



# Analysis of the Impact of Changes in Advertising Expenditure on Media Outlets

## Summary

This document was prepared at the request of Knesset Member Naama Lazimi, Chair of the Special Committee on Young Israelis, for a discussion on July 16, 2024, titled "Models and Government Activities to Ensure Independent, Quality Media for Future Generations." The document provides background on media outlets and the advertising market, data on advertising expenditure in Israel and other countries, implications of the decline in advertising expenditure as a proportion of GDP on media outlets, European Union policies regarding internet giants, and an overview of governmental support mechanisms for private media outlets.

Media outlets can be categorized into three components: state-owned media, established privately-owned media, and news and opinions disseminated online by various entities (internet giants and private individuals). Each component has public importance on one hand and risks and challenges on the other. Advertising expenditure as a proportion of GDP is crucial for the economic viability of independent media outlets, and consequently for democracy and the diversity of information and opinions.

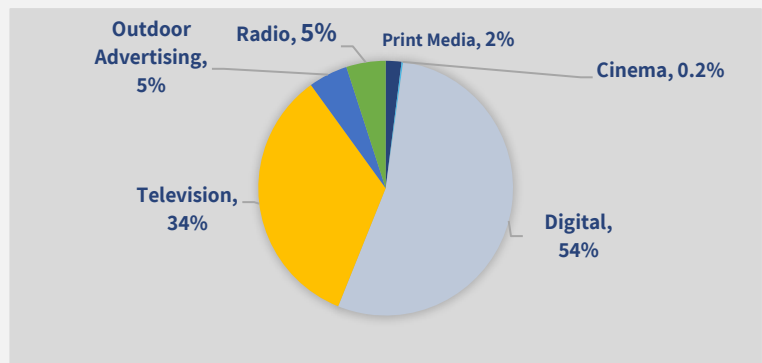
The advertising market involves four main players: advertisers, advertising agencies, media buying companies, and various media outlets. The media buying process follows three main stages: the advertiser sets the advertising budget; the advertising agency determines the advertising strategy and appropriate creative content for the subject of advertising. Subsequently, it purchases airtime and advertising space through a media buying company; the media company then acquires media time from media owners for advertising purposes.

In recent decades, there has been an increase in the bargaining power of media buying companies, particularly in television media buying. In Israel, dozens of advertising agencies operate, with five main media buying companies working with numerous advertising agencies and three commercial channels,

along with additional channels. According to a Competition Authority review from mid-2019, **over 75%** of commercial channels' advertising revenue comes from sales mediated by large media buying companies.

Between 2008 and 2022, advertising expenditure increased by approximately 21.5% in nominal terms, compared to a nominal GDP growth of about 123%. Consequently, the proportion of advertising expenditure to GDP **decreased** from **0.49%** in 2008 to approximately **0.27%** in 2022 (compared to a global average of **0.83%**). In cross-country comparisons, there is a positive correlation between GDP per capita and the proportion of advertising expenditure to GDP. In Israel, the proportion of advertising expenditure to GDP is relatively low compared to countries with similar or even lower GDP per capita.

In 2023, digital advertising accounted for about **54%** of the total advertising market, television advertising for approximately **34%**, print media for about **2%**, outdoor advertising for roughly **5%**, and radio for about **5%**. Recent years have seen an increase in digital advertising (primarily through internet giants), mainly at the expense of print advertising. Additionally, a portion of digital advertising expenditure is directed abroad and does not serve as an economic platform for domestic media outlets.



The ongoing decline in advertising expenditure as a proportion of GDP, combined with other economic factors, may lead to financial difficulties and survival risks for private media outlets. Furthermore, the decrease in advertising expenditure may encourage phenomena such as ownership concentration, cross-ownership (ownership of multiple media outlets, for example a newspaper and a television channel), and diagonal ownership (ownership of media outlets as well as other business enterprises). Developed countries provide government support to private media outlets (sometimes through taxation of internet giants) to promote local culture, foster democratic discourse, and give expression to a wide range of thought streams, opinions, and positions.