The Knesset

Research and Information Center

Budget Control Department

Effects of the Change in Advertising Expenditures on Media Outlets

Presented to the Economic Affairs Committee

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This document was prepared ahead of the Economic Affairs Committee session on 23 October 2018 regarding the merger between Reshet and Channel 10. It contains a description of the Israeli advertising market, data on advertising expenditures in recent years as compared with the gross domestic product and the distribution of the advertising pie, advertising expenditures in Israel in an international perspective, and a description of the consequences.

1. Advertising Spending

The advertising market in Israel serves as an economic foundation for media outlets, including commercial television channels, newspapers, radio, and websites. Therefore, advertising expenditures relative to the size of the economy is of public importance to the economic survival of media outlets and democracy in general, as well as to the diversity of information and opinion. The advertising market and its major trends are described below.

1.1. Main Players in the Advertising Market

There are four main players the advertising market:[1]

Advertisers: Entities interested in raising awareness of their products by advertising them on different media channels. These entities determine the advertising budget.

Advertising agencies: Handle advertising strategies ("creative"), and they design and create advertisements. There are dozens of advertising agencies that operate in Israel, which vary by size, geographic area of operation, media specialization, target audience, etc.

Media buyers: Acquire media from media owners for advertisers. The agencies advise advertisers on determining the mix of airtime (television and radio) and advertising space (newspapers, billboards, websites) in order to reach the advertisers' target audience.

Various media outlets: The various media channels in which one can advertise, including commercial television channels, websites, newspapers, magazines, billboards, and movie theaters.

The media buying process follows the following three main steps: Advertisers determine the budget they are willing to invest; then, the advertising agency determines the advertising strategy and creative concept most suitable to advertisers' products. The agency then uses

[1] Antitrust Authority, "Reasons for Antitrust Director's Objection to Merger between Union Media Israel Inc. and TMF Media Force," 23 July 2018. [Hebrew.]

a media buyer to buy airtime and ad space according to the media buyer's suggestions; the media buyer buys media from media owners and delivers it to clients.

1.2. Description of Media Buyers' Market Power

According to studies, in recent decades, the media buyers' bargaining power has increased, particularly as regards buying media on television. There are five major media buying companies in Israel:[2]

- Universal McCann—Media buying company owned by the McCann advertising agency
- Union Media—owned by Oren Yonayov
- Media Communications Links—controlled by the Adler Chomski & Warshavsky advertising agency
- TMF—owned by Gitam BBDO and Yehoshua/TBWA
- Zenith Media—controlled by Publicis Israel Group

Some advertisers also buy ad space and air time directly. Note that there are dozens of advertising agencies in Israel, and therefore the five media buying companies work with numerous advertising agencies as well as the three commercial broadcasting entities (Keshet, Reshet, and Channel 10). One of the reasons for the relatively low number of media buyers is the advantage of size. The bigger the media buying company, the better its standing in negotiations with media vendors in general and television channels in particular. Another advantage of the major media buyers is their ability to offer advertisers more flexible time slots at better broadcasting times.[3] According to an opinion submitted to the Second Authority for Television and Radio council, reducing the level of concentration in the media buying market would increase commercial channels revenues by NIS 60–125 million a year, at the expense of media buying companies.[4]

An Antitrust Authority review[5] indicates that **more than 75%** of commercial television channels' advertising revenues come from sales mediated by major media buying companies. In addition, television channels sell their advertising slots close to the time of broadcast, so that unsold time slots are considered lost income. This state of affairs could result in a situation whereby though television channels' spending is fixed (as the channels have pre-agreed obligations to create productions and acquire content), their revenue is

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2 Ibid.; idem, "Decision on Refusal to Approve Restrictive Arrangement Except between Publicis Groupe Holdings BVP and Media Communications Links Inc.," 16 May 2018. [Hebrew.]

3 Idem, "Competition Issues in Television and Broadcasting," produced for the OECD Global Forum on Competition, 28 January 2013. [Hebrew.]

4 Menachem Perlman, Appendix 10: Economic Opinion on Commercial Television Broadcasting in Israel for Shaham Committee, August 2013. [Hebrew.]

5 Antitrust Authority, "Reasons for Antitrust Director's Objection to Merger between Union Media Israel Inc. and TMF Media Force," 23 July 2018. [Hebrew.]

shrouded in uncertainty. Furthermore, the transition by Channel 2 from concessionaire broadcasting to broadcasting under licenses granted by the Second Authority for Television and Radio[6] forced Keshet and Reshet to broadcast seven days a week; this increased their expenditures and the advertising time slots they sell, which increased their dependence on major media buyers. This method by which television channels sell their advertising slots gives media buyers more flexibility, as the buyers' agreements with advertisers include provisions allowing them to move advertising budgets from one channel to the other and even across types of media. The rigid structure of television channels as the vendors of advertising time slots as opposed to the existing flexibility of media buying companies in purchasing these slots is one cause of media buying companies' market power.

Recent years have seen regulatory decisions regarding the power of media buying companies. For example, the Director General of the Antitrust Authority decided not to approve the merger between Union Media and TMF.[7] Additionally, the Director General refused to grant the request by Zenith Media and Media Communications Links for an exemption from approval of a restrictive arrangement for a collaboration to buy media from commercial television channels.[8] Furthermore, the Committee for the Examination of Television Broadcasts in Israel (the Shaham Committee) recommended limiting the market share of a single media company to 20–25% of the concessionaires' advertising time according to the weighted ratings.[9] The Second Authority for Television and Radio accepted the Shaham Committee recommendations on this matter as well as others.[10]

1.3. Advertising Spend in Israel

Chart 1 presents the change in advertising expenditures in billions of shekels and as a percentage of GDP from 2007–2017.

6 Second Authority for Television and Radio, Decisions by the Authority Council and its Committees, "Decisions from Authority Council Session No. 52," 30 August 2017. [Hebrew.]

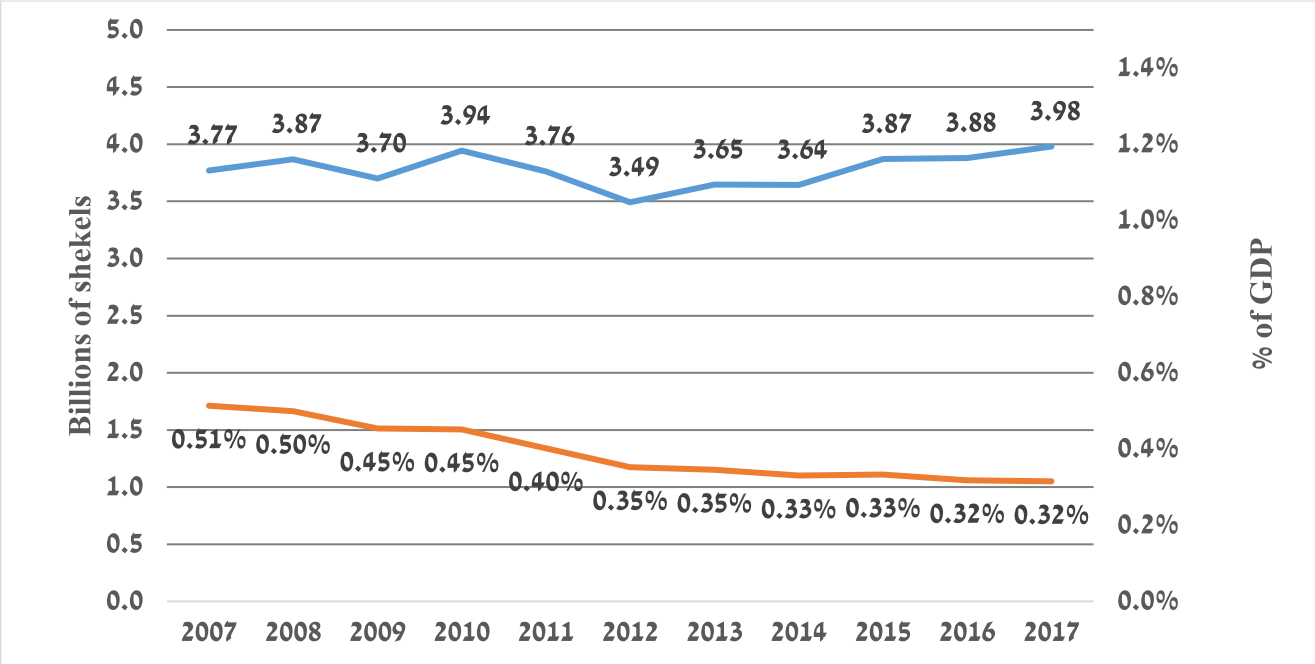
7 Antitrust Authority, "Reasons for Antitrust Director's Objection to Merger between Union Media Israel Inc. and TMF Media Force," 23 July 2018. [Hebrew.]

8 Ibid.; idem, "Decision on Refusal to Approve Restrictive Arrangement Except between Publicis Groupe Holdings BVP and Media Communications Links Inc.," 16 May 2018. [Hebrew.]

9 Committee for Examining Television Broadcasting in Israel, *Final Report*, January 2014 [Hebrew]; Second Authority for Television and Radio, "Council Decisions," access: 22 June 2015. [Hebrew.]

10 Second Authority for Television and Radio, "Second Authority Council Approves Recommendations of Committee for Examining Television Broadcasting," 26 January 2014. [Hebrew.]

Chart 1—Advertising Spending as a Percentage of GDP, 2007–2017 (billions of shekels)[11]



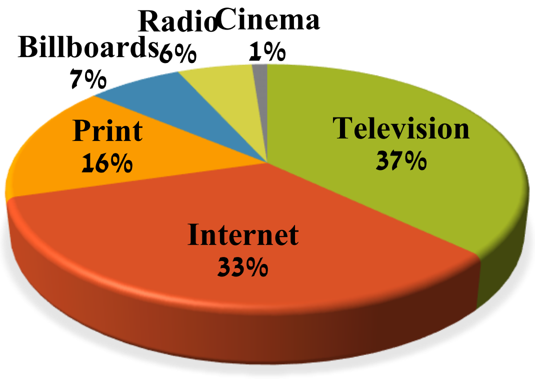
The chart shows that between 2007 and 2017, advertising spending grew from **NIS 3.77 billion** to **NIS 3.98 billion**, a cumulative nominal increase of some 5.5%. Note that the growth trend is inconsistent, as some years saw significant changes—advertising spending in 2010 was NIS 3.94 billion, relatively higher than in other years, whereas in 2012, advertising spending was NIS 3.94 billion, which was relatively lower than in other years. However, advertising spending as a percentage of the GDP decreased noticeably from 2007–2017; advertising spending amounted to **some 0.51%** of GDP in 2007 and **some 0.32%** in 2017. It should be noted that this data does not include advertising expenditures by Israeli companies in foreign markets, some of which is carried out through international companies such as Google and Facebook.[12]

Chart 2 presents the distribution of advertising expenditures by media type.

[11] **Advertising Spending:** Israeli Marketing Association, 2017 Advertising Spending, 6 August 2018 [Hebrew]; **GDP 2007–2016**: CBS: "National Accounts, 1995–2016" – Table 1, 6 August 2018. **GDP in 2017:** CBS: "Quarter for Macroeconomic Statistics; January–March 2018", Spending on GDP, and Uses of Resources, in Market Prices, 6 August 2018.

[12] Nati Yaakobi, CEO of Ifat Advertising Monitoring, phone call, 18 October 2018.

Chart 2—Advertising Expenditures by Media Type (in percentages, 2017)[13]



The chart shows that advertising in television in 2017 was some 37% of the total advertising pie, online advertising was some 33%, newspaper advertising was some 16%, billboard advertising was some 7% of the advertising pie, radio some 6%, and advertising in cinemas was some 1%. Table 1 presents the distribution of advertising expenditures by media type in 2014 and 2017.

Table 1—Breakdown of the Israeli Advertising Market by Media (in millions of NIS, current prices)[14]

Media	2014		2017		Percentage change in expenditures
	In NIS	In %	In NIS	In %	
Television	1,478	41%	1,476	37%	-0.1%
Print	855	23%	623	16%	-27.1%
Internet	818	22%	1,329	33%	62.5%
Radio	252	7%	223	6%	-11.5%
Billboards	198	5%	283	7%	42.9%
Cinema	42	1%	46	1%	9.5%
Total	**3,643**	**100%**	**3,980**	**100%**	**9.3%**

The table indicates that overall advertising spend increased by some 9.3% between 2014 and 2017. The primary changes to the composition of the advertising spend are:

- Expenditures for online advertising, which was some 33% in 2017 compared to 22% in 2014—a growth of some 62% in total online advertising spend.

[13] **Advertising Spending:** Israeli Marketing Association, "2017 Advertising Spending," 6 August 2018, data processed by the Knesset Research and Information Center. [Hebrew.]

[14] **2014:** Itamar Milred, *Change in Advertising Spending Impact on Media Outlets*, Knesset Research and Information Center., June 2015 [Hebrew]; **2017**: Israeli Marketing Association, 2017 Advertising Spending, 6 August 2018, data processed by the Knesset Research and Information Center. [Hebrew.]

- The rate of advertising spend for print media, which was some 16% in 2017 compared to 23% in 2014—a decrease of some 27% in total newspaper advertising spend.
- The rate of advertising spend for television, which shrank from some 41% of expenditures in 2014 to some 37% in 2017, remained nearly unchanged due to the increase in total advertising spend in Israel.

We do not have data on the allocation of total online advertising spend by vendor. However, we can reference the allocation of the Government Advertising Agency's online advertising spend by vendor as an indicator of the total market distribution. Table 2 presents the agency's advertising spend by media in recent years.

Table 2—Government Advertising Agency's Advertising Spend Distribution by Media (2017, in million NIS)[15]

Media	2017	
	In NIS	In %
Television	69	33%
Digital	48	23%
Print	56	26%
Billboards	28	13%
Radio	9	4%
Cinema	2	1%
Total	**212**	**100%**

The data indicate that the primary government advertising spend was in television at 33%, followed by online advertising at 26% and print advertising at 23%. While the majority of total advertising spend in the market was also on television advertising, but at a higher rate (37%) followed by online advertising—also at a higher rate (33%)—newspaper advertising spend in the general market was lower (16%). The difference on print advertising spend between the Government Advertising Agency and the general market is probably due to the requirement to publish public service ads in newspapers.[16]

Table 3 presents Israel's Government Advertising Agency's online advertising spend distribution among primary vendors in 2013–2017.

[15] Processed data from Government Advertising Agency, email, Talia Levinas, 20 September 2018.

[16] For more details see: Roy Goldschmidt, Omer Schwartz, *Lawful Online and Newspaper Advertising: Cost, Availability and Effectiveness*, Knesset Research and Information Center, March 2009. [Hebrew.]

Table 3 - Government Advertising Agency's Online Advertising Spend Distribution by Primary Vendors (in thousands of NIS)[17]

Vendor name	2013	2014	2015	2016	2017	Change 2013-17	Weight (2017)
Google	10,666	10,826	5,464	6,241	26,106	318%	46.6%
Facebook	730	4,508	5,648	5,879	8,702	48%	15.5%
Ynet	3,388	3,856	5,057	4,260	6,286	48%	11.2%
Walla Communications - main	-	-	2,319	2,032	3,483	71%	6.2%
Go Marketing Inc.	1,622	793	1,039	1,241	1,903	53%	3.4%
Mako	-	-	136	846	1,433	69%	2.6%
Panet	421	387	534	811	1,363	68%	2.4%
Instagram	-	-	-	113	903	701%	1.6%
Globes	237	203	468	227	366	61%	0.7%
Hadrei Haredim Inc.	246	252	252	320	362	13%	0.6%
Bokra Communications Inc.	134	96	142	206	354	72%	0.6%
Web 3 Inc.	342	214	326	150	155	3%	0.3%
Kipa Online Services	108	78	128	191	146	-24%	0.3%
Other	15,108	14,787	14,987	14,482	4,439	-69%	7.9%
Total	**33,000**	**36,000**	**36,500**	**37,000**	**56,000**	**129%**	**100.0%**

The table shows that some 64% of the Government Advertising Agency's online advertising spend in 2017 was paid to Internet giants—some 46.6% to Google and some 17.1% to Facebook (including Instagram). Furthermore, the Government Advertising Agency's advertising spend on Google and Instagram went up hundreds of percent in recent years: The budget for advertising on Google increased sharply by some 318%, and Instagram saw an increase of some 701%. Note that the distribution of online advertising spend in the

[17] Processed data from Government Advertising Agency, email, Talia Levinas, 20 September 2018.

general market is probably different, although this data could serve as an indication of the share of the Israeli advertising market held by Internet giants.

1.4. Advertising spend in an international perspective

Chart 3 presents advertising spend as a percentage of GDP, in North America, Western Europe, and Israel.

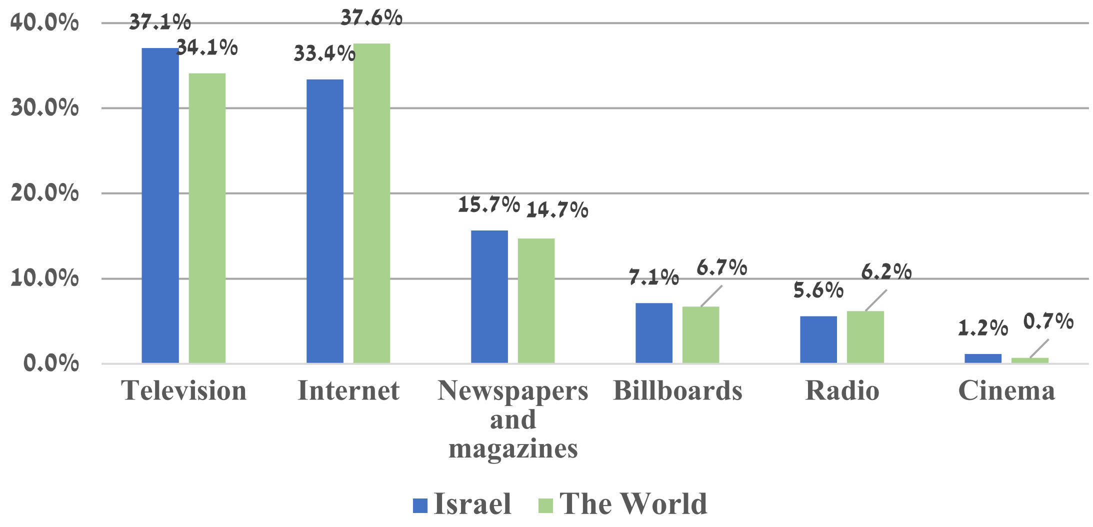
Chart 3—Advertising Spend as a Percentage of GDP, International Comparison (2018)[18]

The chart indicates that the weight of advertising spend relative to is noticeably lower in Israel (0.33%) than in Western Europe (0.57%) and North America (0.92%). The lower advertising spend in Israel compared to developed countries could be due to the relatively low level of competitiveness in Israel,[19] which leads to a relatively low advertising spend. Chart 4 presents a comparison of the distribution of spending by media in Israel and the world.

[18] Data processed by the Knesset Research and Information Center; **Advertising spend:** McKinsey, *Global Media Report 2016*; **GDP:** CBS, Statistical Abstract of Israel 2017, Table 14.24: Gross Domestic Product (GDP) – International Comparisons, 06 August 2018; **North America**: USA and Canada; **Western Europe**: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the UK.

[19] For more details on the level of competitiveness in the market, see: Ministry of Finance, Report by Committee for Increasing Competition in the Market, March 2012.

Chart 4—Allocation of Advertising Spend, by Media, in Israel and the World (2017)[20]



The chart indicates that the distribution of advertising spend across different media outlets is broadly similar to the distribution around the world. Television advertising spend in Israel is evidently slightly higher than the rest of the world—some 37% compared to 34%—but online advertising spend is slightly lower than the rest of the world—some 33% compared to 37%.

2. Consequences[21]

The media (print, television, radio, and websites) are an important tool for exercising basic rights in a democratic society. Relatively high advertising spend that would enable some amount of competition in the media market is immensely significant to the fulfillment of basic rights and to the diversity of information and opinion. Therefore, regulation in this field does not stem from purely economic motives (as with antitrust laws in various economic sectors), but also from the public interest—a diverse and open marketplace of news, ideas and opinions in a democratic society.

The ongoing decline in advertising spend as a percentage of GDP, combined with other economic reasons specified in Section 1 (media fees and regulatory obligations), may force media outlets to face economic difficulties and a struggle to survive, which could reduce the number of media outlets. Additionally, the decline in advertising spend may encourage phenomena such as **concentrated ownership, cross-ownership** (ownership of several media outlets, such as a newspaper and television channel), and **diagonal ownership**

[20] Zenith Optimedia (Publicis Groupe), Executive summary: Advertising Expenditure Forecasts March 2018 .

[21] For more see: Tamir Agmon and Ami Tzadik, *Analysis of Economic Repercussions of Centralized and Cross Ownerships of Media Outlets*, Knesset Research and Information Center, November 2011. [Hebrew.]

(ownership of media outlets as well as other for-profit businesses). Note that cross-ownership can be divided into **horizontal integration** (ownership of several media outlets, such as newspapers and television stations) and **vertical integration** (ownership of several media outlets of the same type, such as several newspapers). The existence of such ownership structures could lead to the phenomena detailed in Table 4—often out of the public eye.

Table 4—Threats of Centralized Ownership, Cross-Ownership and Diagonal Ownership of Media Outlets[22]

Type of ownership	Possible threats
Centralized and cross ownerships	• Infringement on the freedom of expression in society; • Limitation of the diversity of opinion and infringement on the marketplace of ideas; • Limitation of information and news at the public's disposal; • Generation of negative public opinion towards political or business entities based on the considerations of the controlling stakeholders in the media outlet; • Limitation of external criticism by the government and elected officials of the media outlet or its owner, due to fear of their power; • Internal censorship of newspapers and media outlets based on the interests of the controlling shareholder; • Possible restriction of criticism of the government due to cross-ownerships and a lack of competitiveness; • Concentrated market share, which may harm competition in **production and creation** (monopsony); • Harm to competition in the **media market.** For example, a newspaper could highlight programs on a television channel in which it has holdings, at the expense of programs on other channels.
Diagonal ownerships	• Attempts to shape public opinion to benefit the economic interests of the media outlet's controlling shareholder; • Ability of controlling shareholders to present biased representations to market their other businesses; • Prevention of public exposure of matters pertaining to the controlling shareholder; for example, avoiding the publication of investigative stories that might hurt other businesses owned by or linked to them;

[22] Yaron Ezrahi, Zohar Goshen, and Shmuel Leshem, *Cross Ownership—Control and Competition in Israeli Media*, Israel Democracy Institute, 2003 [Hebrew]; Nava Quartler, "The Owners," *The Seventh Eye*, 1 January 2002. [Hebrew.]

Type of ownership	Possible threats
	• Biased news coverage of economic processes in which the controlling shareholder holds an interest (such as objecting to a reform that would reduce profitability in an industry where the controlling shareholder has a business); • The existence of incentives for controlling shareholders to transfer production work to related businesses, thus damaging competition and creative diversity in the domestic production market; • The existence of an apparent conflict of interest in cases where the owners of a business group with high advertising spend (and which is looking for low advertising prices) and media outlets (which are looking for high advertising prices) are one in the same. • Reduction of competition against other businesses belonging to the controlling shareholder, for example through negative portrayals of businesses that compete with those of the controlling shareholders, which creates a deterrent to competitors; • Abuse of power by controlling shareholders to obtain excessive levels of credit, which results in high financial leverage; • Limitation or absence of coverage of news and events that show the controlling shareholder's businesses in a negative light.