**VIDEO TRANSCRIPT**

**PART A: UNDERSTANDING COST PER POINT AND COST PER THOUSAND**

The purpose of this lesson is to continue building upon the application of ratings and impressions as the currency to evaluate the efficiency of programming vehicles and media in general as they relate to pricing and delivery of audiences. In the previous video lesson you learned about ratings and impressions. In this lesson, we will go deeper and applying cost or rates for programs to understand how to apply these audience measurements and their applications. When I say cost or rates is the cost for, say, a thirty second commercial to air in the commercial break of a given program.

After you finish this video lesson, you will be able to:

* Use ratings and impressions to analyze programming vehicle efficiencies
* Understand the media terminology associated with the media efficiencies
* Understand specifically the calculation of Cost per Point and Cost per Thousand

Let’s start with basic terminology that you need to understand:

* Rate: the cost a media outlet charges for its airtime. Example, for example how much a television charges for a 30 second commercial in one of their Primetime programs.
* Programming: content or what shows they air. For example, news, sports like World Cup games, etc. .
* Television Dayparts: how television labels the hours of the day in sections. For example, this is the order of a station’s dayparts with approximate hours: early morning 5a-9a, daytime 9a-4p, early fringe 4-6pm, early news 6-7pm, prime access 7-8pm, primetime 8-11pm, late news 11-11:30pm, late fringe 11:30pm-1am, overnights 1-5am, weekend, sports. Every station defines their dayparts as they decide, but these are some general guidelines
* Quarter: in business, the year is divided in quarters: 1st Quarter Jan-Feb-March, 2nd Quarter April-May-June, 3rd Quarter July-August-Sept, 4th Quarter Oct-Nov-Dec
* Media buy: Buying Brief or buying specifications defining the market or markets, media to buy, campaign dates or weeks, ratings to buy, demo, budget defined in CPM and/or CPP, dayparts, among other specifications
* Availabilites: known as avails for short. This is a report the media, in this case a television station, gives the buyer of what programming is available, the ratings and impressions audience delivery and how much does it cost for a commercial placement
* Cost per Point: it is exactly what it means, how much does it cost for each rating point bought in a show or daypart
* Cost per Thousand: relative to cost per point, remember that rating points are percentages calculated from a raw number called impressions or “eyeballs” or audience watching the program. Cost per thousand is how much does it cost to reach one thousand people or “eyeballs” watching the program,

First, let me start by explaining typical applications of the Cost per Point and Cost per Thousand analysis. I will also refer to Cost per Point as CPP, and Cost per Thousand as CPM; why CPM? It takes its acronym from the latin word for thousand which is “mille”. I will review these concepts again, throughout the lesson. A Media planner, a media buyer and a media seller all have very useful uses for the CPP and the CPM. These can be summed as follows:

* A media planner uses CPM and CPP to plan and set budgets
* The media buyer and the media seller use CPM and CPP as the negotiating mechanism
* CPM and CPP serve as the guide to evaluate and compare efficiencies of a media vehicle and among media vehicles

OK, let’s start.

We already studied how to calculate a rating and what is rating and what is an impression. Imagine if you are a media buyer, and you have to put together a television media buy in a market that has 6 television stations. You television buy includes Primetime, which is the most profitable television daypart because it traditionalyl draws the biggest audiences of all programming on television. Primetime runs from 8-11pm Monday through Saturday, with Sundays running from 7 to 11pm.

Do the math, that is 3 hours of programming per day multiplied by 7 days a week with an additional hour on Sunday. So basically you have to analyze and negotiate 22 hours of programming. Following this example, in a 6 television station market (and some markets have more television stations) imagine that each station has 22 primetime hours and programs to fill those 22 hours, that is a whopping 132 programming choices, each one with ratings, its corresponding impressions and a unit rate for commercial placement. If you don’t have a mechanism to analyze all those numbers on an equal scale, what would guide you? What a mess, right? But that’s where the CPM and CPP analysis comes in.

Let me explain: A typical negotiation between an advertising agency buyer and a media seller, also known as a television account executive or a rep, short for representative, is as follows:

* The media planner’s plan is developed as a media buy, also known as buying brief or buying specs or specifications, each agency has their own terminology
* The media buy is delivered to the media buyer who analyzes what is required
* The media buyer calls each television station rep and request the avails based on the parameters stipulated on the buying brief
* The avails are delivered from station to buyer
* The buyer starts analyzing the cost to audience delivery relationship using CPM or CPP
* The buyer uses this analysis to negotiate the programming rates and negotiates with the station
* Station and buyer agree on costs and ratings/impressions delivery (we will discuss this one later)
* The media buyer places the buy to the television station and the media buy to that specific station becomes a contract between buyer and media seller
* The media buyer monitors the schedule to make sure it runs as contracted, but that is also another lesson…

What you also have to understand is that each rating point (or impression) has a market cost or a supply and demand cost. What this means is that the “market” dictates the going rate or value for that particular audience (as per rating and impressions) for that daypart for that quarter. Put it this way, media value is like real estate…sometimes a house value is higher, sometimes the house value depreciates, sometimes it is a buyer’s market, sometimes it is a seller’s market, it depends. It sounds like the basic economic principle of supply and demand, right? Remember the house market crash that happened in the US around 2007 – 2008. In the years prior, it was a seller’s market and houses were not in the market for long and sometimes buyers were outbidding each other for houses being sold. That is called a seller’s market where the demand outpaces the supply, and thus pricing for the commodity being sold increases. On the other hand and after the housing crash, the economy went sour, buyers started retracting and house sales slowed down considerably. Now buyers who could buy homes and had the upper hand negotiating because the supply outpaced the demand. When this happens, it becomes a buyer’s market and prices for the commodity tend to drop.

By the way, this is exactly how the media market works, and the laws of supply and demand also rule pricing. When there is a healthy demand for television inventory, demand outpacing supply affects pricing. For a one hour television show, approximately 45 minutes are program and 15 minutes are commercial time (give or take). Those 15 minutes of commercial airtime are the bread and butter of a television station, in other words that IS the inventory or commodity they sell. With a healthy demand on their inventory, the station’s airtime has to be priced accordingly.

In normal market conditions, where the buyer and the seller’s market conditions are fairly equal, the guide for these negotiations are the CPM and CPP, and each programming choice is evaluated individually taking into consideration the buyer’s budget allowance expressed as a CPP or CPM, and the seller’s “supply and demand” pricing on that inventory or commercial airtime.

Now that you understand the principles, let’s start with the application:

Taking the examples we started working on, on the lesson chart where you already calculated the ratings based on the impressions’ delivery of each program and the universe for Adults 18 to 49, let’s add pricing to each.

Let’s begin:

STEP ONE: Calculating Cost per Point

You already know how to calculate a rating by taking the program or show’s demo impressions (in this case it was Adults 18 – 49 divided by the universe of the demo and multiplying by 100.

In the case of Parks and Recreation, the rating is 11.1 (rounded to one decimal point). If you look at the PPT chart, there is a rate of $15,000 for a 30 second commercial placement in this show.

Cost per Point is calculated by taking the rate of $15,000 and dividing by 11.1. Each rating point on Parks and Recreation costs $1,351.35

Pause the video, go to the chart in the video lesson PPT and calculate the Cost Per Point for all the programs in the chart. You can find the answers in the full lesson PPT.

Let’s continue…

STEP TWO: Let’s calculate Cost per Thousand

This is just a little bit trickier, but simple to understand once you “get” it. You already know that there are 14,140,000 adults 18 to 49 watching Parks and Recreation.

The trick here is to understand that we are calculating the cost to reach one thousand people in that program, not the cost to reach every person. In this case, it is as simple as taking the last three zeros out:

14,140,000 becomes 14,140 because there are 14,140 thousands in 14,140,100

Do the math: 14,140 x 100 = 14,140,000

Now that you understand this, take the same rate of $15,000 and divide by 14,140. The answer is $1.06. The cost to reach one thousand people in the program Parks and Recreation is $1.06. Each program has a CPP and an accompanying CPM. By the way, since not all media is measured by ratings, the universal measure to calculate cost efficiencies is CPM. Think about it, not all media has ratings but all of them has impressions, meaning people consuming or exposed to the media vehicle. And campaigns also mean various media such as television, radio, newspapers, web, social media, mobile media, out of home, etc, etc, etc.

Now go back to the chart in the video lesson PPT and calculate the Cost Per Thousand for all the programs in the chart. You can find the answers in the full lesson PPT.

See you in Part B of this video lesson.