ADVERTISING AND ESTABLISHING STRATEGIES FOR MANAGING SPACE MEDIA

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Abstract:

Outdoor advertising is provided via a long supply chain. An advertiser typically uses a media agency to plan and buy its advertising campaign, and the agency uses a specialist outdoor buyer for the outdoor advertising component of the campaign. The specialist outdoor buyer then purchases space from media owners who in turn have contracts with site owners to lease the sites on which to place posters. This market study was prompted by high concentration at certain levels of this supply chain, in particular at the levels of media owners and specialist outdoor buyers. Concerns had also been raised with us about the contractual linkages and payments between the levels in the supply chain and the conduct of some of the players in the industry.

Key words – Outdoor, Campaign, Contractual linkages, Outdoor buyers.

1. INTRODUCTION

At the outdoor media owner level the sector is highly concentrated nationally. Three large media owners (CBS Outdoor, Clear Channel, JCDecaux) represent around 80 per cent of the supply of outdoor advertising space. A fourth smaller media owner (Primesight) represents up to 10 per cent. The media owners are differentiated by the nature of the locations and formats they supply.



Fig.1.Introduction

For example, CBS Outdoor supplies the vast majority of advertising on and in buses and has the contract for London Underground, whereas Clear Channel has a large proportion of local authority contracts for street furniture such as bus shelters, with associated advertising rights. In addition, barriers to entry and expansion may stem from contracts between large media owners and some site owners, especially local authorities. Street furniture contracts tend to be of long duration, in some cases exceeding 20 years, and many contain restrictions on the use of other sites within the local area covered by the agreement. The OFT is therefore concerned that these contracts may be locking up existing sites and limiting the opportunities for new and smaller media owners to provide outdoor advertising space on alternative competing sites. We found that many local authority contracts for small format advertising rights were agreed in the 1990s without a tender process, and appear to represent poor value for local authorities. Site rents appear low relative to the advertising revenue that installations on the sites may generate. There also appears to be limited competition for new contracts. To date, relatively few contracts have been put out to tender at renewal due to a combination of the length of contracts, tacit renewal clauses and local authority procurement practices. Where contracts have been put out to tender, the incumbent media owner appears to have won the new contract in the large.

2. OPERATION

As a result of the mergers outlined in Figure 2 a small number of media owners now account for the majority of the market. The top three media owners CBS Outdoor, Clear Channel and JCDecaux currently have a combined share of around 80 per cent and the fourth largest owner Primesight has a share of up to 10 per cent. In 2005, the OFT cleared the most significant combination at the specialist buyer level, the proposed merger between Poster Publicity Group Ltd and WPP Group plc, which created Kinetic Since this merger, all of the major specialist buyers.

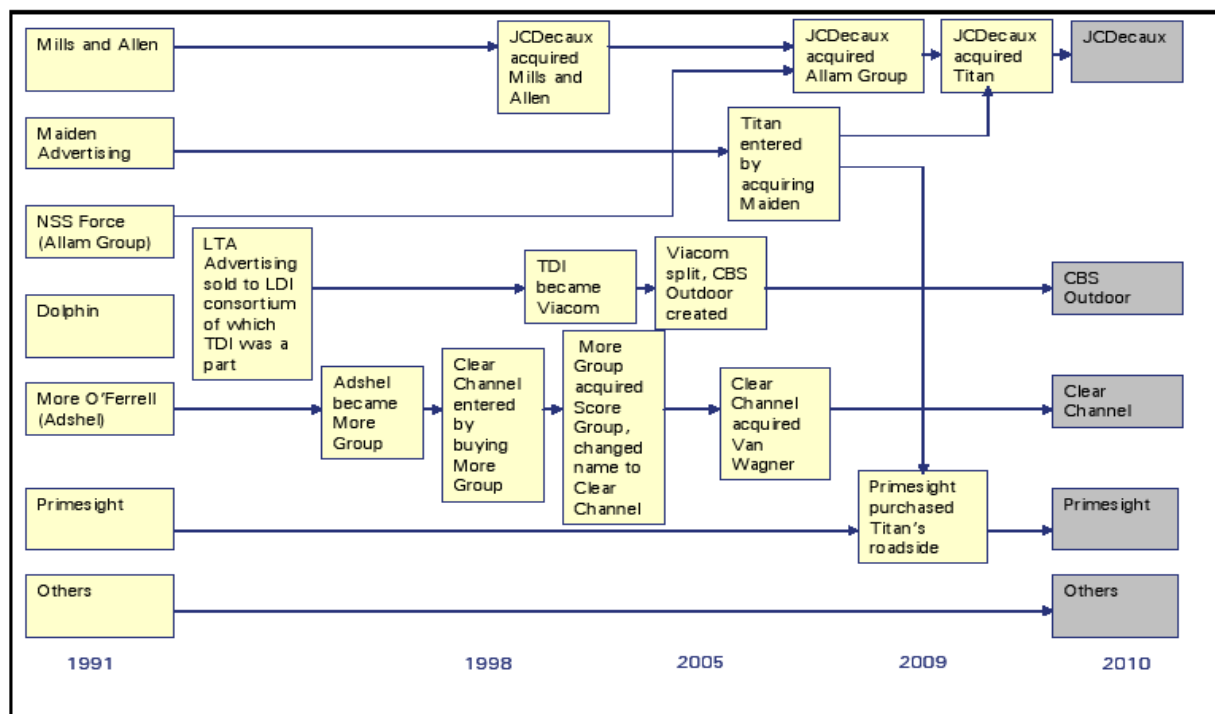


Fig.2.Consolidated buyers

Media agencies are distinct from creative agencies. Media agencies are contracted by advertisers to research, plan and buy advertising campaigns. They prepare a strategy for allocating the campaign budget to various media channels, which is subsequently approved by advertisers. There are a very large number of media agencies, including several independents. Most large media agencies, such as Mediacom and Carat, are multinational and part of advertising groups (here WPP and Aegis respectively). Outdoor site owners are the landlords that own sites used for outdoor advertising. They have contracts with media owners and receive rents from them. Site owners may be local authorities, as well as private landlords such as transport companies and supermarkets. Transport (around £310m revenue). Transport covers railway and underground systems, airports, buses, taxis, and so on. Some of the contracts for sites are very large, for example the London Underground contract or the Network Rail contracts. Transport can offer longer consumer 'dwell time' opportunities. Most large media agencies subcontract the Outdoor component of campaigns to a specialist buyer. Each media agency will have a relationship with a particular specialist buyer. Agencies within groups that own a specialist buyer will generally use that specialist buyer unless the advertiser specifically requests otherwise. Agencies within groups that do not own a specialist buyer, as well as independent agencies, typically have a working relationship with either Posterscope or Kinetic.

3. STRUCTURE OF OUTDOOR ADVERTISING

There may be some exceptions to the process of Outdoor buying outlined above. For instance, some large advertisers may contract directly with specialist buyers.⁹ Other advertisers may buy directly from media owners, as may some of the smaller media agencies. Such business is typically local or regional in nature. We estimate that around 12 per cent of the leading four media owners' revenue comes directly from advertisers and media agencies. In addition, specialist buyers may negotiate discounts based on volume for larger advertisers across all their campaigns over the year. Price setting in Outdoor is complex. Specialist buyers buy from media owners for individual campaigns according to the frequency and coverage objectives of each particular campaign, rather than buying advertising space in bulk for advertisers or agencies.

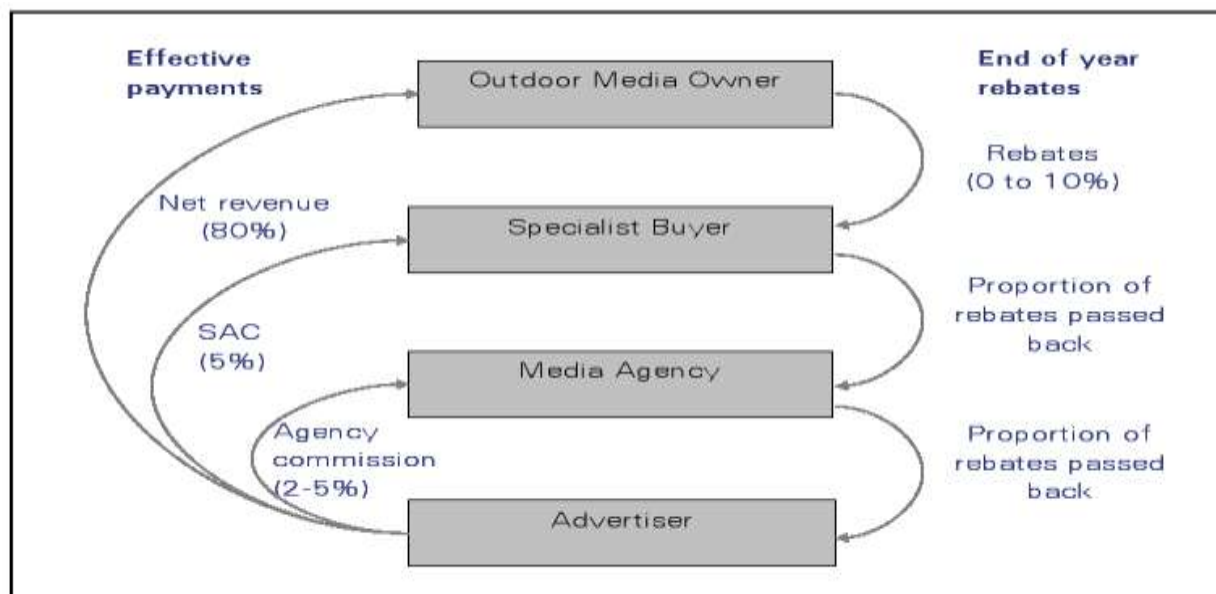


Fig.3.Payment flows

In most cases, prices are individually negotiated and agreed for each campaign separately, though as mentioned above some large advertisers do negotiate across all their campaigns over a year to achieve lower prices. The specialist buyers may use the fact that they are negotiating for a number of campaigns at once to secure lower prices or additional value such as free space for advertisers. Prices depend on how far in advance the space is booked.

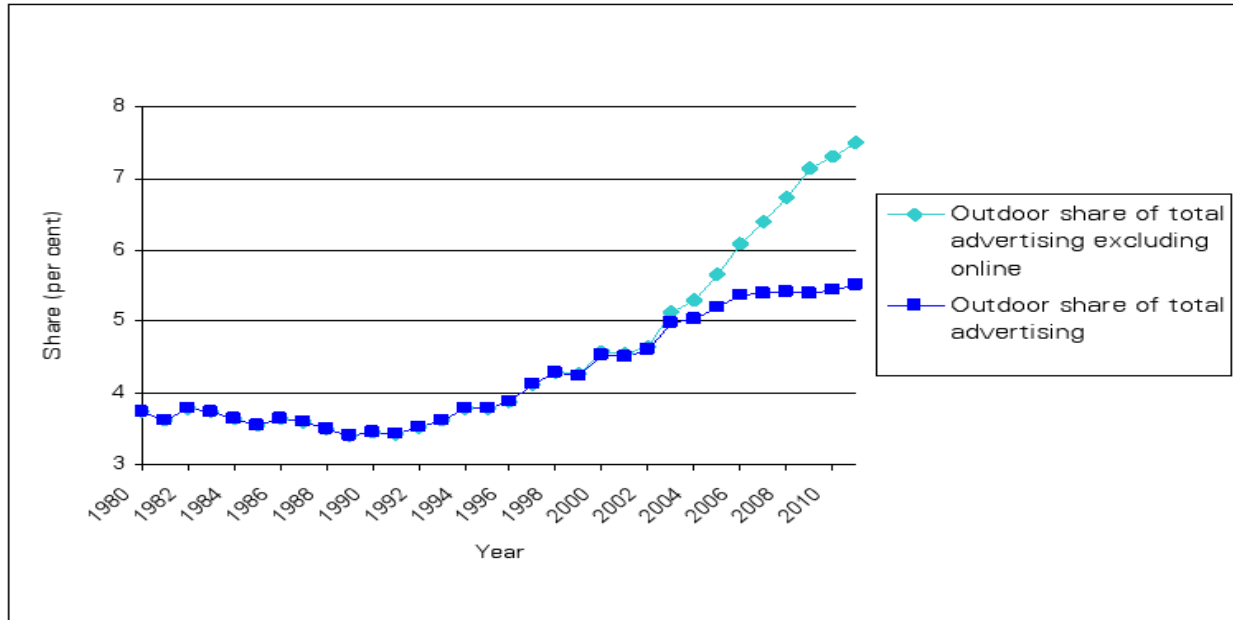


Fig.4. Outdoor advertising status

We have been told that advertisers buying space well in advance are in general able to buy space at lower prices. However, advertisers may also benefit from lower prices if they wait until near the start date of a display period and there happens to be spare capacity of the type of Outdoor media they wish to purchase. The latter strategy is risky as there is no guarantee that good quality advertising space will be available. This is the typical payment structure but there may be minor variations. For example, some advertisers or media agencies may buy direct from media owners. In a minority of cases, the SAC may vary from five per cent and the media agency commission may be outside the two to five per cent range. Volume rebates are generally negotiated annually between specialist buyers and media owners and apply for the course of a calendar year. Rarely, the thresholds for tiers as well as volume rebate rates may be adjusted during the year. This happened in 2009, when Outdoor spend as with other advertising spend was much lower than forecast at the beginning of the year.

4. ISSUES

While competition between media agencies appears strong, a substantial proportion of rebates is not being passed directly to advertisers. These rebates are in addition to the commissions/fees paid by advertisers and place both specialist buyers and agencies in an apparent 'double agency' situation. As noted in previous chapters, the rollback structure of rebate agreements may provide an incentive for specialist buyers to concentrate spend with larger media owners. As a result campaigns may be less effective because they do not make use of innovative or quality-adjusted cheaper sites from smaller media owners.

This may be to the detriment of those advertisers not receiving full benefit from rebates. We explore the agency issues that may arise, in the context of a lack of transparency of rebates and rebate pass through. We consider a lack of incentive to negotiate lower prices, a potential incentive to increase spend on Outdoor relative to other media, and possible skews within Outdoor campaigns. Finally we discuss the possibility of mandating an agency at law relationship and explain why we do not recommend this. In this chapter we consider the potential distortion to the incentives of specialist buyers and media agencies arising from rebate payments. If rebates were fully and directly passed on to advertisers there would be no potential distortion. However, while the large majority of rebates appear to pass through, some proportion may not. Furthermore, much of the pass through is indirect, with media agencies charging lower fees and relying on rebates to help pay for their services. As a result, there may still be agency issues despite high levels of pass through.

CONCLUSION

We note that tendering will require a local authority to incur costs initially, which are likely to vary according to the level of detail in the initial tender specification. In particular, smaller local authorities may not wish to incur large costs in preparing tender documents. However, given the substantial potential value of street furniture contracts, encouraging competitive bids through a tender process is likely to result in a better deal for local authorities in the long run, especially if the contract has never been tendered before. Local authorities should decide in advance if their existing agreements should be allowed to renew or to retender on contract termination. Where an agreement is likely to be renewed, local authorities can consider renegotiating the terms of the agreement.

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