Moves to solve transparency

AdNews moves the transparency debate forward by looking at tensions in the system that may lead to a lack of transparency and presents practical steps to help all parties arrive at a healthier and more trusting media buying ecosystem.

Media transparency has become one of the most pressing issues facing marketers today.

In the past year, the issue has gained prominence across the world with the ANA's Report on media rebates in the US, the overcharging scandal at Dentsu Japan, and P&G global brand officer Marc Pritchard's warning to the "murky" and "fraudulent" digital media supply chain.

WORDS BY
ARVIND HICKMAN

Then there was also Facebook misreporting metrics and, more recently, concerns about brand safety on YouTube. In Australia, The Media Challenge summit held by the Australian Association of National Advertisers (AANA) firmly placed transparency on the agenda for big advertisers over here.

Every corner of the media buying ecosystem faces a different set of market challenges, agendas and influences and, as a result, conflicts that arise from any link within the supply chain contribute to the transparency issue at large.

The aim of this investigative report isn't to rake over the same old coals, it aims to move the debate forward by looking at tensions in the system that may lead to a lack of transparency and present practical steps which can help all parties arrive at a healthier and more trusting media buying ecosystem.

AdNews spoke to senior marketers - usually at CMO level, media agency leaders, media owners, marketing consultants, and ad tech vendors. Due to the sensitive nature of the issue, most asked to contribute anonymously.

A key point raised was that industry-wide collaboration is paramount to finding a path forward. This means agencies, media owners, clients and ad tech vendors "parking their ego at the door" as IPG Mediabrands' global CEO Henry Tajer recently put it.

The areas that need addressing include marketers' capability, agency remuneration, contracts, the role of pitching, media owners, digital media and programmatic.

Addressing these areas is just as important for the long-term sustainability of the media buying ecosystem as it is for restoring trust and transparency now.

Remuneration

One consistent thread at the heart of the problem, wherever you look, is money. Over the past decade, marketers have had far more scrutiny applied to media budgets and over the past five years driving down supplier costs has become a key consideration leading to procurement growing its influence in media agency reviews and pitches.

"I believe, as a client, you get what you pay for, and you receive a level of transparency relative to what you ask for," a senior marketer at an ASX 100 company told *AdNews*.

"A number of clients, whether they are global or local, have really pushed agencies to the point of them having to find other means to generate revenue."

When pressed on whether the c-suite views media spend and agency suppliers as a cost rather than an investment, the marketer added: "There is no doubt [agencies] have absolutely been treated as a line item to minimise as best as you possibly can and there's also no doubt they see media spend as a cost not an investment.

"Clients are starting to do a lot more work around econometrics In the past, we haven't been able to argue otherwise, but now marketers are getting a lot better at attributing investment to growth in sales, customers and other metrics."

The AANA's transparency event was a turning point.

All marketers who spoke with *AdNews* acknowledged this trend, but a consensus was not reached on how much influence procurement exerts in reality.

"This really varies by client. If it is a compliance/governance process then procurement will typically play a greater role. If it is marketing-led, and they are genuinely looking for a different offering, we typically see marketers taking a more active lead role to ensure they get what they are looking for," one marketer said.

Trinity P3 managing director, Darren Woolley, who has experience running pitches on behalf of clients, described procurement-led pitches as "the single biggest bane of our existence" and lamented the number of times his firm advised clients an agency's fee was competitive, only for it to fall on deaf ears.

Woolley believes marketers often lean on procurement because they are better with numbers and some marketers "feel like they've been taken advantage of by their agencies and use procurement to get money back or to reduce the cost".

A senior marketer who has worked at several large organisations believes some marketers play on this notion that procurement is the 'bad cop'.

"CMOs are hiding behind that and going 'oh it's not my fault procurement said that you are not the cheapest one'. That's absolute bullshit.

"For any accounts payable you've got to be responsible for it - the spend and the media - and marketing decisions that go with it. Procurement makes recommendations, but they don't actually decide on an agency."

Agencies lowballing and false economies

On the other side, it's not always clients driving down cost, sometimes agencies will undercut rivals to unsustainable levels to win work. Agency bosses told *AdNews* although many pitches still come down to cost, this mindset has eased over the past two years.

"Agencies are to blame here as well as they often drop their prices (retainers or commission) to compete with each other in order to win business," one media agency leader told *AdNews*.

"This race to the bottom has come from agency competition as well as procurement, the result of which is that agencies can sometimes struggle to cover the cost of the team resources to service the account."

Stephen Wright, director at independent Programmatic Media, told *AdNews* cost-cutting has meant that many agencies now rely on digital media revenue, which can yield higher margins hidden from client view, to make up for slim margins elsewhere.

"When I used to do pitches with Trinity P3 and I'd ring agency CEOs about a piece of business, one of the first questions was whether there was a digital component," he said.

"They've built a business model that's heavily reliant on hefty fees and profit levels in the digital and programmatic areas. The other areas operate on very lean margins."

For Australian media agencies to shift their business models away from digital could lead to reduced profits that would fall below targets set at a global holding group level, says Wright.

"Marketers need to acknowledge that remuneration across all aspects of the service needs to be looked at as a whole rather than programmatic in isolation," he added.

In Short

Media Owners

In debates about media transparency, media agencies often tend to take much of the flak, somewhat unfairly, but media owners also play a role in negotiating deals that clients may be none the wiser.

"Google with YouTube has recently been the poster child for everything that's gone wrong in media but I feel that there are other media owners who need to play a role in building the industry back up and showcasing what we do as a valued part of marketing rather than something that everyone is awkwardly hiding from at the moment," a marketer says.

Incentives, rebates or bonus inventory can be offered as part of group deals with large media owners and it is not always clear how this value is redistributed to clients.

"There was a common denominator and that was the TV networks that interacted with all media agencies," a former media buyer explains.

"I just question where media owners sit in terms of responsibility of a lack of transparency in the first instance."

Group volume deals provide benefits to clients who get inventory cheaper than market rates but they also provide some agencies with benefits.

Such benefits include pools of extra inventory that can be used to win new business or maintain current clients.

It's not just TV that offers sweeteners, digital media giants, particularly Facebook, can offer quite generous incentives.

"I feel there is a lot of pressure that the big media owners place onto the agencies that don't help them be transparent. There's a lot of deals that get done and things that get discussed that I know that agencies can't disclose to clients because if they do they don't get [the deals].

"Therefore agencies are also capturing the downstream pressure of the big end of town media owners and no one is pulling the media owners aside to have that conversation."

In Short

Marketers' knowledge

The complexity and increasing fragmentation of media makes it difficult for marketers to understand and stay on top of.

The average CMO or marketing director spends on average 5% of their time on media.

"A lot of the complexity and the issue around transparency comes from a lack of confidence or understanding about what goes on in media buying," a senior marketer says.

Another problem exacerbating the issue is that the shortening of CMO tenures is making it difficult for them to find the time to devote to specific areas like programmatic.

"The reality is the CMO will be in their role for two to three years. They would spend the first 12 months just getting into the door, the next 12 months putting in place perhaps their advertising platform or positioning of the brand and then they've got less than 12 months working out what they do next," a marketer says.

"The reality is for them to prioritise what is happening programmatically with pass through of costs simply is not on their radar. When it comes on their radar is when you have commentary in the trade press of the AFR for instance, when your C-level or the board is reading it you have to have a view on that."

Below the CMO, marketing and brand managers may spend 20% of their time on media but very few will have an understanding of complex digital media buying areas like programmatic trading.

To overcome this lack of knowledge internally, some larger companies have employed media controllers who have a specialism in media buying and planning and can devote much more time scrutinising spend, contracts and agency relations.

In a business environment where marketing is far more accountable than it was 10 or 20 years ago, this extra layer of scrutiny can prove valuable.

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>
> Anonymous senior marketer

Driving down costs on retainer fees and commissions to unsustainable levels is a false economy and usually leads to promises that cannot be delivered, inexperienced and overworked account teams, or agencies looking to build value back through other areas.

"This result sees more junior and less experienced people hired to service the roles, which may or may not drive the best strategies and delivery for clients. It can also lead to senior resources being over allocated," one agency leader warned.

"This has been the case over the last five years and has led to the industry burning out some great talent who have now left the industry altogether."

CMOs and agencies are in a tricky position to redress the balance.

"How do you then turn around to your CEO or CFO and say, 'you know what, all we've done is bought a whole lot of crap for the last 10 years and none of it has really performed'? It's going to get them fired, so they can't do it," Woolley said.

How to improve pitching

One way to help provide greater transparency to the pitching process and "level the playing field" is to set industry standards to help inform clients and marketers what they should expect to pay media agencies in terms of costs and margins. One media buyer told AdNews they would like to see the AANA and MFA release salary benchmarks for each role, details about appropriate overhead recovery, and profit margins.

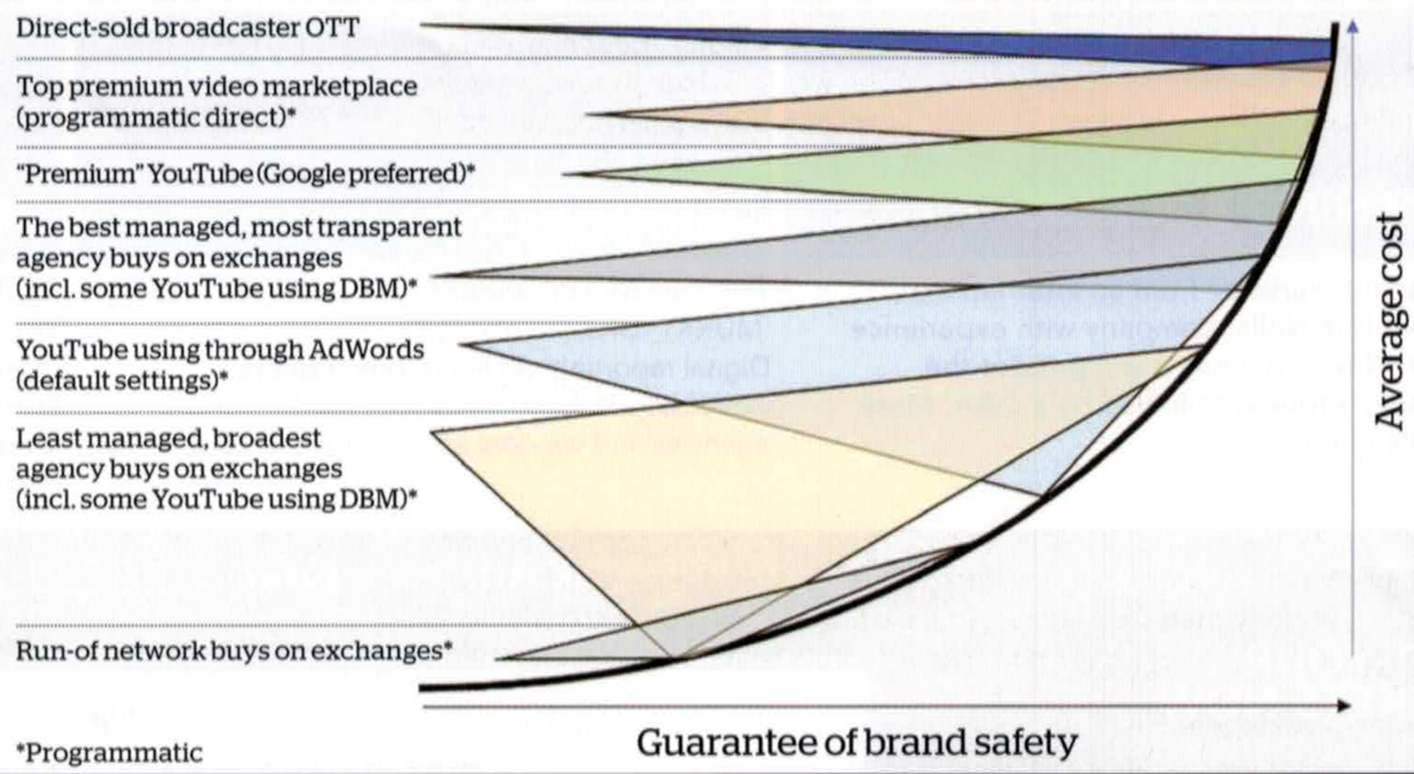
"Then it would come down to how well you develop media strategy, buy, and optimise media to deliver on client business outcomes. Some of the profit margin could be put at risk in the event of under-delivery, but there should also be an agency upside and bonus incentives for over-delivery," an agency head said.

"The challenge is getting agencies to stick to it and my suspicion is that they will continue to undercut each other to win business."

Virginia Hyland, CEO of Hyland Media, told *AdNews* agencies needed to "put a stake in the ground. They have to be able to push back on global pressures to say 'this is the value I am adding to your business."

"We are just going to the lowest common denominator in terms of cost, No agency is pushing back on marketers explaining the differences in the quality of people."

FIGURE 1: Illustration of cost and brand safety by online video buy type



*Programmatic

Woolley believes the remuneration model should ensure there is a fair and reasonable amount of base and that there are performance-based incentives which allow the agency to share in the success of a client.

"Procurement needs to turn the focus away from cost reduction and towards improved productivity and results. It doesn't matter if it's sales or leads or brand health - whatever the metric is they've agreed with their CEO is the measure of marketing value," Woolley said.

Contract transparency

The AANA has made great strides in addressing transparency and last year, produced a contract template and guidance notes to provide tools for marketers to ask the right questions about media agency contracts. The aim is to point advertisers towards the areas they should consider and question to "reduce or eliminate non-transparent and non-disclosed practices" relating to media spend.

It covers aspects such as advertiser and agency responsibilities, rebates and incentives, reporting, scope of work, third-party costs, sub-contracting, tech stacks, fees and expenses and audit.

AANA CEO Sunita Gloster said the measurement and true value of digital investments and the whole area of programmatic buying are "highly significant areas" of concern for advertisers, and that the documents have been well-received and are being put in place by some.

"I think there is a broad understanding from marketers that we are all complicit in having created the murkiness around the media supply chain. Driving accountability and transparency is not optional, it's all our responsibility. From a marketer's view, this will be about getting into the detail on the key issues, improving their capability and understanding, reviewing their contracts and asking more questions," she told AdNews.

Industry sources told *AdNews* they have noticed a positive shift in the past six months in the questions marketers are asking about contracts.

"What has been a good outcome of the whole debate in recent weeks and months is a lot more help providing clients the tools to ask the questions and get a bit more comfortable with the topic," one CMO said.

How to tighten supplier contracts

Writing transparency clauses into contracts is one of the best ways to improve transparency and trust, several marketers believe.

"The only way to get around it is simple English contracts that state very early what you get and what you can't keep," one marketer said.

"I would always do no commission contracts. So, no rebates, no commissions, and attest that value derived from the work cannot be used by anybody other than me."

Wright believes most of the contracts have transparency and auditing rights with the agency, but this doesn't cover trading desks, which are separate entities within the holding groups which means there's no visibility of what the trading desk would purchase inventory at and clients would "never know" the mark-up.

"I've only come across a couple of live contracts in Australia that provide auditing rights across the whole agency group."

Within the AANA's contract template, group auditing rights are included, but agency groups maintain such provisions are hard for them to comply with due to the way their businesses are structured.

Woolley believes while it is important marketers tighten their contracts to ensure there are transparency clauses, this alone will not solve the problem because "there will always be ways around it".

He said that agency audits, another idea often presented to improve media agency compliance, could encourage people to do the right thing, but falls down for two reasons. Firstly, audits shed light on historical information after the event, and, secondly, they can only cover the agency that a company works with rather than other companies in the supply chain.

Hyland supports six-monthly reviews of agency client agreements to ensure areas found lacking can be addressed.

Another aspect that needs to be looked at is clients pressuring media agencies into 90-day, 120-day and even 150-day payment terms. Such draconian measures mean agencies carry the cost for an extended period, eating into their remuneration and piling on pressure.

Digital media

Digital media is the fastest growing media channel with advertisers investing more each year in the many different areas that include display, search, video, social, mobile and elsewhere.

One of the benefits of digital is it allows advertisers to better target specific audiences and track how much consumers are interacting with ads rather than the audience measures that are used by other media channels.

Digital media has been sold as having a higher level of measurability, which, in theory, should provide marketers with more granular information on the results. It's also typically sold at a much lower cost as advertisers buy an infinite amount of inventory on websites ranging from premium publishers to "grannies crochet websites".

Google and Facebook have benefitted most from the move to digital and vacuum up more than 90% of digital media growth.

"What the digital world has done is create an unlimited amount of inventory, but no one can tell good quality from poor quality anymore, especially if they're all buying on cost," Woolley explained.

"Every advertiser wants their agency to deliver the lowest cost per thousand, but what they end up buying is a tsunami of crap. When advertisers are absolutely focused on cost and not value or return on investment, these are the problems you'll have."

One media owner told *AdNews* premium inventory is jumbled together with mid-range and a tail of low quality inventory, with trading desks able to make their money from the mid-range to low quality stuff to more than offset higher cost premium inventory.

"Premium publishers don't want that - we become commoditised in the process. Premium publishers have got to take a stand and stop in-fighting," the media owner warned.

"How do we create a pool where if you want to buy premium, brand safe content you've got to buy from these places?"

In the past six months, the two largest platforms for digital - Facebook and YouTube - have had their credibility challenged. Facebook has admitted on several occasions it has misreported several metrics to marketers and YouTube has faced an advertiser boycott over brand safety concerns.

Facebook has also been in the spotlight over content appearing on its platform, including child pornography, and an horrific murder broadcast live on the site.

Above all of this, more marketers, are starting to question the ROI digital delivers and how success is being measured.

"Digital has stuck its neck out because its selling point was that it was the most accountable channel relative to other broadcast media. It was always seen and positioned in that manner. The flip side to that is they are now having the most pressure placed on them because of that ability to be so accountable and more transparent," a senior marketing executive told *AdNews*.

"The whole industry has been asleep at the wheel on that point; it's not as if it was one brand or one category."

Anonymous senior marketer

"The whole industry has been asleep at the wheel on that point; it's not as if it was one brand or one category. The whole market swung in that direction and now the whole market is either swinging back or being a bit more informed."

One media owner told *AdNews* because Facebook and Google do not share the same level of data with Nielsen and other measurement bodies, including viewability standards, their metrics are not as detailed or consistent with the rest of the industry.

Woolley believes digital media would be far more accountable to its success if marketers marked media agencies not on how much they can drive down the cost of digital, but on the value they can deliver against marketing and business goals.

"Marketers need to move towards measuring and paying on value or return on investments, especially in the digital space," Woolley said.

The "lazy" metric, he believes, undermines the process where most are using cost per thousand impressions (CPMs) to buy digital when it has little relevance to most marketing goals, such as driving brand awareness.

"There are so many different ways, but most people, advertisers and their agencies, have gone for the easiest metrics," Woolley explained.

"CPM's, likes, impressions ... these are all incredibly superficial and have almost nothing to do with value or return on investment."

Programmatic trading desks

Much of the transparency debate centres on opaque programmatic trading practices at media agency holding group trading desks. Agency holding groups that run trading desks buy digital inventory in bulk and then sell it on to clients with the promise of a heavily reduced price.

In many cases, clients agree to allow agencies to take whatever margin they achieve, provided a guaranteed price is delivered. Estimates of how much margin agencies skim range from 30% to upwards of 90%. One marketer said the average margin would be around 50% of the total cost.

At the AANA's The Media Challenge event, Ebiquity's chief strategy officer, Nick Manning, said for every dollar spent on programmatically traded advertising, only about 40 cents goes towards advertising, with even less being seen by a human.

The rest is sliced up by media agencies and a range of ad tech services in between that help optimise the investment through targeting and other insights.

"There is no doubt that agencies, for a short period, benefitted a lot from how they were using trading desks to generate additional margin," a senior marketer revealed.

"That 'opaqueness' is linked back to the fact that it was just too complex (for marketers to understand); almost a dark art that was digital buying for a number of years where there was probably a few who knew what they were doing in terms of making more money off clients.

That has now been addressed with some larger clients moving it in-house or to a model where they are paying for head count and not paying for a percentage or commission or volume that goes to a trading desk.

The "opaqueness" still exists, the marketer added, for a mid-range of clients who do not have the time to look into it or have a media controller to manage that aspect of marketing.

It is important to recognise that while media agencies were making money, they were also delivering benefits and efficiencies to clients. Many feel that the margin is irrelevant if programmatic trading is delivering results that add value to the business.

"My view is that if we are making more money as a business and driving more customer growth, and the agency is making more money, then I'm OK with that as long as it's done in a transparent manner," the marketer added.

However, Slingshot's Rutherford believes more transparency around digital margins would be a massive stake in the ground.

How to improve programmatic

A marketer at one of Australia's largest bluechips told *AdNews* they insist upon full transparency with their media agency partner across the programmatic trading ecosystem. This involves the client holding a direct relationship with suppliers like predictive marketing platforms and audience analytics companies.

"We negotiate those terms and we do it in a manner where we allow those parties to get access to first-party data. We then turn the keys over to the agency for them to use that trading platform," the marketer said.

"We simply pay for the resources of our agency executing those platforms when we go to market."

The movement to in-house part or all of programmatic trading has been building over the past five years. It's a trend that is likely to continue, with tech giants and management consulting companies, like Accenture, circling.

One marketer, who has also worked agency-side, predicts within five years 40% of advertisers will have in-house trading desks. Another marketer said that over the next six months there will be a mixture of clients becoming more savvy while ad tech companies like Rocket Fuel and Quantcast will become much more savvy in locking clients in.

Conclusion

There are no easy solutions to this multifaceted problem but fundamental shifts need to occur across the ecosystem to drive change. Marketers need to demand and set their expectations more of their media agencies, holding companies and suppliers, stop talking about cost and start having conversations with the c-suite about value. As Warren Buffet said: "The cost is what you pay, the value is what you get."

Media agencies and holding companies need to work with digital publishers and ad exchanges to get consistent metrics and transparency in reporting of performance.

Agencies need to sort out which of their clients are going to continue to buy on price and identify those who are going to move towards performance and be able to accommodate them. Media agencies could do well to band together and come up with an industry-wide solution or set of standards on how they tackle contentious areas but the final goal is a market that builds sustainable remuneration models, contracts that all parties are happy with, and a mindset that focuses on performance and value rather than cost. A

AdNews is hosting The Transprency Summit to seek further constructive debate in Sydney's Darling Quarter on XX June. For more information visit www.adnews.com.au/adnewslive