

The Economic Impact of Advertising in Ireland



MAY 2012

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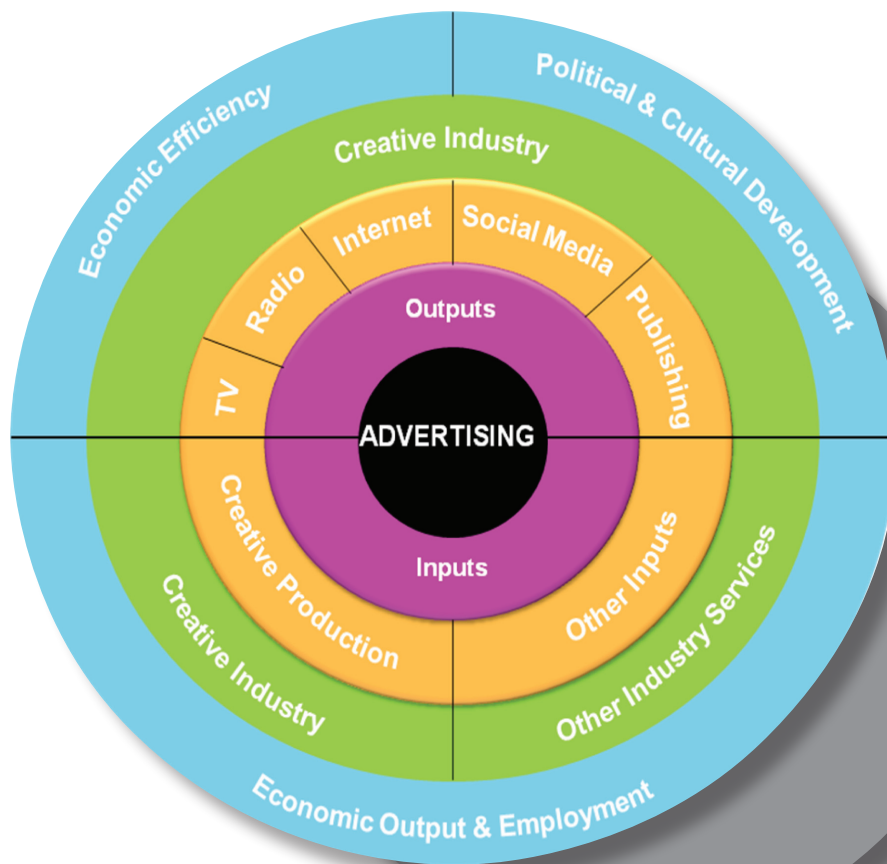


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I am delighted to welcome this research study and its findings. This is a first ever study by the Association of Advertisers in Ireland into estimating the contribution of advertising to the Irish economy. Indeed, I believe it is also the first piece of research on this specific subject which has been carried out in Ireland, and it is important because it identifies the role that advertising plays in a modern economy. It paves the way for future research studies which can build on it, expand its scope and perhaps form the basis for the development of a model which can be elaborated on and made more detailed for the future.

Advertising plays an important and central part in any society, especially in a modern economy which seeks to grow through the creation of jobs, the encouragement of innovation and enterprise and the development of new opportunities. The AAI welcomes the emphasis which the Government is attaching to job creation and enterprise innovation, and we in turn emphasise that essential to it is the development of marketing expertise of which advertising is a core part. Without the marketing and advertising inputs (which every company, business and organisation has to do in some way), the innovation and enterprise will not be realised nor will the jobs be sustained.

The Aecom team has undertaken similar kinds of studies previously for specific industry sectors, and has shown a keen insight into the complexity of the advertising industry which transcends all industry sectors and is a part of most companies to varying degrees. Their study has presented a macro



overview of the place of advertising throughout Irish society as well as the economy, demonstrating how advertising creates and sustains jobs, provides information for consumers, encourages the development of College courses, generates revenue for other companies and is a significant contributor of tax revenues to the Exchequer.

AAI looks forward to future studies building on this research work.

Fiona Curtin, President
Association of Advertisers in Ireland

“Advertising is a core activity and a core skill in economic development” – Fiona Curtin, President, AAI

“Research shows why advertising is a vital tool for the economy and job creation” – Ed McDonald, Chief Executive, AAI

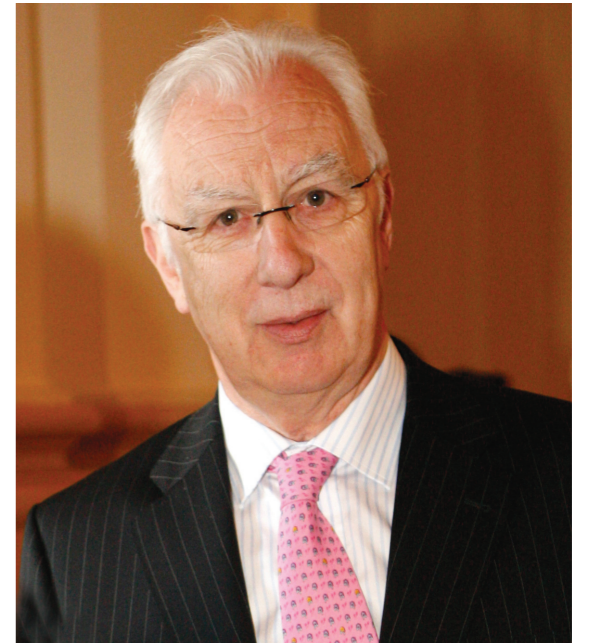
As the Aecom study notes, “The spending arising from advertising comprises direct, indirect and induced spending which in turn boosts economic activity in terms of employment, national income and taxation”.

International research clearly indicates that advertising spend helps not just a business but also the wider economy and this Aecom study affirms that in the case of Ireland.

A study by McKinsey & Co in March 2012, titled *Advertising As An Economic Growth Engine*, noted that “Similar to patents and licenses, advertising is an important intangible investment, and companies are increasingly willing to allocate more of their budget to this area. We examined the effect of advertising on economic growth in great detail. The results of our statistical-variance models showed that advertising has fueled, on average, about 15 percent of growth in GDP for the major G20 economies over the past decade—and in some years, the contribution was as high as 20 percent.

Overall, the contribution that advertising, as a factor of production, made to the economy was slightly more than the contribution from employment”.

A French doctoral thesis for the University of Paris 9 – Dauphine in 2006 noted that “One of the contributions of this study is the unveiling of positive correlations between ‘advertising investments’ and ‘economic growth’, which sheds fresh light on the relationship between the two. Its findings should help those public authorities responsible for regulating the advertising market to take better account of the impact of an increase or a fall in the advertising investment rate in respect of general economic performance. Statistics demonstrate that the more extensive the advertising space available, the higher the rate of investment in media advertising and the greater the strength of economic growth. From a strictly economic point of view, it is therefore appropriate to promote



the emergence of a wide advertising offer to ensure that advertising investment is used to boost economic growth in the best possible way”.

A study of the US economy by Global Insight in 2005 reported that: “The advertising expenditures made throughout the economy by businesses in all industries and all geographic areas set off a chain reaction that (1) generates a net gain in direct sales and jobs due to the promotion of the industries’ products and services, (2) generates indirect sales and jobs among the first level suppliers to the industries that incur the advertising expenditures, and (3) generates indirect sales and jobs among all other levels of economic activity as the sales ripple throughout the economy”.

Advertising does more than just tell people about products or services. It supports industry and jobs and it expands people’s choices. But it does not guarantee success for any product or service. That decision is ultimately in the hands of the consumer.

Ed McDonald, Chief Executive
Association of Advertisers in Ireland

Acknowledgements

This project has benefited from the generous contributions of time and information from many organisations. Nielsen Ireland, IAB Ireland, Onside Sponsorship and the CSO provided data and information which was of invaluable assistance to the authors of the report. The report team also gratefully appreciates the industry insights provided by the National Newspapers of Ireland, the Regional Newspapers and Printers Association of Ireland, Independent Broadcasters of Ireland, Magazines Ireland, *Irish Marketing Journal*, IAPI, Rothco, TV3, TG4 and RTÉ.

Data Sources

Data utilised in this study relating to Advertising Spending was made available from Nielsen Ireland, IAB Ireland and Onside Sponsorship and relates to the 2008-2011 period.

Data relating to the structure of the industry (turnover, value add, enterprises and employment) was obtained from the CSO relates to 2009, the most recent year for which data is available.

KEY FINDINGS

Advertising Spending

- Current best gross figure estimates of overall ad-spend for 2011 are €1.1billion, a decrease of approximately 2 per cent on 2010;
- Press advertising has been the main conduit for advertising spending over the past number of years, with a total spend of €422m in 2011;
- The greatest increase in advertising spend occurred in online advertising which grew over 20 per cent in the 2010-2011 period, reaching an estimated €132 million in 2011;
- The service sector is the main driver of advertising spend across industries, accounting for approximately 76 per cent of total advertising spend in 2011;
- Over the 2008-2011 period, the majority of sectors in the economy showed declines in adspend, with the construction and property sector down 84 per cent;
- The agriculture sector was the only sector to increase its level of adspend which increased by 6.5 per cent in the 2008-2011 period.

Structure, Output & Employment

- In 2009, the most recent year for which CSO data exist, the advertising industry comprised approximately 840 enterprises;
- Increased fragmentation within the advertising industry has fuelled the establishment of new enterprises, which reached 98 in 2009;
- Gross Value Added generated by the sector totalled approximately €255 million in 2009, a decline of approximately 18 per cent on 2008;
- Turnover in the industry reached €912 million in 2009 compared to €1.1billion in 2008;
- In 2009, the number of persons engaged¹ in the direct advertising industry exceeded 4,500, of which approximately 4,200 were directly employed. These figures represent a fall of 10 per cent on 2008;
- Over the 2006-2008 period, the numbers engaged and employed in the advertising industry increased by an annual average of 4 per cent per annum;
- The average number of employees in active enterprises in 2009 was 5.4 compared to 6.5 in 2008, reflecting the impact of the economic downturn and the fact that new enterprises are smaller in size than those exiting the industry.

¹Persons engaged incorporate the number of persons working in an enterprise including proprietors, partners and unpaid family workers.

Economic Impacts of Advertising

- The spending arising from advertising comprises direct, indirect and induced spending which in turn boosts economic activity in terms of employment, national income and taxation;
- From the Input/Output model it is estimated that in 2009 the advertising industry supported 3,700 direct full time employees with an additional 6,155 full time employees supported through indirect and induced activities bringing the total employment supported to over 9,800 persons;
- The direct gross valued added in the advertising sector is some €255m in 2009, rising to €766m when indirect and induced effects are taken into account;
- Tax revenue from the sector in 2009 is estimated at approximately €158m.

Dynamic Impacts of Advertising

- The dynamic effects of advertising on the national economy have the potential to be extremely significant and valuable. Some such dynamic effects include:
- Supporting the viability of other Industries – 75 per cent of turnover for media organisations is derived from advertising, thereby supporting an estimated 10,000 jobs in the traditional media. Overall, it is estimated that at a minimum the advertising sector supports over 20,000 jobs in the Irish Economy;
- Supporting Educational Development – Entrants into marketing and advertising courses, audio visual techniques and media production courses and design related courses increased 33, 25 and 6 per cent respectively over the 2007 to 2009 period;
- Supporting Competition and Efficient Markets – The information provided by advertising impacts on a range of economic factors, including competition, prices, demand, quality of goods and services, and impact on the utility derived from goods.

EXECUTIVE SUMMARY

Background

The focus of this Study is on establishing the economic contribution of advertising to the Irish Economy in terms of the value added, employment and tax effects generated from the industry. It also evaluates the wider economic importance of the sector in terms of its contribution to other sectors of the economy; particularly in relation to economic efficiency, education and the viability of other industry sectors.

The study also considers the trends in the advertising industry in recent times, examining the growth of advertising spending over time with particular emphasis on the different formats of adspend and on adspend across industries. As there is no single source of data on the advertising industry in terms of these issues, the consultants drew data from a range of data sources in undertaking this study.

The Players in the Industry

The advertising industry incorporates a variety of participants each performing a number of activities. The advertising process generally flows from advertisers, including businesses, not for profit organisations

and government, to agencies who are concerned with the creation, planning, preparation and placing of advertisements and promotions. Depending on the agency employed, in many instances the processes incorporates external facilities such as production personnel and support services such as printers. Finally, advertising campaigns are delivered through various different types of media, the most common including TV, radio, outdoor and print with the internet gaining considerable importance. This flow of activities and the personnel involved is not standardised as many advertisers, who have in-house advertising and promotions personnel, deal directly with media organisations.

Advertising in our Economy

The advertising industry creates outputs and purchases inputs. However, the scale and nature of these outputs and inputs means that the impact of advertising on the wider economy is more substantial than many other industries, and often not readily recognised.

The outputs of the advertising industry are advertisements that are disseminated through various media. These advertisements perform a vital economic function in signalling the availability, quality and price of goods to consumer. Through this process, advertising promotes economic efficiency, by reducing consumer search costs and facilitating consumer choice. In this fashion, advertising also promotes innovation and competition in the market place. Advertisements also have a substantial impact on the viability and independence of the media industry, since advertising revenues are a major source of income for media such as television and newspapers. In this fashion, advertising supports the creative sector and promote a pluralistic media.

The advertising industry also purchases inputs, which adds to economic output (Gross National Product), supports employment and contributes to the government tax take, through multiplier effects. Advertising purchases significant inputs from the televisual production companies- another link to the creative sector. The supply chain evident in the advertising sector indicates that the indirect employment² is very important and that substantially more individuals are involved indirectly in the sector.

Aggregate Spending on Advertising

Aggregate gross figure spending on advertising is estimated at approximately €1.1billion in 2011, down 2 per cent on 2010. Press advertising has been the main outlet for advertising spending over the past number of years, with a total spend of €422m in 2011. This was followed by TV advertising which reached €285 million in 2011. The decrease in advertising spend in 2011 was evenly distributed across media type. Outdoor and radio advertising declined approximately 9 per cent, followed by Cinema, Press and Sponsorship advertising which fell by 8, 6 and 4 per cent respectively. Interestingly, only Online and TV advertising showed increases in adspend in 2011; with online advertising spend increasing over 20 per cent in the 2010-2011 period. This growth most likely reflects the growing importance of online as a media outlet for advertisers.

The distribution of advertising spend across the sectors is not surprising. The services sector, which includes wholesale, retail and distribution services, is the main driver of advertising spending across industries with approximately 76 per cent of adspend recorded in this area in 2011. This largely reflects the position of wholesale and retail services in the supply chain, being the last point of contact between producers and consumers, at a juncture where advertising can be most relevant. Advertising spend by firms

² Indirect employment refers to employment arising from the purchase of goods and services by advertising agencies

in the industrial sector was dominated by the Food and Drink component which made up over half of all spending by that sector. Again, this is unsurprising given that food and drinks are daily consumables and thus are likely to be significant subjects of advertising. In contrast, advertising in agriculture was relatively small (1.6 per cent) reflecting the fact that agricultural producers rarely deal directly with consumers.

Trends in advertising spending by sector over the 2008-2011 period clearly show the impact of the recession on the economy. The greatest fall in advertising spend in this period occurred in the construction and property sector, which experienced a decline of 84 per cent. Only the agriculture sector, which has been performing well in the current economic climate, has increased its level of advertising spending albeit at relatively low levels.

Structure, Employment & Turnover of the Industry

Significant restructuring of the advertising industry has taken place in recent years. According to CSO data³, the number of enterprises in the sector has increased over the past number of years, reaching 840 enterprises in 2009. This finding is somewhat surprising given the economic downturn and the reduction in advertising spend in recent times. However, the increase in the number of new entrants to the industry, which reached 98 in 2009, is largely driven by increased fragmentation in the industry and is not an indication of overall growth in the industry in terms of employment. In 2009, the number of persons engaged in the advertising industry, exceeded 4,500, while those directly employed reached 4,200, both representing a decline of approximately 10 per cent on 2008⁴. This finding seems at odds with the trend towards an increase in the number of enterprises. However, analysis reveals that average employee numbers fell from 6.5 in 2008 to 5.4 employees in 2009. This trend largely reflects shedding of employees by firms and the fact that new enterprises are smaller in size than those enterprises exiting the industry.

Advertising Turnover and Gross Value Added have also declined in recent years. In 2009, turnover in the advertising industry totalled approximately €912 million according to CSO figures. This represents a decline of approximately 20 per cent on 2008 and further signals the impact of the economic downturn on enterprise output. Likewise, Gross Value Added in the industry experienced a decline in 2009, reaching €255 million, down from €300 million in 2008. An analysis of the financial structure of the industry reveals that much of the value generated in the sector is absorbed by high cost of sales which the industry experiences in purchasing inputs from the creative sector.

Economic Impacts

The spending effects from advertising include the employment, national income and taxation receipts that arise from the operations of the advertising sector. Each of these spending effects comprises direct, indirect and induced effects⁵. In terms of employment in the advertising industry, this comprises those directly employed in advertising agencies in Ireland. In addition, there is also the employment in firms that supply commercial advertising agencies and that provide support services such as the creative industries.

³CSO data relates to 2009 as this is the most recent year for which information is available.

⁴Persons Engaged is the number of persons working in an enterprise including proprietors, partners and unpaid family workers. Persons directly employed refers to paid employees including both part-time and full time employees.

⁵Induced effects arise where employees in the advertising sector and its suppliers spend their earnings on further goods and services.

The wages and salaries earned by these employees in turn form part of the contribution of the sector to regional and national output (Gross Domestic Product). Finally, the economic activity from the operation of the sector also gives rise to Exchequer revenue in terms of PAYE, PRSI and Corporation Tax. The economic contribution as presented in this report, relates to 2009, as this is the latest date for which CSO data is available.

Based on the input/output model, total employment in advertising is estimated at approximately 9,855 *full time equivalent* employees in 2009. This is made up of 3,700 *full time equivalent* direct employees, 4,760 indirect and an additional 1,395 induced employees. In total, the advertising industry contributes approximately €766m to GDP of which €255m represents direct value added. Thus, the advertising industry in Ireland can be estimated to have an overall economic multiplier of 3.0. This multiplier is higher than the average for other industries in which the input output model has been employed. However, this is to be expected given that the indirect effect of advertising is particularly large and reflects the high cost of sales the industry experiences in sourcing inputs. In total the advertising industry generates tax revenue of approximately €158m for the exchequer.

Dynamic Economic Impacts of Advertising

The advertising sector has wider effect on the national economy than purely employment, value added and taxation. These dynamic effects have the potential to be far more significant and valuable than the spending effects. By their nature these effects are harder to identify and quantify, since they arise from changes in the decision making of firms as outlined below.

Spending in advertising supports the viability of a range of industries and thus a significant amount of employment. Approximately, 75 per cent of turnover for media organisations is derived from advertising. Thus, advertising revenues directly supports employment in various media organisations which is estimated at approximately 10,000 people in the traditional media of press, TV and radio in Ireland. In supporting the viability of media, advertising promotes the independence of the media industry which is an important feature of modern democracies and cultural development. In a similar fashion, advertising also supports the wider creative industries in Ireland. Overall, it is estimated that at a minimum the advertising sector supports over 20,000 jobs in the Irish economy;

The information role of advertising is particularly important and impacts on a range of economic factors. Essentially, by providing consumers with useful information, advertising makes comparing products and services easier, less time consuming and enables appropriate selection of goods. These characteristics of advertising can stimulate competition amongst market participants, which in turn impact on prices and the quality of goods and services. The role of advertising in promoting competition has been recognised in Ireland by the Competition Authority. Over a number of years, the Authority has sought removal or liberalisation of bans on advertising, which existed for professions such as medicine and the law. In addition, the availability of information on products can stimulate demand as consumers move to purchase additional goods and become aware of new goods. This supplementary spending in turn impacts on economic growth and job creation. Finally the information provided in advertisements impact on the image and value associated with a good which in turn affect utility derived from goods.

1. INTRODUCTION

1.1 General

The Association of Advertisers in Ireland commissioned AECOM to undertake a study to assess the economic impact of commercial advertising in Ireland. This study aims to:

- Carry out an assessment of the growth of advertising spending ('adspend') over time with particular emphasis on the different formats of adspend and on adspend across industries;
- Establish value added and employment generated from the industry differentiating between those directly employed in advertising agencies and those in ancillary advertising services; and,
- Evaluate the wider economic importance of the sector in terms of its contribution to other sectors of the economy, particularly in relation to economic efficiency, education and the viability of other industry sectors.

1.2 Advertising

Generally, advertising refers to a paid, mass mediated action to inform or persuade individuals to undertake an action associated with a product or service⁶. However, there is an extent to which advertising – that is placing adverts in different media - can be supplemented by other forms of marketing such as promotion and direct mail campaigns. The use of these marketing tools in association with advertising can create widespread brand exposure and is often referred to as Integrated Brand Promotion⁷.

The direct activities associated with advertising encompass the actions of advertising agencies, direct advertisers and media representation groups. These activities can range from the provision of a full range of advertising services in the case of large advertising agencies to the creative production of advertisements by small specialist agencies, while media representation incorporates the sale or resale of time and space for various media.

1.3 Layout of this Report

Section 2 of this report outlines the structure of the advertising industry, detailing the participants in the industry and their functions. It briefly summarises the different methods employed in measuring the overall size of the industry. Section 3 goes on to examine the industry in terms of advertising expenditures and considers the level of expenditure across a variety of advertising formats. Section 4 then focuses on the size of the industry in terms of its productive performance, examining issues such as the industry's turnover, the number of enterprises and employment. Section 5 details the wider economic impact of the industry in terms of gross value added, employment and other metrics. Section 6 goes on to consider the dynamic effect of advertising on the wider economy and this section also incorporates some examples of these effects on the Irish economy while Section 7 draws findings from the study.

⁶ O'Guinn, Allen & Semenik (2009).

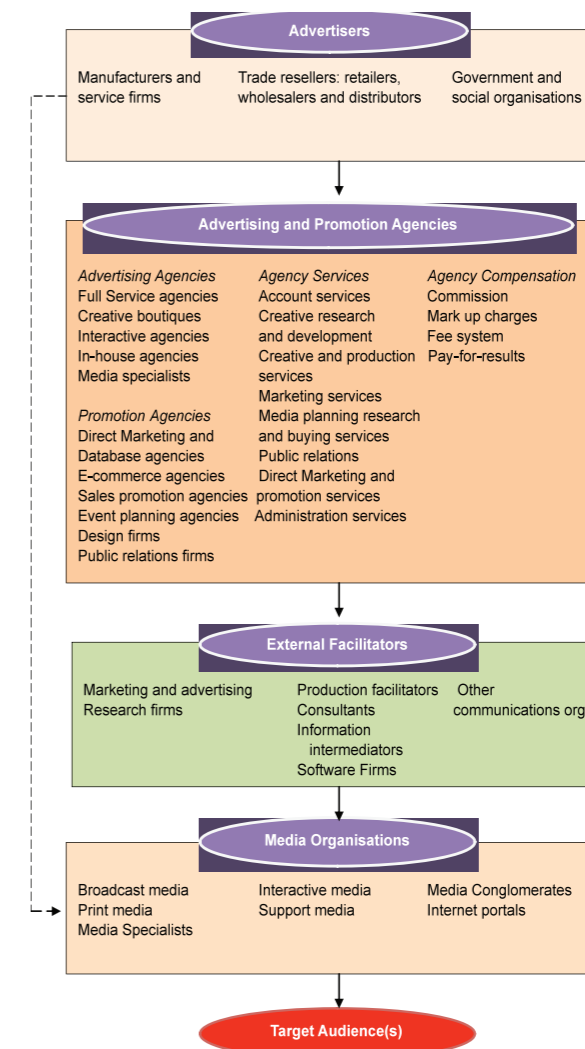
⁷ Op.Cit.

2. THE ADVERTISING INDUSTRY

2.1 Structure of the Advertising Industry

The advertising industry incorporates a variety of participants each performing a number of activities. Traditionally, the industry has been divided into what was known as the advertising tripartite,⁸ incorporating advertisers, agencies and the media. However, more recently, the definition of the industry has broadened to incorporate external facilitators, such as production personnel and researchers. This view of the industry is presented in Figure 2.1 below. As can be seen, the advertising process generally flows from advertisers to agencies, incorporating external facilitators in some instances and onwards to the media organisations who produce the advertisements. However, this flow of activities is not standardised with many advertisers, who have in-house advertising and promotions personnel, dealing directly with media organisations.

Figure 2.1 Structure of the Advertising Industry & Participants in Process
Source: O'Guinn, Allen & Semenik (2009)



⁸Fletcher (2010).

Advertisers can be businesses, not for profit organisations and governments. Regardless of the form of advertiser, the general objective is to use advertising and promotional tools to communicate with target markets and thereby stimulate awareness and demand for their product or service. The advertiser ultimately determines the demand for the services of advertising agencies. Advertisers can employ personnel in internal marketing departments who are dedicated to advertising functions.

Agencies are generally concerned with the creation, planning, preparation and placing of advertisements and promotions. However, the exact services provided by agencies depend on the type of agency in question. Full service agencies provide a wide array of services that typically provide advertisers with all their promotional needs while other independent agencies may focus solely on one task such as design agencies.

However, even in the case of full service agencies, there is often still a need for **External Facilitators** in undertaking advertising and promotional campaigns. This is particularly relevant when working with specialised agencies that do not have sufficient in-house resources and rely on services provided by other agencies. Thus, in many cases there is a cross-over between what is defined as an agency and external facilitator as can be seen in Figure 2.1. The most prominent external facilitators are in the area of production. This is especially the case for audio and TV advertisement production which requires a great deal of specialised personnel such as lighting technicians, directors, songwriters and so forth. It is also particularly relevant for printers of promotional material which play a key role in overall advertising output.

Finally, advertising campaigns are delivered through various different types of **Media**. The most common mass media for advertisements and promotions are undoubtedly TV, radio, outdoor and print. However, the internet is gaining considerable importance, particularly in operating targeted campaigns.

2.2 Changing Face of Advertising Agencies

As outlined above, the composition of advertising agencies can range from full service agencies to small independents. Full service agencies came to prominence in the 1920s as agencies tried to compete on service as opposed to price. The prominence of full service agencies prevailed up to the 1970s when they started to disintegrate, as specialists within specific units moved to form their own specialised agencies. The disintegration of the advertising industry brought about the inception of specialised creative boutiques typically concerned with the creative concept development, copywriting and artistic services as well as promotional agencies incorporating direct marketing agencies, who undertake direct marketing or direct response campaigns. Recent additions to the independent arena include interactive agencies concerned with helping advertisers use new media such as internet or podcasting, and e-commerce agencies which handle planning and execution of promotions using electronic media. While a desire for specialised independent agencies still prevails, there has been a move back to full service agencies following major mergers and acquisitions at the start of the 21st century. Regardless of this development, independent agencies still make a significant contribution to the industry.

The changing structure of the advertising industry over time also impacted on the way in which agencies are compensated. Traditionally, advertising agencies compensation was based on a commission system where agencies received a percentage commission from the total amount paid to the media organisation involved in the advertisement. This practice prevailed up to the 1970s until the Office of Fair Trading in the UK found the practice to be anti competitive in 1976. This finding, coupled with the subsequent disintegration of the full service agencies in the 1970s caused the commission-based payment system to change dramatically. While commission payments are still present in the industry, it is now estimated that

they only account for one third of all fees charged⁹. As a result, there has been a move to other payment methods, such as mark up or retainer fees, fee systems and pay for results. Mark up or retainer fees generally result in a percentage charge being added to contractor fees. These mark ups generally look to recover the cost of required resources or third party costs, and have become more popular in Ireland in recent times. Fee Systems based on hourly rate fees or contract fees are also now prevalent in the industry. More recently, a move to a pay-for-results compensation system has been adopted and may be based on sales results but more often than not on brand information, brand awareness or identification.

2.3 Measures of Advertising Activity

Measuring advertising activity generally involves two alternative approaches: a spending approach and a production value approach.

Spending Approach

The spending approach to measuring the industry involves assessing advertising spend across a range of media outlets. This approach is applied across a range of organisations in the advertising world. Generally, data relating to advertising spending are available in either:

- **Rate Card Pricing** - Rate card prices are derived from rate card documents which contain standardised prices and descriptions for the various advertising placement options available from media outlets. Generally speaking, rate card prices represent the maximum price that one would pay and are subject to discounts depending on volumes, demand and other factors.
- **Gross Figure Pricing** - Gross figure estimates are based on rate card prices minus the discounts received from media organisations. Given that discounts can vary substantially, obtaining figures for advertising spend in this manner can prove particularly difficult.

Production Value Approach

A production value approach to measuring activity focuses on firms in the industry and generally involves assessing principal trading aggregates such as turnover, gross value added, employment and the number of enterprises in the sector. This approach does not include activities undertaken by internal marketing departments within companies outside of the advertising sector. Consequently, this measure of the industry represents a minimum estimate of its overall production value.

Data relating to the productive measures of advertising activity are available from the CSO (Central Statistics Office) while advertising spending data are available from a number of specialist companies and trade organisations such as Nielsen and the Interactive Advertising Bureau. Generally, CSO data lags industry data by about 2 years.

2.4 The Impact of Advertising on the Economy

Like all industries, advertising creates outputs and purchases inputs. However, the scale and nature of these outputs and inputs means that the impact of advertising on the wider economy is more substantial than that of many other industries. The output of the advertising industry is advertisements that are disseminated through various media. These advertisements are made on behalf of firms and other

⁹ *The IAPI Client Guide to Agency Remuneration 2008.*

organisations and perform a vital economic function in signalling the availability, quality and price of goods to consumer. Through this process, advertising promotes economic efficiency by reducing consumer search costs and facilitating consumer choice.

Advertising informs the public that new products and services are available. Before purchasing, the public must first know about the new products and services, and where to find them. Advertising signals the characteristics of new products, provides specifications and helps consumers find the product. In this way, advertising promotes innovation in the market place.

Advertising also promotes competition in the market place through this process. When consumers gain knowledge of the availability of different suppliers of goods and services and the price and quality of their goods, they are in a position to choose producers that offer value for money, thus sustaining efficient producers in the market place (see Figure 2.2).

The outputs of the advertising industry have a substantial impact on the viability and independence of the media industry. Advertising revenues are a major source of revenue for media such as television and newspapers. They thus support the creative sector and promote a pluralistic media, which is an important feature of modern democracies and cultural development. The advertising industry also purchases inputs, which adds to economic output (Gross National Product), supports employment and contributes to the government tax take, through multiplier effects. Advertising purchases significant inputs from the televisual production companies- another link to the creative sector.

The supply chain evident in the advertising sector indicates that the indirect employment is very important and that substantially more individuals are involved indirectly in the sector.

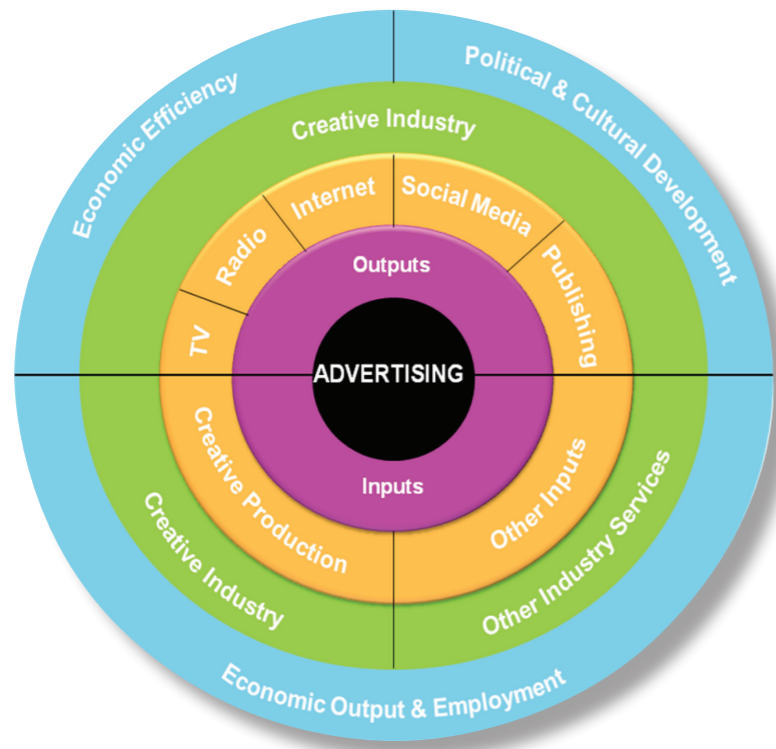


Figure 2.2: Advertising Impacts on Economy
Source: AECOM

3. ADVERTISING SPENDING

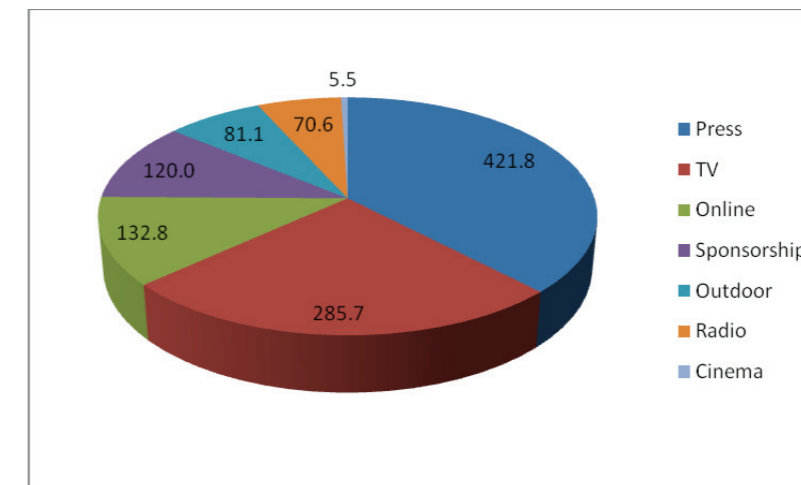
3.1 Introduction

This Section of the Report measures advertising spending in aggregate, by type of media outlet, and by sector.

3.2 Aggregate Spending

Advertising spending is defined as comprising TV, Radio, Press, Cinema and Outdoor media advertising, along with Online advertising and Sponsorship which have become increasingly significant in recent years. Data sources on adspend across these sectors are detailed in Box 3.1. Currently, our best estimate of overall adspend based on gross figure pricing for 2011 is approximately €1.1billion, down almost 2 per cent on 2010. Figure 3.1 illustrates the composition of this spend across media types.

Figure 3.1: Total Advertising Spend by Media Type 2011 (€m)
Source: AECOM Analysis based on data from Nielsen, IAB Ireland & Onside Sponsorship



Box 3.1: Data Sources

Comprehensive data on media spending in the area of TV, radio, press, cinema and outdoor media are available from Nielsen Ireland. Nielsen is the largest and best known source of advertising spend data globally. In analysing advertising spend across these media, Nielsen covers approximately 8 national daily news papers, 10 national Sunday newspapers, 53 regional newspapers and 39 magazines. It also covers 12 radio stations, 24 TV stations, 69 cinemas and the 4 main outdoor media owners. In collating these data, Nielsen documents advertising spend by product category and brand. Nielsen Ireland’s advertising expenditure data exclusively examines ad-spend in terms of the media buying and specifically tracks media buying in Ireland. Consequently, it does not take account of ad-spend by Irish companies in markets outside of Ireland.

At present, Nielsen does not document online ad-spend. However, the Interactive Advertising Bureau (IAB) Ireland provides estimates of online ad-spend in Ireland. IAB Ireland is a member of the global IAB network of online advertising trade associations and funds the IAB PwC Online >>

Adspend survey. This survey estimates the value of online Adspend in Ireland and tracks its development over time. In 2011, the survey incorporated 26 major Irish online media owners and 14 sale houses and advertising.

Data relating to sponsorship is more difficult to obtain. However, this area of advertising is becoming increasingly important in recent times. According to Onside Sponsorship's annual Irish Sponsorship Industry Survey, while there were declines in overall sponsorship spend in 2011, there was an increase in the number of brands utilising sponsorship advertising compared to 2010. The Onside Survey specifically examines sponsorship spend in terms of rights fees and not on actual advertising spend. Industry experts estimate as a rule of thumb that there is approximately a one for one ratio of rights fees to advertising spend. However, much of the advertising spend resulting from sponsorship is likely to be picked up in our outdoor estimates of advertising from Nielsen and a large proportion will likely incorporate on- the- ground promotions which is outside our current estimate of advertising spending.

3.3 Spending by Media Type

Press advertising has been the main conduit for advertising spending over the past number of years, with a total spend of €422m in 2011. This is followed by TV, Online and Sponsorship advertising. Between 2008 and 2009, there was a significant decline in total advertising spend, which fell over 15 per cent in the period. While advertising spend fell across all media types, the greatest reduction occurred in TV (25 per cent), Cinema (22 per cent) and Radio (17 per cent).

Advertising spend showed signs of recovery in 2010 with total adspend up 2 per cent, however this increase in adspend was subsequently reversed in 2011. The declines in ad-spend in 2011 were fairly evenly distributed across media type. Outdoor and radio advertising declined approximately 9 per cent, followed by Cinema, Press and Sponsorship advertising which fell 8, 6 and 4 per cent respectively. Interestingly, only Online and TV advertising showed increases in adspend in 2011, with Online advertising spend increasing over 20 per cent in the 2010-2011 period. This growth reflects the growing importance of online as a media outlet for advertisers. Box 3.2 outlines the estimating procedures employed in estimating overall advertising spend.

Table 3.1 Overall Gross Figure Estimate of Advertising Spending 2008-2011

Media Type	2008 (€m)	2009 (€m)	2010 (€m)	2011 (€m)
Press	493.6	424.6	449.3	421.8
TV	371.3	277.0	279.9	285.7
Online*	105.0	97.2	110.3	132.0
Sponsorship	130.0	133.0	125.0	120.0
Outdoor	102.5	92.1	89.3	81.1
Radio	104.8	86.2	77.5	70.6
Cinema	7.2	5.6	6.0	5.5
Total	1314.4	1115.6	1137.3	1117.4
(%) Change		-15.1	1.9	-1.7

Source: AECOM Analysis based on data from Nielsen, IAB Ireland & Onside Sponsorship
 *2008 is a Carat Estimate, as IAB only commenced estimating online ad-spend from 2009.

Box 3.2: Estimating Advertising Spend

Estimating the overall level of expenditure in advertising involves making some adjustments to the current advertising spend data available. As outlined in Box 3.1 Nielsen provides extensive data in relation to advertising spending on TV, radio, press, cinema and outdoor media advertising. However, currently, Nielsen measures Radio and Cinema advertising expenditure using the rate card method, whilst TV ad-spend is based on gross figures (rate card minus discounts). Press and Outdoor advertising expenditure had been based on rate card up to 2008; however, from 2009 it is based on gross figure estimates. Both IAB and Onside use gross figure estimates.

Recent trends in the industry point towards a tendency to use gross figure estimates as there is now a general consensus amongst industry stakeholders that gross figures represent a better estimate of the overall performance of the industry. This is particularly relevant given that industry experts indicate that the level of discounting has increased in the past two years and is now estimated at 30 per cent discount on rate card prices on average. Applying this assumption to our rate card data allows us to estimate the overall gross figure for advertising expenditure thereby making it possible to aggregate data across media types. Total overall advertising spend estimates are presented in Table 3.1 opposite.

In deriving our estimate of Advertising Spend by Sector, Nielsen data was utilised as this provided detailed information on ad-spend across various product categories. The data was adjusted in the same fashion as outlined above to ensure that all spending was in gross figure estimates. In addition, the product categories were aggregated to broadly reflect industrial groups.

3.4 Spending by Sector

Advertising spending varies greatly across the different sectors of the Economy. An analysis of Nielsen¹⁰ data reveals that the service sector, which includes wholesale, retail and distribution services, has been the main driver of advertising spends across industries. In 2011, approximately 76 per cent of Nielsen advertising spend was in services with an additional 22 per cent in industry. The remainder of spend was allocated to Agriculture (1.6 per cent), Construction and Property (0.2 per cent) and Other sectors (0.2 per cent). Figure 3.2 illustrates the relevant split of advertising spend across the sectors.

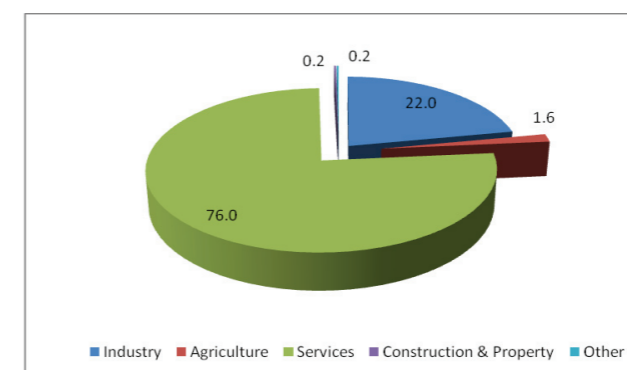


Figure 3.2: Proportion of Advertising Spending by Sector 2011. Source: AECOM Analysis based on data from Nielsen

¹⁰ The Nielsen data categorises advertising spend in TV, Press, Radio, Cinema and Outdoor across a range of sectors. As the Nielsen data does not incorporate all forms of advertising, the analysis does not represent the totality of advertising spend.

The distribution of advertising spend across the sectors is not surprising. Within the services sector, the majority of advertising spend was derived from Wholesale, Retail and Distribution services. This largely reflects the position of wholesale and retail services in the supply chain, being the last point of contact between producers and consumers, at a juncture where advertising can be most relevant. It also reflects the structure in the retail sector which is dominated by large retail companies that are operating in an increasingly competitive environment. Other services, which incorporate finance, telecoms, travel and transport, entertainment and media services, are also significant, again reflecting the competitive environment in which these services operate. Interestingly, Public Sector advertising accounts for only 6 per cent of advertising spending in the services sector.

Advertising spend by the industrial sector was dominated by the Food and Drink component which made up over half of all industrial sector spend. Again, this is unsurprising given that food and drinks are daily consumables and thus are likely to be highly affected by advertising. In contrast, advertising from agriculture was relatively small (1.6 per cent) reflecting the fact that agricultural producers rarely deal directly with consumers. The small proportion of advertising spend attributable to the property sector in 2011 reflects the decline in this sector in recent years. However, it is also noteworthy that property advertising is predominantly concentrated in the online sector which is not examined in this instance. Table 3.2 below details the constituent components of advertising spend across the sectors in 2011.

Table 3.2: Advertising Spending by Sector 2011

	€m	(%)
Industry		
Food & Drink	113.2	13.1
Other Industry	76.6	8.9
All Industry	189.8	22.0
Services		
Wholesale, Retail & Distribution	312.6	36.2
Public Sector Services	49.9	5.8
Other Services	294.9	34.1
All Services	657.4	76.1
Agriculture	13.7	1.6
Construction & Property	1.9	0.2
Other	1.8	0.2
Total	864.6¹	100.0

Source: AECOM Analysis based on data from Nielsen.

¹ See footnote 10.

Trends in advertising spending by sector over the 2008-2011 period clearly show the impact of the recession on the economy. The greatest fall in advertising spend in this period occurred in the construction and property sector, which experienced a decline of 84 per cent, clearly reflecting the collapse of the property bubble in that period. This was followed by the Industry sector which saw advertising spend fall over 27 per cent while other sectors and the services sector declined by approximately 24 and 17 per cent respectively. Only the agriculture sector, which has been performing well in the current economic climate, has increased its level of advertising spending albeit at relatively low levels. Table 3.3 illustrates advertising spending by sectors in the 2008-2011 period.

Table 3.3 Advertising Spending by Sector 2008-2011

	2008	2009	2010	2011	(%) Change 08-11
Industry	262.6	210.4	208.1	189.8	-27.7
Agriculture	12.8	10.9	12.6	13.7	6.5
Services	789.5	659.1	677.1	657.4	-16.7
Construction	12.1	3.4	2.4	1.9	-84.0
Other	2.3	1.6	1.8	1.8	-23.9

3.5 Conclusions on Advertising Spend

- Current best estimates of overall ad-spend for 2011 are €1.1billion. This represents a decrease of approximately 2 per cent on 2010;
- Press advertising has been the main conduit for advertising spending over the past number of years, with a total spend of €422m in 2011;
- The greatest increase in advertising spend occurred in online advertising which grew over 20 per cent in the 2010-2011 period. This growth reflects the growing importance of online as a media outlet for advertisers;
- The service sector is the main driver of advertising spend across industries. In 2011, approximately 76 per cent of total advertising spend was in services. This was followed by the industrial sector which accounted for 22 per cent of adspend;
- The majority of advertising spend within the services sector was derived from Wholesale, Retail and Distribution services, reflecting its position as the last point of contact between producers and consumers at a juncture where advertising can be most relevant. It also reflects the competitive nature of the retail sector;
- Trends in advertising spending by sector over the 2008-2011 period clearly show the impact of the recession on the economy, with adspend in the construction and property sector down 84 per cent;
- The agriculture sector was the only sector to increase its level of ad-spend which increased by 6.5 per cent in the 2008-2011 period.

4. STRUCTURE, OUTPUT AND EMPLOYMENT OF THE INDUSTRY

4.1 Introduction

This Section of the Report draws on CSO data to depict the production side of advertising. The number of firms, their turnover, the value added they create, and the employment directly generated are all explored in turn. The estimates of the industry discussed here incorporates advertising agencies as well as other firms that contribute to the delivery of advertising services, such as those concerned with the distribution and delivery of advertising material and marketing consulting. However, it does not take account of those employed in media, support services such as printing or advertising departments within companies¹². Clearly, many organisations and employees are involved in these secondary services and these are covered under the multiplier concept identified in Section 5.

4.2 Structure of the Industry

According to the CSO, the advertising industry comprised approximately 840 enterprises in 2009. Trends in the data indicate that the number of enterprises in the sector has increased over the past number of years as evident in Table 4.1 below¹³. It is somewhat surprising that the number of enterprises grew in the 2008/2009 period given the economic downturn and the fall in advertising spend. However, this increase in the number of enterprises, which totalled 98 in 2009, is largely driven by increased fragmentation in the industry. As will be seen below, this increase in the number of enterprises is not an indication of overall growth in the industry in terms of output and employment.

Table 4.1 Number of Enterprises 2006-2009

	2006	2007	2008	2009
No. of Active Enterprises	691	731	764	843
(%) Change	-	5.8%	4.5%	10.3%
No. of New Enterprises	56	56	76	98
(%) Change	-	0.0%	35.7%	28.9%

Source: CSO Business Demography.

¹² The precise definition of advertising industry employed by the CSO is outlined in Appendix 2.

¹³ Some degree of caution must be exercised in examining data relating to 2006 and 2007 as this was calibrated to survey population data as opposed to administrative data in 2008 and 2009. Survey data was derived from CSO surveys of enterprises, while administrative data is based on enterprises registered with the Revenue Commissioners. As administrative data results in better coverage of small enterprises, it is likely that the 2006 and 2007 figures may be slightly underestimated and thus the growth rates may not be as significant as outlined above.

4.3 Measures of Output

An obvious measure of industry output is turnover; however, it is important to look behind this measure to understand the financial structure of the industry. An analysis of CSO data and agencies annual returns available from the Company Registration Office (CRO) allow an estimation of the financial structure of the advertising industry. Table 4.2 depicts this estimated financial structure of the industry with each cost element expressed as a percentage of 100. As is illustrated, the cost of sales is estimated at 60 per cent of turnover, while other operating costs and labour costs are estimated at 13 per cent and 19 per cent of turnover respectively.

As is evident from Table 4.2, much of the value generated in the sector is absorbed by high cost of sales which the industry experiences in purchasing inputs from the creative sector. The remaining costs are relatively low with labour costs only accounting for 19 per cent of turnover. These low labour costs reflect the structure of the industry and the propensity to purchase inputs from the creative sector, which are included in cost of sales. The employment effects of these inputs are traced further in section 5 that follows.

Table 4.2: Estimated Typical Financial Structure of Advertising Agencies

	(%)
Turnover	100
Cost of Sales	60
Other Operating Costs	13
Labour Costs	19
Profit	8

Source: AECOM; Note: this is intended to convey an average over a number of years.

Turnover & Gross Value Added

Gross Value Added is a productivity measure that calculates the difference between output and intermediate consumption thus it provides a value of the goods and services produced less the cost of inputs directly attributable to that production. In 2009, the GVA for the advertising industry totalled approximately €255 million according to CSO figures. This represents a decline of approximately 18 per cent on 2008 and signals the impact of the economic downturn on enterprise output. The downturn is also reflected in falling turnover of the sector. In 2009, turnover in the industry reached €912 million down from €1.1 billion in 2008¹⁴.

Table 4.3: Turnover & Gross Value Added 2008-2009

	2008 €m	2009 €m
Gross Value Added	300	255
Turnover	1141	912

Source: CSO Annual Service Inquiry 2008 & 2009

¹⁴Data on Turnover is not comparable to data on advertising spend in Section 3.

4.4 Employment

The advertising industry is a significant employer in Ireland. In 2009, the number of persons engaged in the advertising industry, defined as the number of persons working in an enterprise including proprietors, partners and unpaid family workers, exceeded 4,500. Of those engaged in the sector, approximately 4,200 people were directly employed in the industry. Trends in the data indicate that the numbers engaged and employed in the advertising industry showed average annual growth rates of 4 per cent per annum over the 2006 to 2008 period. However, 2009 saw a significant decline in the number of persons engaged and employed in the sector, down approximately 10 per cent on 2008, see Table 4.4.

Table 4.4 Employees & Persons Engaged in Advertising Industry 2006-2009

	2006	2007	2008	2009
Persons Engaged	4632	4812	5004	4519
(%) Change	-	3.9%	4.0%	-9.7%
Employees	4382	4552	4741	4246
(%) Change	-	3.9%	4.2%	-10.4%

Source: CSO Business Demography.

This finding seems at odds with the trend in increasing enterprise numbers outlined in Table 4.1. However, an analysis of average employee numbers across active enterprises reveals the restructuring that is currently taking place in the industry. As Table 4.5 illustrates, the average number of employees in active enterprises has fallen over time. This is particularly evident in the 2008-2009 period where average employee numbers fell from 6.5 in 2008 to 5.4 in 2009. This trend largely reflects the impact of the economic downturn on shedding employee numbers and the fact that new enterprises are smaller in size than those enterprises exiting the industry.

Table 4.5 Average Employee Numbers in Active and New Enterprises 2009-2006

	Average No. Engaged Active and New Enterprises
2006	6.7
2007	6.6
2008	6.5
2009	5.4

Source: CSO Business Demography.

Box 4.1: Data Sources

Currently, the CSO undertakes two separate analyses incorporating the advertising sector; the Annual Service Inquiry and the Business Demography. The Annual Service Inquiry provides data relating to the principal trading aggregates for all enterprises in the services sector while the Business Demography provides estimates of the numbers of enterprises and employees for all enterprises in the State. While both publications examine the advertising sector according to NACE classifications and utilise the CSO's Central Business Register, differences in methodology employed in collecting the data has resulted in different estimates for a number of variables.

The Business Demography figures are based purely on administrative data derived from the register, while the Annual Service Inquiry is based on a survey of the register. These alternative approaches result in some differences between the two publications. According to the CSO, the Business Demography which utilises administrative data sources allow better coverage of small enterprises, which do not show up using survey methods. Furthermore, as the Service Inquiry is based on a sample of the register, there is a greater degree of statistical variability in the data gathered.

In addition to these differences, there are also differences in the approach employed in calculating employee numbers. Firstly, the Business Demography counts employment data based on P35 employer returns, while the Service Inquiry estimates employment based on survey returns. The CSO points out that these differences may be significant where enterprise groups only make one P35 return resulting in all employees being counted against the overall enterprise group NACE code. The CSO advocates that survey based returns are more likely to divide employment across different enterprises, and therefore different NACE codes. Secondly, the Business Demography calculates employee numbers on an annualised equivalent basis while the Service Inquiry calculates employee numbers on a head count basis and a full time equivalent basis for EUROSTAT. Thus, the employment figures are not directly comparable. These differences in methodology cause varying results in relation to the number of enterprises, employees and persons engaged in the industry. The differences in relation to employment numbers and persons engaged are relatively small and average around 10 per cent variability. However, the differences relating to the number of enterprises are more variable, in excess of 30 per cent.

Given that the Business Demography data is based on actual administrative data and is therefore more representative of smaller businesses, it was felt this may more accurately reflected the number of enterprises active in the industry. This is reflected in the higher number of enterprises reported in the Business Demography publication. The difference in employment figures between the publications is small. Some discrepancy is inevitable due to the different classifications of employment utilised however such slight differences will not bear great significance. Finally, data relating to principal trading activities is only available from the Annual Services Inquiry. This data refers to turnover, personnel costs, wages and salaries along with other associated trading costs. The most recent data available from the Business Demography and the Annual Service Inquiry relates to 2009.

4.5 Conclusions on Advertising Outputs

- The advertising industry comprised approximately 840 enterprises in 2009, an increase of 10 per cent on 2008;
- The increase in the number of enterprises is largely driven by increased fragmentation in the industry; however, this has not resulted in overall growth in the industry in terms of output and employment;
- The financial structure of the industry shows that typically cost of sales is estimated at 60 per cent of turnover, while other operating costs and labour costs are estimated at 13 per cent and 19 per cent of turnover respectively;
- The high cost of sales, which the industry experiences in purchasing inputs from the creative sector, absorbs much of the value generated in the sector;
- Labour costs are relatively low for the sector, reflecting low labour intensity; however this does not reflect the labour inputs of the creative industry which can be substantial;
- In 2009, turnover in the industry reached €912 million with GVA totalling approximately €255 million;
- Latest figures for 2009 estimate the number of persons engaged in the advertising industry defined as the number of persons working in an enterprise including proprietors, partners and unpaid family workers exceeded 4,500, while those directly employed in the industry reached over 4,200, down approximately 10 per cent on 2008;
- The decline in employment reflects the level of restructuring taking place in the industry, which shows that the average number of employees in active enterprises has fallen over time. While this restructuring in the industry has resulted in an increase in the number of new enterprises starting up, these new enterprises have lower employment size than previously evident in the industry.

5. IMPACT OF THE ADVERTISING INDUSTRY ON ECONOMIC OUTPUT EMPLOYMENT AND TAX REVENUES

5.1 Introduction

This section of the report traces the inputs to the advertising sector so as to measure the full economic impact of the industry in terms of employment, value add and tax take.

5.2 Economic Impacts of Advertising

The impact of advertising on the economy occurs in two ways. Firstly, the spending arising from advertising boosts economic activity. Secondly, the presence of the new economic activity will have so called dynamic effects, as it encourages investments by other firms and changes the structure of the national economy. Dynamic effects are discussed in more detail in section 6. The spending effects from advertising include the employment, national income and taxation that will arise from the operations of the advertising sector.

In terms of employment, the advertising industry incorporates those directly employed in advertising agencies in Ireland. In addition, there is also the employment in firms that supply commercial advertising agencies and that provide support services such as the creative industries. The wages and salaries earned by these employees in turn form part of the contribution of the sector to regional and national output (Gross Domestic Product). Finally, the economic activity from the operation of the sector also gives rise to Exchequer revenue in terms of PAYE, PRSI and Corporation Tax. These spending effects comprise direct, indirect and induced effects which are discussed in turn below.

Direct Spending Effect

The direct spending effect of advertising is the most obvious and the easiest to measure. The operation of the advertising industry gives rise to direct employment, value added and tax revenue. The scale of this activity has been measured to identify the direct spending effect of the industry. Much of this information is available from the CSO data.

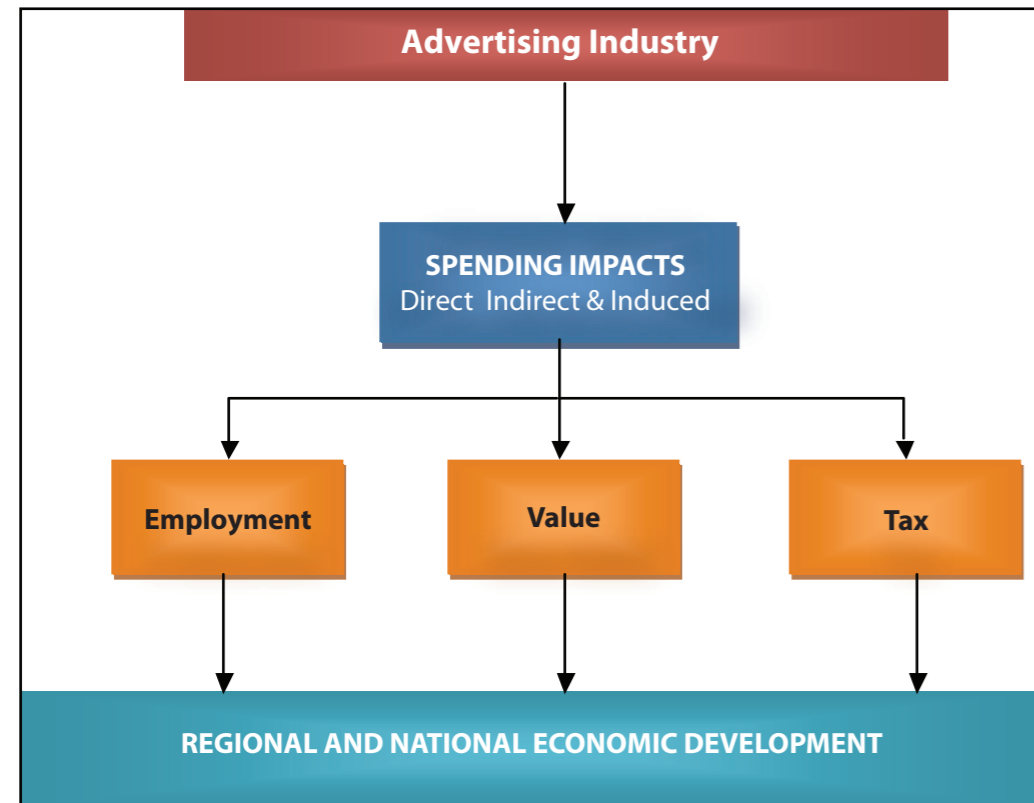
Indirect Spending Effect

The operation of the advertising industry requires goods and services to be purchased from third party suppliers. This gives rise to employment and value added by these suppliers. These first round suppliers will, in turn purchase goods and services from their own suppliers giving rise to a further round of employment and value added. This extra spending ripples through the rest of the economy in this way, giving rise to indirect spending effects on employment and value added.

Induced Spending Effect

Finally, as with any sector in the economy, advertising will have what are referred to as induced effects. As described above, the advertising sector will have both direct and indirect effects on employment, and so on wages and salaries paid to employees. These extra wages and salaries will be spent and will give rise to a further, induced, effect on the economy. This will represent a further round of spending effects on employment, value added and tax revenue. Figure 5.1 overleaf outlines the effects of advertising on the economy.

Figure 5.1: Overview of Economic Effects of Advertising



5.3 Measuring Economic Impacts

In measuring the economic impacts of advertising, AECOM employ what is referred to as an Input-Output model of the economy. This model shows how the output of each sector of the economy is used as inputs for the other sectors of the economy, and how an increase in the output of one sector of the economy will lead to an increase in the demand for the outputs of the other sectors of the economy. This information is presented in a variety of formats by the CSO in its periodic publication of Input-Output tables for the Irish economy. The CSO published the most current set of these Input-Output tables in March 2009¹⁵. One version of these tables captures the full ripple effect described above. This allows calculation of the full impact of the extra demand for goods and services from a business activity such as advertising. It also allows calculation of the full indirect effect on value added of the operation of the sector.

Calculating the induced effects of advertising involves a broadly similar approach. Firstly, AECOM calculate a value for the relevant marginal propensity to consume. This refers to the proportion of any extra income earned by Irish employees that would be spent, rather than taxed or saved. Utilising this estimate, the marginal propensity to consume is multiplied by the direct and indirect extra wages and salaries already calculated to give estimates of extra consumer spending.

¹⁵ 2005 Supply and Use and Input-Output Tables” Central Statistics Office, March 2009.

These estimates of additional consumer spending are split between the various sectors of the economy in line with current spending patterns. Finally, the effect of this extra spending on employment, value added and tax revenue was calculated in the same way as the direct effects discussed above.

5.4 Economic Contribution of the Advertising Industry

The economic contribution of the advertising industry to the economy is detailed below in terms of employment, value added and taxation. This contribution relates to 2009 as this is the latest date for which CSO data is available.

5.4¹ Employment Effects

Direct Employment

The input output model is based on full time equivalent employee numbers and so the Annual Service Inquiry (ASI) data are utilised for the purposes of the model¹⁶. According to ASI 2009, there are approximately 4,430 persons employed in the industry, of which 3,357 are full time equivalent employees. The ASI also reports that there are 4,775 persons engaged in the industry. As outlined previously the number of persons engaged in the advertising industry is defined as the number of persons working in an enterprise including proprietors, partners and unpaid family workers. Consequently, the difference between the number of employees and persons engaged will likely represent the number of proprietors and partners in the industry, as the number of unpaid family workers is likely to be small in this sector. On this basis, the total numbers in employment in the sector will be made up of full time equivalent employees (3,357) and proprietors and partners (345). This yields employment numbers of approximately 3,700.

Indirect Employment

In addition to those employed directly by advertising firms, the industry also has an indirect employment effect. The purchase of goods and services from third party suppliers will support jobs in these suppliers. An estimate of the indirect employment generated by the advertising industry has been calculated using the Input – Output model of the economy described above. This indirect employment arising from the advertising industry is estimated as being 4,760. In the previous year (2008) it was estimated that the indirect employment figure was 6,110. This is a very significant decline, reflecting the economic downturn in Ireland.

Induced Employment

A value for the amount of “induced employment” arising from advertising has also been calculated. As described above, the amount of consumption that would arise from the wages and salaries paid to direct and indirect employees was calculated and split by industry sector. The effect of this extra spending on the output produced and wages and salaries paid by these sectors in the Irish economy was then calculated based on an Input-Output model of the Irish economy. This value for induced wages and salaries was expressed as an equivalent number of full time jobs by applying an average cost of labour in the Irish economy. The calculated value for induced employment in 2009 was 1,395, a drop from an estimate of 1,690 for the previous year. These values for the employment effect of the advertising industry are

¹⁶ The employment numbers previously outlined in Section 4 from the Business Demography data are based on annualised equivalent basis. Calculating employees on an annualised equivalent basis refers to the number of weeks worked by an employee over the course of a year. So, a person who has worked for 52 weeks in the year will contribute 1 to the employment figures, while a person who has worked 26 weeks of the year will contribute 0.5. No distinction is made between full time and part time employment, so an employee who works on a part time basis for a full year is still counted as 1 employee. This differs from full time equivalent employee numbers which sets a value of 1.0 for a that is a full time worker while a value of 0.5 signals that the worker is only half-time.

summarised in Table 5.1. As can be seen the weakening Irish economy in 2009 represented a difficult year for the advertising industry with total employment declining from 12,353 in 2008 to 9,855 in 2009.

Table 5.1: Employment Effect of Advertising 2008 & 2009

Employment Type	2008 (FTE)	2009 (FTE)
Direct	4,555	3,700
Indirect	6,110	4,760
Induced	1,690	1,395
Total	12,355	9,855

Source: AECOM.

5.4² Contribution to Gross Value Added

The activities of advertising companies in providing services to clients contribute to both national and local value added. From the ASI 2009, the value added from the advertising sector is estimated at €255m, down from €300m in 2008. The proportion of the operating costs of advertising firms that are spent with Irish suppliers will give rise to an indirect effect on value added. Jobs and output in these supplier firms will be supported by the spending of the advertising industry as they respond to increased demand. From the CSO trading aggregate data, it can be seen that the advertising industry spent approximately €652m on purchases in 2009, which is equivalent to their costs of sales and other operating costs.

These purchases were divided according to the proportions outlined previously in Table 4.2, with the operating costs subsequently broken down according to the proportions outlined in Table 5.2. These proportions were derived from the UCD report “Worth of Advertising Industry” and verified from industry consultations. These costs were inputted to the input output economic model to determine the indirect value added of the advertising industry, which was estimated at €380m. A similar calculation for 2008 data estimate indirect value added at €488m.

Table 5.2 Breakdown of Advertising Operating Cost 2009

	(%)
Rent, Light & Heat	19
Sales & Marketing	5
Employment Agencies	5
Post & Telecommunications	6
Business Services	34
Other	31
Total	100

Source: AECOM.

The direct employees of the advertising industry and indirect employees in the suppliers firms will all spend their wages and salaries. This will give rise to a further, “induced” effect on value added, estimated at approximately €131m in 2009, down from €159m in 2008. These values are set out in Table 5.3 below. In total the advertising industry contributes approximately €766m to GDP in 2009. Thus, the advertising industry in Ireland can be estimated to have an overall economic multiplier of 3.0. This multiplier is higher than the average for other industries of which the input output model has been employed. However, this is expected given that the indirect effect of advertising is particularly large. This is evident from the analysis outlined in Section 4 which detailed the high cost of sales the industry experiences in sourcing inputs.

Table 5.3: Effect on GDP of Advertising 2008 - 2009

Impact	2008 (€m)	2009 (€m)
Direct	300	255
Indirect	488	380
Induced	159	131
Total	947	766

Source: AECOM.

5.4³ Contribution to Tax

The Advertising Industry also makes a significant contribution of tax revenue to the exchequer. The direct, indirect and induced economic activity described above will give rise to tax revenue for the exchequer in the following ways:

- PAYE and PRSI paid by the direct employees in the advertising industry as well as the indirect and induced employees involved in supplying and supporting the industry;
- Employers PRSI paid by the employers of all these employees; and,
- Corporation tax on the profits arising from direct advertising firms as well as the indirect and induced economic activity in supplying and supporting the industry.

In total the advertising industry generates tax revenue of approximately €158m for the government. The breakdown of this is summarised in Table 5.4 below for 2009 and 2008.

Table 5.4: Tax Yield from Advertising 2008 - 2009

Impact	2008 (€m)	2009 (€m)
Direct	67	60
Indirect	94	74
Induced	29	24
Total	190	158

Source: AECOM.

5.5 Conclusions

- The impact of advertising on the economy occurs through spending effects and dynamic effects;
- The spending effects from advertising include the employment, national income and taxation that will arise from the operations of the advertising sector. These spending effects comprise direct, indirect and induced effects which are discussed in turn below;
- As well as employing 3,700 full time equivalent persons directly, the advertising sector supports another 6,155 full time equivalent jobs, bringing the total employment supported to over 9,800 persons;
- The direct gross valued added in the advertising sector is some €255m, rising to €766m when indirect and induced effects are taken into account;
- The advertising industry generates estimated tax revenue of approximately €158m for government when direct, indirect and induced effects are measured.

6. DYNAMIC IMPACTS OF ADVERTISING

6.1 Introduction

The spending impacts described above are all “static” i.e. the only effects identified and quantified are the changes in the employment and output by existing firms in the Irish economy. These spending effects, therefore, represent the minimum extent of the economic effects of the advertising sector.

In reality, the advertising sector will have wider effect on the national economy. Spending in advertising supports the viability of a range of industries and thus a significant amount of employment. In particular, advertising is vital to the viability of the media sector along with a range of creative industries.

Advertising also plays a role in supporting the educational development of the country, both directly through marketing and advertising courses but also through related spheres of creative design.

Dynamic effects of commercial advertising also relate to the information role that advertising plays. By providing consumers with knowledge of the products that exist in the market place and their characteristics, advertising increases consumer choice and competition in the market place. These characteristics of advertising impact on a range of economic variables such as price, quality, demand and utility

These dynamic effects have the potential to be far more significant and valuable than the spending effects described above. By their nature these effects are harder to identify and quantify, since they arise from changes in the decision making of firms.

6.2 Viability of Industry

Spending in advertising supports the viability of a range of industries and thus a significant amount of employment. Industry experts estimate that 75 per cent of turnover for media organisations is derived from advertising. This estimate is supported by data from the RTE annual report which documents that 75 per cent of commercial revenue¹⁷ is due to advertising with an additional 5 per cent from sponsorship fees. Thus, advertising revenues directly supports employment in various media organisations, which based on industry consultations is estimated that approximately 10,000 direct employees in the traditional media of press, TV and radio in Ireland. Table 6.1 illustrates the breakdown of these figures. In supporting the viability of media, advertising promotes independent media and thus supports democracy and cultural development.

Table 6.1 Employment in Traditional Media in Ireland

	Direct Employees
T.V.	2437
Press	6000
Radio	1500

Source: AECOM.

¹⁷Commercial revenue for RTÉ comprises 47 per cent of total revenue. Licence fees make up the remainder of total revenue.

Advertising also supports employment in the wider creative industries that support the sector. While some of the employment within the creative sectors will have been accounted for in the input/output model employed in Section 5, it is now possible to estimate the minimum level of employment which the advertising sector supports.

From the Input/Output Model in Section 5, it was estimated that *full time equivalent* employees in the advertising industry were approximately 9,855. From this analyses carried out it is known that there is a tendency towards part time employment in the sector, thus, it is possible that the number of actual jobs supported by the industry could significantly exceed this figure. As outlined above, the advertising industry significantly supports employment in the media industry estimated at approximately 10,000 employees. On this basis it is fair to say that at a minimum the advertising sector supports over 20,000 jobs in the Irish Economy. This figure would be greatly enhanced if employees working within advertising departments of third party companies were taken into account.

6.3 Educational Development

The advertising industry also supports educational development. Recent data relating to the number of students entering third level education shows a growing trend towards marketing and advertising as areas of study. Between 2007 and 2009 there was an increase of 33 per cent in the number of students applying to study marketing and advertising courses (see Table 6.2). As pointed out previously, advertising also supports the creative industries through the use of creative inputs, and the media industry via advertising spend in media outlets. Consequently, advertising is also supporting educational development in these spheres. Data shows that entrants into design related courses increased 6 per cent over the 2007 to 2009 period, while students seeking to study audio visual techniques and media production jumped 25 per cent. The growing demand for these areas of study further supports employment in third level institutions.

Table 6.2: Third Level Students Entrants by Academic Year

	2007/08	2008/09	2009/10	(%) Growth Rate 07/09
Advertising & Marketing	437	484	581	33.0
Design	361	332	384	6.4
Audio-visual techniques and media production	592	543	741	25.2

Source: HEA.

6.4 Impact on Competition & Markets

• Information Role of Advertising

The information role of advertising is particularly important and impacts on a range of economic factors. Essentially, by providing consumers with useful information advertising makes comparing products and services easier, less time consuming and enables appropriate selection of goods. These characteristics of advertising can stimulate competition amongst market participants, which in turn impact on prices and

the quality of goods and services. The availability of information on products can stimulate demand as consumers move to purchase additional goods and become aware of new goods. This additional spending in turn impacts on economic growth. Finally, the information provided in advertisements impact on the image and value associated with a good which in turn affect utility derived from goods. Each of these impacts is discussed in more detail below.

• Advertising Effect on Business Cycles

The relationships between Advertising and Business Cycles have long been debated and researched. Overall spending on advertising will vary depending on the overall performance of the economy. Often in times of economic contraction, advertising spending is one of first costs to be cut by firms in an attempt to maintain bottom line profits. However, while one company may cut advertising in a downturn, other companies often see this time as an opportunity to expand market share and undertake an aggressive advertising campaign. The latter strategy will have a stabilising effect on the business cycle as advertising can help to stimulate economic growth through increased consumer demand. John Kenneth Galbraith recognised this when he pointed out that advertising can maintain consumer demand and thereby help to sustain employment and income.

• Advertising Effect on Competition

The impact of advertising on competition is inextricably linked with the information role of advertising. Both Dr. Kenneth Arrow and Dr. George Stigler, highlighted the power of advertising as a promoter of competition. They advocate that “Advertising is a powerful tool of competition. It provides valuable information about products and services in an efficient and cost-effective manner. In this way, advertising helps the economy to function smoothly - it keeps prices low and facilitates the entry of new products and new firms into the market.” In this manner, competition will further support innovation and quality across the economy. However, some critics argue that advertising is in fact a barrier to entry, given the large amount of money that may be needed to compete in certain markets. While this argument may have substance for certain products and markets, it fails to take account of the dynamics brought about by advertising. For instance, entry to a national market may prove difficult, but at regional level advertising is likely to promote competition, resulting in greater cost effectiveness and efficiencies. This improvement in overall performance should ultimately give firms greater leverage to enter new larger markets.

The role of advertising in promoting competition has been recognised by the Competition Authority. Over a number of years, the Authority has sought removal or liberalisation of the ban on advertising, which existed for professions such as medicine and the law.

In 2008, The Competition Authority, in welcoming the decision of the Dental Council to introduce a new Code of Practice on Public Relations and Communications which allows dentists to advertise their services, commented that this would mean that

- Dentists are now free to advertise their prices and the services they provide;
- Consumers will be better able to shop around for dental services and this will encourage price competition among dentists;
- Consumers will be more aware of their entitlements and the availability of services in their area;
- Dentists will be encouraged to offer new and innovative services; and,
- Dentists trying to establish a new practice will find it easier to promote awareness of their practice among the local population.

Case Study: Bord Gáis Energy

In February 2009 Bord Gáis Energy entered the electricity market with an advertising campaign “The Big Switch”. The campaign operated by Mindshare received Best Use of Media Award in the 2011 Media Awards. The Big Switch Campaign operated through 2009 and 2010 with the aim of converting 80,000 ESB homes to Bord Gáis Energy in 2009. The advertising campaign focused on the price differential between Bord



Gáis and ESB (now Electric Ireland). The success of the campaign was recognised by the end of 2009 when 300,000

customers had made the switch to Bord Gáis Energy. 2010 saw a further 230,000 customers switch from ESB.

• Advertising Effect on Prices

Some critics advocate that advertising as a cost of production ultimately impacts on the price of goods and services. While this is technically correct, the proportion of advertising costs relative to other costs of production is normally quite small. Furthermore, as advertising increases awareness of products and services, it promotes customer demands which result in economies of scale and ultimately lowers costs and prices. As pointed out in the previous section, advertising also results in increased competition among market participants and thereby actually exerts downward pressure on prices.

• Advertising Effect on Utility

Advertising impacts on the utility derived from a product. The image associated with a product or service is largely created by advertising. This image can become a feature of the product itself whereby purchasing the product or service allows people to satisfy symbolic needs and wants. In addition to the image associated with a product the concept of value is also important in deriving utility. People want to believe they obtained value for money. Often, advertising does not directly address the issue of quality but a positive image associated with the brand implies increased quality benefits.

6.5 Overall Employment Effects

The Input/Output Model estimates the direct full time equivalent employees in the advertising industry at approximately 3,700. Given that the Business Demography statistics previously stated the numbers employed in the sector was in the region of 4,200, we know that a number of those employed in the sector work on a part time basis. The overall employment effect estimated by the input output model suggests full time equivalent employees of approximately 9,855. However, given the tendency towards part time employment in the sector, it is possible that the number of actual jobs supported by the industry could significantly exceed this figure. Furthermore, this figure does not take account of employees involved in the media sector which is greatly supported by the advertising industry. From industry consultations and as outlined in Section 6.2 it is estimated that approximately 10,000 employees are involved in the traditional TV, press and radio sectors. On this basis it is fair to say that the advertising sector supports over 20,000

jobs in the Irish Economy and this does not take into account those employees working within advertising and marketing departments of advertiser companies.

7 FINDINGS

Advertising in our Economy

- The advertising industry creates outputs and purchases inputs. However, the scale and nature of these outputs and inputs means that the impact of advertising on the wider economy is more substantial than many other industries;
- The output of the advertising industry performs a vital economic function in signalling the availability, quality and price of goods to consumer. Through this process, advertising promotes economic efficiency, by reducing consumer search costs and facilitating consumer choice;
- The inputs purchased by the advertising industry also add to economic output (Gross National Product) by supporting employment and contributing to the government tax take, through multiplier effects.

Aggregate Spending

- Aggregate spending on advertising is estimated at approximately €1.1 billion in 2011, down 2 per cent on 2010;
- Press advertising is the main outlet for advertising spending over the past number of years, with a total spend of €422m in 2011, followed by TV advertising at €285 million;
- 2010 showed some signs of upturn in advertising spending, however this upturn was subsequently reversed in 2011. The decreases in advertising spend in 2011 were evenly distributed across outdoor and radio, cinema, press and sponsorship advertising. Only TV and online advertising increased in 2011, with online advertising up over 20 per cent;
- The Services sector is the main driver of advertising spending across industries with approximately 76 per cent of ad-spend recorded in this area in 2010. Of this spend approximately 36 per cent is attributable to wholesale, retail and distribution services, 34 per cent to other services and 6 per cent to public sector services;
- Over the 2008-2011 period, the majority of sectors in the economy showed reductions in ad-spend, with the construction and property sector down 84 per cent clearly indicated the collapse of the property bubble. Only the agriculture sector, which has been performing well in the current economic climate, has increased its level of advertising spending albeit at relatively low levels.

Output of the Industry

- In 2009, the advertising industry comprised approximately 840 enterprises representing an increase of 10 per cent on 2010. In contrast, employment declined approximately 10 per cent reached 4,200 employees in 2009;
- These trends reflect the level of restructuring taking place in the sector at present. While the number of enterprises in the sector increased in 2009, these new enterprises have lower employment size than previously evident in the industry. The average employee numbers across active enterprises has fallen in recent times, reaching 5.4 employees in 2009;

- Gross Value Added and Turnover have also declined in recent years. In 2009, turnover in the industry totalled approximately €912 million, a reduction of 20 per cent on 2008. Gross Value Added reached €255 million in 2009 down from €300 million in 2008;
- An analysis of the financial structure of the industry reveals that much of the value generated in the sector is absorbed by high cost of sales which the industry experiences in purchasing inputs from the creative sector.

Economic Impacts

- The full economic effects from advertising include the employment, national income and taxation that will arise from the operations of the advertising sector. These effects comprise direct, indirect and induced effects;
- As well as employing 3,700 persons directly, the advertising sector supports another 6,155 jobs, bringing the total employment supported to over 9,855 persons;
- The direct gross value added in the advertising sector is some €255m, rising to €766m when indirect and induced effects are taken into account;
- The advertising industry generates estimated tax revenue of approximately €158m for government when direct, indirect and induced effects are measured.

Dynamic Economic Impacts

- The dynamic effects arising from the advertising industry include supporting the viability of industry and educational development, promoting competition and efficient markets;
- Spending in advertising supports the viability of the media industry and thus a significant amount of employment. Approximately, 75 per cent of turnover for media organisations is derived from advertising and it is estimated that approximately 10,000 people in the traditional media of press, TV and radio in Ireland;
- In supporting the viability of media, advertising promotes the independence of the media industry, an important feature of modern democracies and cultural development. In a similar fashion, advertising also supports the wider creative industries in Ireland;
- Overall, it is estimated that at a minimum the advertising sector supports over 20,000 jobs in the Irish Economy;
- The advertising industry also supports educational development, with recent data indicating 33 per cent increase in the number of students opting for marketing and advertising course;
- The information provided by advertising is particularly important, as it makes comparing products and services easier, less time consuming and enables appropriate selection of goods. This in turn impacts on a range of economic factors, including prices, quality of goods and services, and impact on the utility derived from goods;
- The important role of advertising in promoting competition has been recognised in Ireland by the

Competition Authority. Over a number of years, the Authority has sought removal or liberalisation of bans on advertising, which existed for professions such as medicine and the law;

- In addition, the availability of information on products can stimulate demand as consumers move to purchase additional goods and become aware of new goods. This supplementary spending in turn impacts on economic growth and job creation;
- The information role of advertising is not just confined to the demand side. Supply-side effects are also relevant, especially where advertising helps SMEs to access markets for the first time. It is likely that this role of advertising has been enhanced by the advent of the Internet.

APPENDICES

Appendix A – Economic Drivers of Advertising Spend

A2.1 Introduction

The impact of advertising on different aspects of the economy has been clearly outlined in Section 6 and 7 above. However, equally important is the influence of the economy on advertising expenditure. A large amount of both economic and advertising literature is available which examines this relationship. An understanding of the relationship between the two is particularly important now given the turbulent economic times. In addition to an overall relationship between aggregate advertising expenditure and the economy, there also appears to be a relationship between different advertising media and economic cycles. The macroeconomic variables which have been most widely documented to influence advertising spending are GDP and Consumption.

A2.2 Advertising & GDP

According to van Der Wurff et al (2008) advertising spending is a measure of advertising demand which according to microeconomics should increase as income increases. Another and one of the main theories put forward relating advertising expenditure to the economy is the Principle of Relative Constancy. The Principle of Relative Constancy initially proposed by McCombs (1972) incorporates two concepts; that national wealth is the best predictor of ad-spend, and that the total level of ad-spend will remain constant over time. These concepts generally imply that only a change in wealth will lead to an increase in ad-spend and this change in wealth will lead to a constant proportional change in advertising spending. Thus, the theory essentially argues that advertising is a zero sum game and that only an expansion of the economy at large would cause advertisers to increase their share of the market. While these two theories seek to relate ad-spend to the national economy, they differ significantly in that one looks at wealth and the other at income. National income is largely measured by GDP or GNP; however wealth incorporates a number of other factors including the value of assets. At an individual level it is easy to see the difference between one's income and wealth. However, wealth is generally a multiple of income and this is particularly evident at a national level. Consequently, much of the research carried out on the Principle of Relative Constancy utilises GDP or GNP as a measure of wealth.

A multitude of research has been carried out over the years to test the validity of the Principle of Relative Constancy. Gaerig (2010) re-examines the principle using GDP as an indicator of wealth and finds that there is support for the theory. In particular, Gaerig's (2010) study finds that an increase in GDP would lead to a proportional increase in ad-spend and that time does not have a significant impact on ad-spend. The study also finds that ad-spend tends to remain a constant percentage of income over time. However, Gaerig (2010) does point out a number of shortcomings in the data utilised, particularly the availability of up to date data as well as large differences across data sources. In fact, Gaerig postulates that it is possible that advertising spending has broken constancy and is moving towards a new higher equilibrium point. Gaerig cites preliminary figures on advertising spending for 2008 and 2009 which puts US advertising expenditures down 12.9 per cent while GDP only declined 1.3 per cent. Regardless, Gaerig (2010) advocates that the majority of researchers recognise wealth are an important factor of advertising expenditure.

The view that advertising spending remains a constant proportion of income has been rejected by a number of other researchers. Demers (1994) advocates that the principle does not hold over long time series, but that the proportion of national income devoted to advertising has increased over time. A similar view is held by Lacy and Noh (1997). These findings are in line with the findings of Gaerig (2010) who outlined the possibility that advertising spending is moving to a higher equilibrium point. Furthermore, Gaerig also recognises the possibility of other factors driving ad-spend. Citing McCombs (1972) it is stated that "economic determinism is not the entire story of mass media growth and development". It

is recognised that other factors such as literacy and urbanisation are other possible complicating factors impacting the industry.

Van Der Wurff *et al* (2008) also examines the relationship between advertising and GDP. Van Der Wurff advocates that the current advertising budgeting practice to a large degree explains the relationship between the economy and advertising. It is proposed that the impact of the economy on advertising is explained by the practice of setting advertising budgets as a percentage of sales. This practice would indicate that changes in advertising lag changes in the wider economy, a proposition which was also advocated by Schmalensee (1972). Van Der Wurff (2008) extends his study to examine other factors influencing ad-spend as well as advertising formats.

Van Der Wurff (2008) examines the relationship between GDP and advertising format and found that print media and outdoor advertising are more responsive to economic change than advertising in electronic format. The results showed that newspaper, magazines, cinema and outdoor advertising decline between 2-3 per cent during recessions while TV and radio remain relatively unchanged between recession and growth years. These findings are in line with finding from Picard (2001) and Picard and Rimmer (1999), which showed that newspapers and magazines suffer particularly during recessions. This is largely due to the fact that newspapers rely more on retail and classified adverts which are more susceptible to the state of the economy while magazines generally target niche markets which limit the potential of advertising budgets. These findings indicate that the advertising market share of newspapers and advertising intensity influence the relationship between GDP and ad-spend.

Van Der Wurff (2008) also advocates that the structure and composition of the economy is important in explaining the proportion of advertising expenditure to the size of the economy across countries and time. This view has also been suggested by Banks (1986) and Leff and Farley (1980). Banks (1986) found that the proportion of GDP spend on advertising depends not only on the economy and social development of a country but also on the relative importance of the wholesale and retail trade, and services industries. This argument is similar to that of Leff and Farley (1980) who propose that economies relying on production and exportation have relatively low levels of advertising as these are not advertised to the same extent as other sectors of the economy. Van Der Wurff (2008) research shows similar finding to that outlined above. The relative importance of manufacturing had a positive effect on spending while exports had a negative impact. However, Van Der Wurff (2008) could not support the proposition that trade and services industries increase ad-spend. Interestingly, Van Der Wurff's results also show that advertising intensity is negatively associated with GDP per capita when taking account of the different sizes of sectors of the economy. This finding indicates that the composition of consumption rather than the level of consumption is the determining factors of ad-spend in industrialised countries.

A2.3 Advertising & Consumption

The relationship between advertising and consumption has also been subject to a large amount of research over the years. As outlined above, Van Der Wurff (2008) advocates that the level of consumption is not a determining factor in ad-spend. The relationship between advertising and consumptions has often been subject to much debate as to the direction of causality. Callahan (1986) advocates that advertising does not change the level of consumption in the economy but alters the distribution of consumption across goods in the economy. This is similar to the idea of advertising being a zero sum game as put forward by the Principle of Relative Constancy outlined above. Further, Schmalensee (1972) found that current advertising outperformed past advertising and that future advertising outperformed current advertising. Schmalensee advocated that this finding implied that causation ran from consumption to advertising since past advertising would outperform current advertising if causation ran from advertising to consumption. This finding is in line with advertising practice where current earnings are reserved for future ad-spend.

Ashley *et al* (1980) examine the relationship between advertising and aggregate consumption and found

that fluctuations in aggregate consumption causes fluctuations in advertising. However, they also found that there was the possibility of an instantaneous or very short term relationship between advertising and consumption, which could not distinguish the direction of causation. However, Ashley *et al* (1980) advocates that while sudden unexpected changes in advertising are likely to affect consumption, in the long term past advertising does not help in forecasting consumption. Schmalensee (1972) also supports this finding and points out that advertising tends to adjust rapidly to changes in consumption, which points to the tendency for consumption to affect advertising expenditure but with a slight lag.

However other studies examining the link between advertising and consumption did not indicate the existence of a relationship. Ekelund & Gramm (1969) sought to determine if advertising as an extension of the consumption function could be used to promote economic stability. However, their study showed no relationship between advertising and aggregate demand. Taylor & Weiserbs (1972) went on to find evidence that causality of advertising and consumption operated in both directions. This finding was also supported by Jung & Seldon (1995) who also found a two way relationship between aggregate consumption and aggregate advertising.

A2.4 Summary

The research carried out in relation to the relationship between advertising and macroeconomic variables has been extensive. The general consensus has been that GDP and Consumption have been the main driver factors influencing ad-spend. However, caution is needed in examining the findings from these studies. While there is evidence of a relationship between consumption and advertising the issue of causality puts into question the appropriateness of using consumption as a predictor of future ad-spend. This is particularly relevant given that consumption today alters future savings and thus future investment, thereby impacting on the effect advertising will have on future consumption. Given this issue it is more appropriate to use GDP or GNP as a predictor of future ad-spend. However as pointed out previously, other variables are likely to provide a more in-depth analysis, particularly in relation to the structure of the economy.

APPENDIX B - NACE ADVERTISING CLASSIFICATIONS

The NACE Rev.2 classification defines advertising as incorporating the activities of advertising agencies and media representation. Advertising is classified under the NACE code 73.1

Advertising agencies 73.11:

This class includes the provision of a full range of advertising services (i.e., through in-house capabilities or subcontracting), including advice, creative services, production of advertising material, and buying. It includes:

- creation and realisation of advertising campaigns;
- creating and placing advertising in newspapers, periodicals, radio, television, the Internet and other media
- creating and placing of outdoor advertising, e.g. billboards, panels, bulletins and frames, window dressing, showroom design, car and bus carding etc.
- aerial advertising
- distribution or delivery of advertising material or samples
- creation of stands and other display structures and sites
- conducting marketing campaigns and other advertising services aimed at attracting and retaining customers
- promotion of products
- point-of-sale marketing
- direct mail advertising

- marketing consulting

This class excludes:

- publishing of advertising material, see 58.19
- production of commercial messages television and film, see 59.11
- production of commercial messages for radio, see 59.20
- market research, see 73.20
- advertising photography, see 74.20
- convention and trade show organisers, see 82.30
- mailing activities, see 82.19

Media representation 73.12:**This class includes**

- media representation, i.e. sale or re-sale of time and space for various media soliciting advertising

This class excludes:

- sale of advertising time or space directly by owners of the time or space (publishers etc.), see the corresponding activity class
- public-relations activities, see 70.21

APPENDIX C - BIBLIOGRAPHY

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