Controls and guarantees in Hungarian television tenders

This document responds to various client needs regarding the guaranteeing of different television conditions and parameters in recent media agency tenders.

<u>The Hungarian television market</u>

Currently, two sales houses, AtMedia and R-Time, do the sales for television channels offering advertising space in Hungary. There are currently 70 television channels, and this number has continued to increase over the last year as well.

Both sales houses sell on a GRP basis by applying predefined customer target groups and channel packages. (Spot sales on a rate-card basis have a very high surcharge and are not common). Agencies and advertisers buy GRP packages specified for the advertisements and allocated to predefined channel groups. Ad spots are distributed among channels by the sales houses when they plan their advertising space inventory. This is essentially based on the selected customer target group.

Television viewing has been affected by a number of trends recently. These trends have affected several parameters including GRP delivery, reach building power, audience composition and primetime.

Climate change is one of these factors, because milder autumn, winter and spring weather negatively affects television viewing. Digitalisation and online streaming (HBO, Netflix, YouTube, etc.) are reducing the television viewing times of young people and people of higher status. This affects reach building negatively in almost all target groups and the quantity of GRP necessary for maintaining a reach level is increasing. Television broadcasters are trying to increase the GRP inventory in their sales as much as possible. In this context, the share of minor channels and zero-rated spots is increasing.

The saturated inventory and shrinking audience, combined with increased advertising spending, have resulted in considerable underperformance at both sales houses, which are tackling the situation by increasing monthly seasonal indices, changing spot indices and increasing CPP prices in general. The industry expects the television inflation rate to be 12.1% in 2019 and 12.7% in 2020 (Kantár). Continual underperformance itself can also generate price increases if the compensation is in a month with a higher seasonal index or if it does not take place at all. Sales houses announced these price increases at the Big Picture television conference.

Professionalism requires us to say that guarantees may be expected for conditions which agencies can control.

The Federation of Hungarian Communication Agencies recommends, therefore, that tender expectations be defined accordingly, by taking the following into consideration.

1. Sales houses expect spending volume and share commitments. This means that agency quotations always apply to a sales house volume and share. Sometimes, in case of certain shares, sales houses refuse to quote and to display the relevant advertiser (e.g. a sales house may not quote below a 40% share). If this is the case, agencies may fill in a quote

requested for such options by relying on their past experience. However, they cannot guarantee delivery.

2. Agreed CPP prices always apply to a certain published customer target group, and values of conversion between different target groups vary considerably depending on television trends and programme environments. Therefore, a guaranteed CPP price may not be expected for target groups of planning. Another problem is that the channel portfolio of sales houses changes, so their baseline affinity changes over the year.

3. Television trends change the television viewing of audience groups quickly and devalue reach building. Current market tools cannot predict the rate of this change. A reach value calculated for GRP quantity cannot be guaranteed.

4. The scale of reduced channel packages purchased by advertisers is also unpredictable. The primetime proportion of advertisers selecting big, general packages is, therefore, unpredictable and its scale is typically lower than the natural delivery. Because sales houses decide on spot locations, primetime proportions cannot be guaranteed in these cases, especially if ad block placement changes due to regulatory changes and decisions at the relevant channel. In 2019, only the R-Time 1+Reach package had primetime definition, and channels are not guaranteeing primetime as “natural delivery”. Fragmentation is reducing the GRP delivery of big reach-building channels continually.

5. For the position in break (PIB), agreements are always made for the number of premium positions. This means that these cannot be guaranteed on a GRP basis, mainly because estimates become biased due to the increasing number of zero spots.

6. Sales houses always invoice the entire monthly advertising budget for campaigns regardless of the delivered GRP value and keep the difference in value (and not in GRP) in what is known as the recon system. They can then use this to adjust later campaigns. If a package becomes saturated, it can generate underperformance for months. Sales houses guarantee delivery annually for advertisers. Weekly, monthly and quarterly GRP delivery guarantees are not possible.

SUMMARY

Television conditions are always issued with the written authorizations of the advertisers and based on advertising spending and spending share. Sales houses are not willing to provide prices and accept advertising spending for each spending share.

In view of the above, agencies may agree not only on selected spending/share parameters and customer target groups, but also annual CPP prices with the stipulation that potential underperformance or overperformance might affect these. (See the recon system). The number of premium positions in break (PIB) and primetime share may also be agreed under the R-time “1+Reach package”.

The CPP price for planning target groups, expected reach building, primetime share (except for the 1+Reach package) and monthly/weekly campaign GRP plans may be presented but not guaranteed.

Information on the distribution of the budget and GRP between channels is not available, this is only available for the advertising packages of the sales houses.

We hope that this summary helps you to better understand television advertising conditions and supports successful tendering. If you have any questions, please refer to the Media Agency Section of the Association of Hungarian Communication Agencies. They will be happy to provide further information and support for tenders.