

Report on the Advertisement Industry (Overview)

November 8, 2005
Japan Fair Trade Commission

I. Purpose and Method of the Investigation

- To clarify the industry structure where many advertisement agreements for TV and newspapers concentrate on major advertising agencies and the business practices and to present the competition policies
- To understand the actual situation related to Internet advertisement
 - Questionnaire for TV stations, newspaper companies, advertisement agencies and advertisers (441 companies in total) and interviews (46 companies in total)

II. Investigation

1. Structure of Advertisement Industry

Total advertisement spending in Japan: 5,857,100 million yen(2004).
In most cases, media companies pay commission to ad agency in the ad media dealings among media company, ad agency and advertiser.
Bipolarization with predominant ad agencies and medium and small scale ad agencies.
Total shares of top 3 ad agencies tend to increase.

2. Practices for the Advertisement Industry

In TV advertisement (Program Commercials) it is quite difficult for new ad agencies to enter by reasons below:
(1) Predominant ad agencies including Dentsu assure most of commercial times.
(2) Priority is given to existing advertisers in principle
(3) Little information is disclosed by TV stations
In TV ad trades (spot commercials), difference in commission among ad agencies is 20% at most. Medium and small scale ad agencies which can receive the minimum basic commission only are disadvantageous in price competition.
Not a few trades are made orally and the parties of ad trades (media company, ad agency and advertiser) are not provided with appropriate information. Market mechanism is difficult to work.
Advertisers are not always highly conscious about effect and costs of advertisement.

3. Proposal Based on Evaluation from Competition Policies

- Further disclosure of information about program commissions by TV stations and preparation of calculation standard for commission ratio paid to ad agencies
- Improving methods of doing business by media companies, ad agencies and advertisers

Contact:	Trade Practice Research Office, Trade Practice Department, Economic Affairs Bureau, General Secretariat, Japan Fair Trade Commission
Telephone:	03-3581-3372 (Direct line)
Website:	http://www.jftc.go.jp

III. Overview of the Results

1. Structure of Advertisement Industry

(1) Market scale

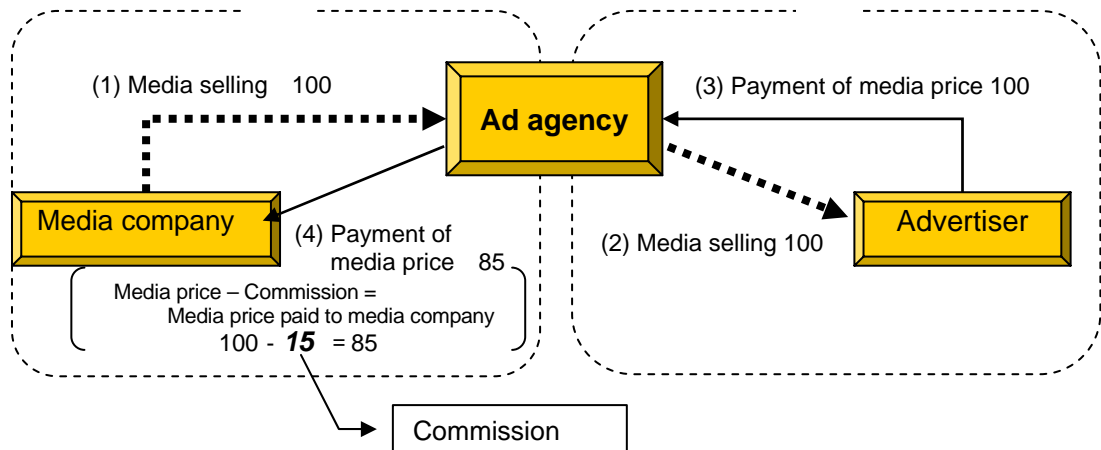
Total ad spending in Japan: 5,857,100 million yen(2004)

Among total ad spending TV represents 34.9% and newspapers represent 18.0%.

Internet ad spending represent 3.1%, but it increased by 53.5% from the previous year. Internet advertising, which has overtaken radio ad spending, is sharply increasing.

(2) Flow of advertising business

In ad trades for TV and newspapers (dealings of time and ad space of media), media companies pay commissions to ad agencies in most cases.



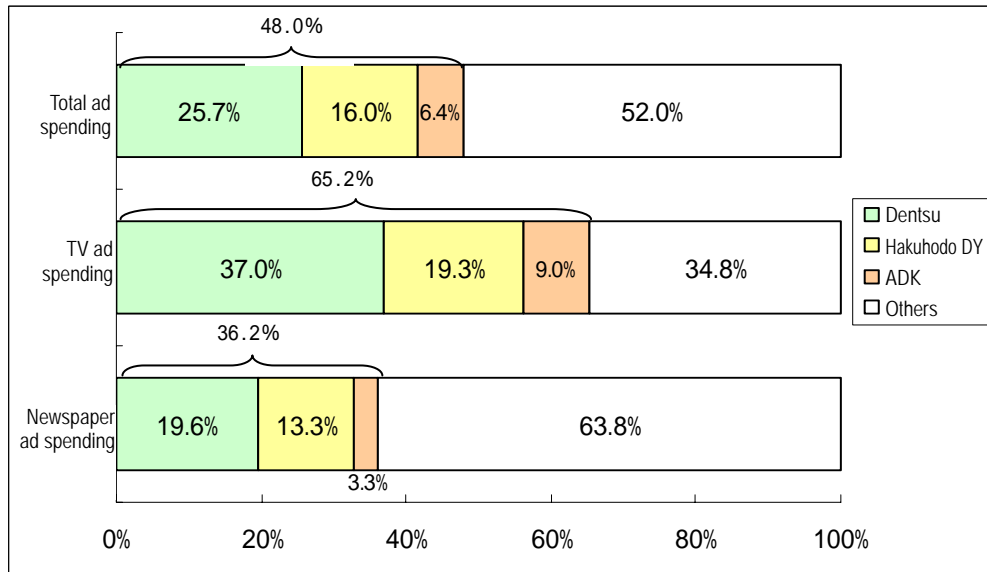
Dealings of time and ad space of media can be divided into two phases: Business between ad agency and media company (I) (Media company sells the time and space of media to ad agency) and business between ad agency and advertiser (II) (Ad agency sells the time and space of media to advertiser). The remuneration the ad agency receives in business I is determined by multiplying the media price by a certain rate (commission).

The above figure shows an example where the commission rate is 15%.

(3) Ad agency market structure

Bipolarization with predominant ad agencies and medium and small scale ad agencies

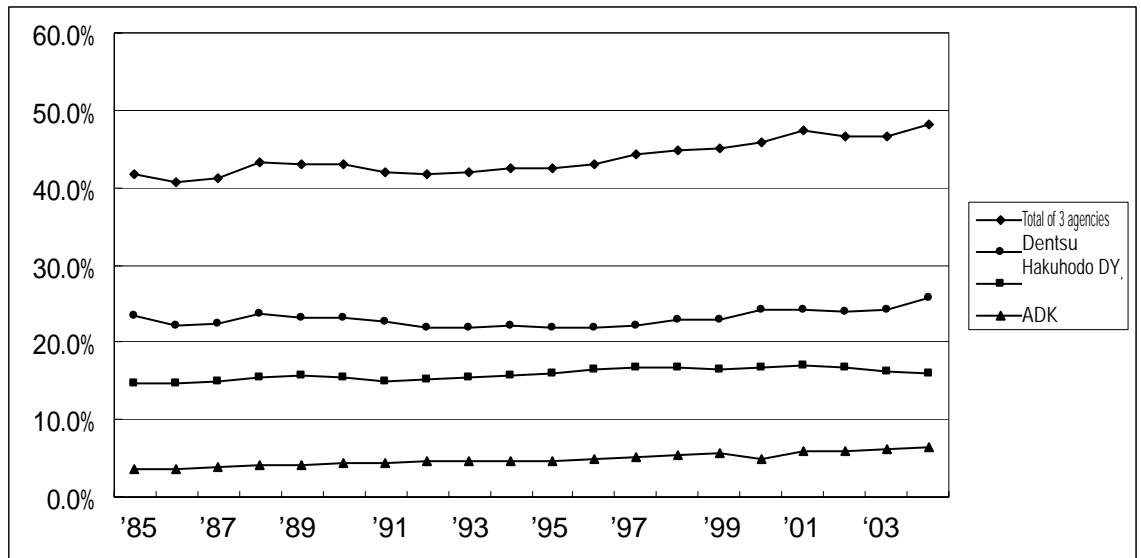
Shares of Top 3 Agencies in total ads, TV ads and newspaper ad spending



Source: Prepared based on "White Paper on Advertisement 2005" by Nikkei Advertising Research Institute

Total shares of top 3 ad agencies tend to increase.

Change in Shares of Top 3 Agencies in Total Ad Spending



Source: Prepared based on "Sales amount of Top 50 Companies among Major Advertisement Agencies" by Kokoku Keizai Kenkyujo

2. Business Practices in the Advertisement Industry

(1) Entering program Commercial business

Among TV advertisement, program commercials are said to be highly effective. However, it is quite difficult for a newcomer to enter the market for program commercials sold by advertising agencies.

(1) Predominant ad agencies including Dentsu assure the most of TV ad spots.

Other ad agencies have only limited opportunities to access information about the TV ad spots for which the advertiser changes (trading opportunities for new ad agencies).

(2) Priority is given to existing advertisers in principle

Advertisers change in only a limited part of commercial times.

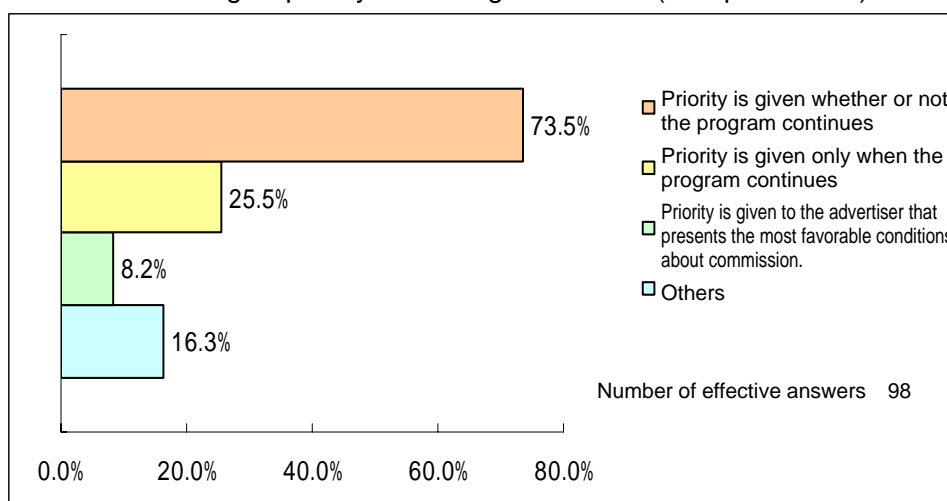
(3) Little information is disclosed by TV stations

TV stations disclose little information about CM time for which the advertiser changes and the ad agency negotiates with a prospective advertiser. Therefore, medium and small scale ad agencies are still provided with limited access to opportunities (information) of trading.



It is quite difficult for an ad agency other than predominant ones to enter the TV ad spots business.

TV stations give priority to existing advertisers (multiple answer)

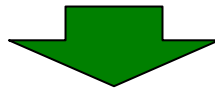
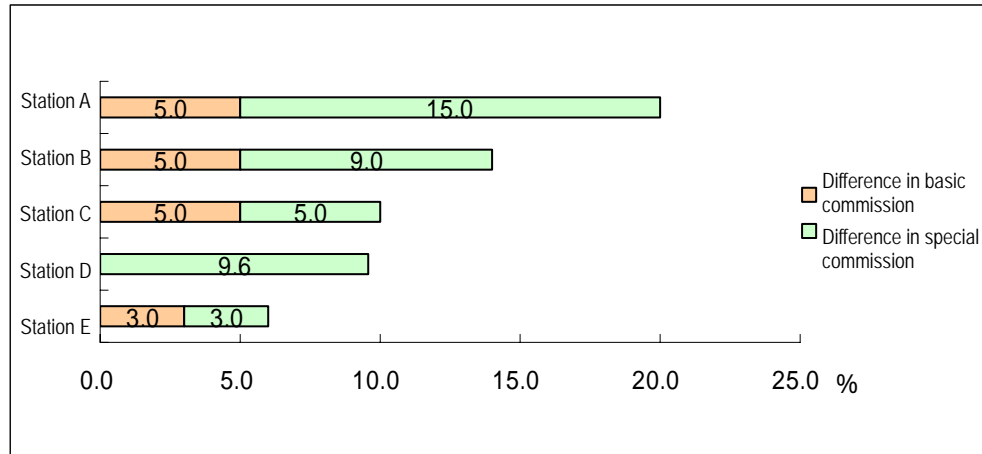


(2) Commission of ad agencies in case of spot commercial

Commission paid to the ad agency consists of basic commission and special commission. For spot commercials, the basic commission is 15 to 20% and special commission is 0 to 15%.

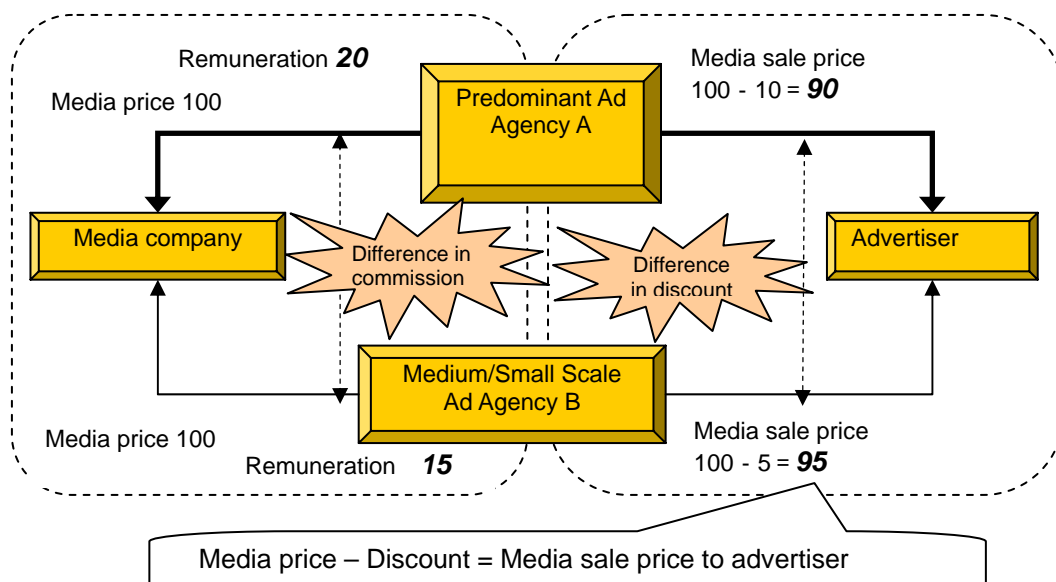
Commission varies depending on the ad agency. The largest difference in commission for spot commercials by TV station is 20% (basic commission for 5% + special commission for 15%).

Commission Difference Depending on Ad Agency for Spot CM
(Difference between maximum and minimum remuneration rates)



Medium and small scale ad agencies can obtain only the minimum level of basic commission compared with predominant ad agencies and are disadvantageous in price competition as shown below.

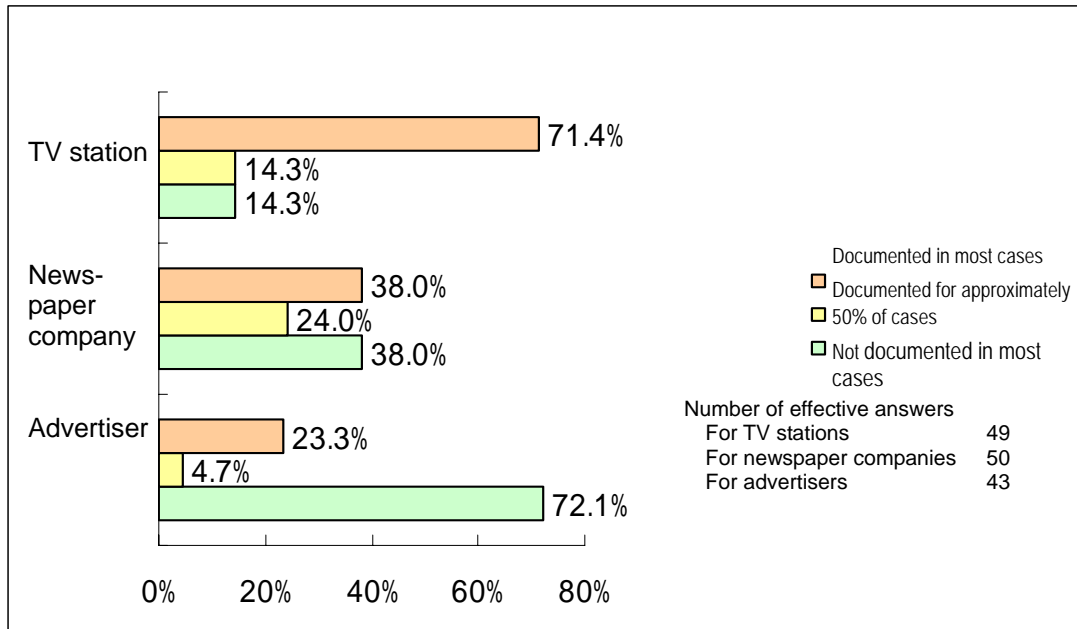
Difference in Price Competitiveness Caused by Commission Difference



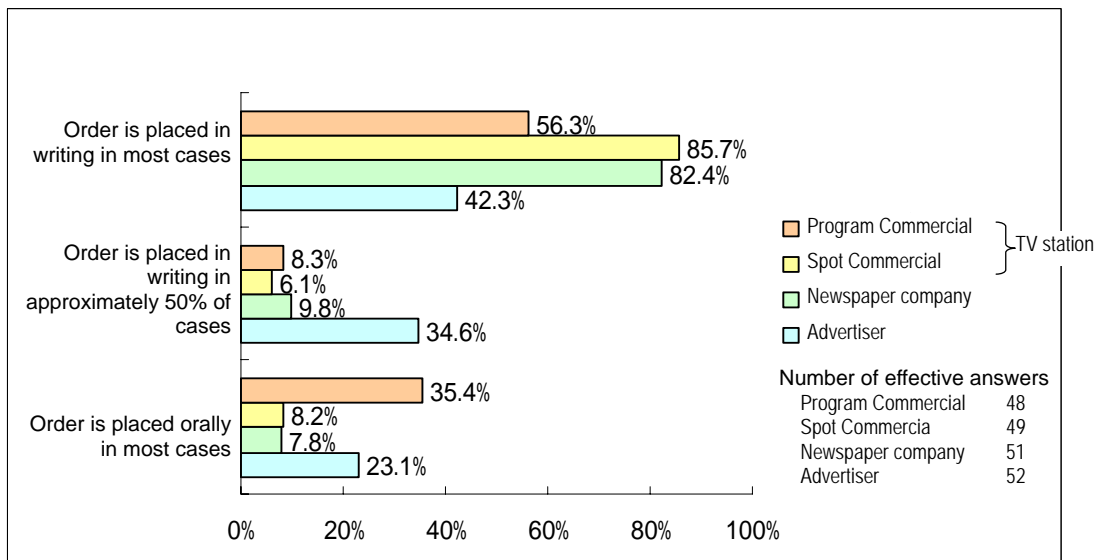
(3) Documentation of agreement

Not a few trades are made orally and the parties of advertisement trades (media company, ad agency and advertiser) are not provided with appropriate information. Market mechanism is difficult to work.

Documentation of Basic Agreement (Questionnaire for ad agencies)



Documentation of Individual Agreements (Questionnaire for ad agencies)



(4) Advertisement effectiveness measurement and cost consciousness of advertisers

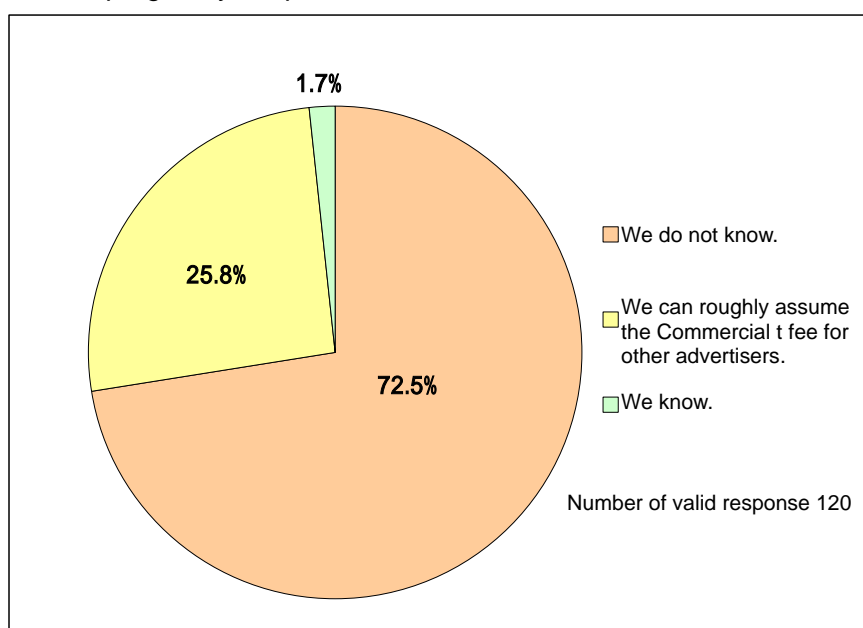
Advertisers are not always highly conscious about effectiveness and costs of advertisement.

Difference in Program Commercial Fee among advertisers the Same Program (Example)

Genre	Time (sec)	Max amount (10,000 yen)	Min amount (10,000 yen)	Difference (times)
Movie	60	5,900	2,600	2.2
Culture	60	6,100	2,700	2.2
Entertainment	60	6,000	3,000	2.0
Music	60	5,600	2,800	2.0
Entertainment	60	5,200	2,615	1.9

Note: Commercial fees (specified in agreements for 6 months) paid by advertisers for the same seconds in the same program aired during prime time are converted to the monthly amount. The maximum and minimum amounts are compared and programs with large differences between them are extracted. The above data is an example of a certain key TV station, but the same tendency other key TV stations, have the same tendency.

Do you know the commercial fee which other advertisers pay for the program you sponsor?



(5) Internet advertisement business

At present, questionable trade practices are not observed.

3. Evaluation from Competition Policies

(1) TV advertisement: Program Commercial

Considering the public nature of TV broadcasting, it is useful and necessary for TV stations to further disclose information related to program commercial trading to promote entry of new ad agencies by doing as follows, for example:

- TV ad spots shall be announced positively at certain timings (two months before program change, etc.)
- Price list of program commercial spots (used for actual trades) shall be disclosed.
- Introduction of bidding for sold times by ad agencies shall be examined.

(2) TV advertisement: Spot Commercial

It is necessary for TV stations to assure rationality, fairness and clearness about decision of commission by preparing common standards among ad agencies on determination of commission rate, based on trade, for example amount during a certain period or increase/decrease of trade from the previous year.

(3) Improving the business methods to assure clarity

For higher clearness of trading, it is preferable for media companies, ad agencies and advertisers to improve the method of trading, for example, to prepare documents describing the trade conditions.

(4) Increasing consciousness about ad effectiveness measurement and costs

It is useful for advisers to have a higher consciousness about advertisement effectiveness and costs and to examine the current advertisement fee.

Advertisers also need to reflect the advertisement effectiveness and cost in selection and change of ad agencies.

(5) Internet advertisement trading

JFTC will continuously pay attention to internet advertisement to avoid trade practices which hamper competition as the market scale grows in the future.