MEDIA, ANALYSIS, OPINIONS

Darren Woolley | 3 days ago

Why the buying exercise is flawed in a media pitch

Especially during the pandemic, trying to lock in a media-buying position in a state of so much uncertainty is bound to create distrust and disappointment.

There is a procurement practice when it comes to selecting media-agency partners of including a media-buying exercise. This is a process of having the media agency commit to a buying position of various media based on volume and a corresponding rate. There are all sorts of issues related to this practice, the least of which is, in a time of such uncertainty, it is flawed to commit to a future buying position based on cost alone.

This is an opportunity to explore the procurement practice or media-buying exercises, to highlight the limitations and shortcomings, and to propose a better way to address the concerns that this practice was designed to address.

Addressable and non-addressable spend

This is a procurement concept. There is spend which is addressable. Then there is spend which is not addressable in the context of the contract. That is, the supplier contract has a media-spend component that the supplier cannot control or spend, which is fixed in nature. Traditionally, media spend was broken into the spend on media through the agency to third parties and the agency fee for providing this service.

The media component was non-addressable as ultimately the cost of the media would depend on the marketplace, the leverage of the agency and the leverage of the client. Therefore, it was beyond the influence and control of the agency alone. This meant that the addressable spend was the agency fee. In the days of media commission this was 10% to 15% of the media spend. Post the media accreditation system, it was negotiable and therefore addressable.

But along the way the media spend became treated as addressable. Agencies were asked to commit to a buying position based on their knowledge of the market and their perception of their negotiating power. Agencies were competing with each other on how cheap they could buy media on behalf of their client. It gave rise to agencies looking to previously unethical behavior such as arbitrage and value banks—practices that placed huge question marks over the transparency and honesty of the agencies.

The flaws in media-buying exercises

The best way to demonstrate this is a live example of the flaws. This example has been replicated enough times to represent industry practice. On a major media tender, we were engaged to provide industry knowledge and advice. Against advice, the procurement team insisted on a buying exercise. The agencies responded to the buying exercise with their positions across various media channels based on a range of proposed spends.

Reviewing the proposed positions, it was clear that one agency was grossly exaggerating what they could achieve. We reported that the position they had proposed was unachievable. The procurement team ignored this and appointed the agency with the buying position included in the contract.

Six months after appointment, the marketing team contacted us for advice. The agency had admitted they could not achieve the buying position. What were their options? We advised:

1. Take action against the agency for breach of contract. But this would be public and messy and in discovery our report could support the agency position that the buying position was unachievable.
2. Terminate for breach of contract and go to tender again. But this would signal to the market that you got it wrong the first time.
3. Do what most advertisers do in this situation. Work with the agency to get the best position you can. When the contract is up, go to market and try to make sure you do not make the same mistake again.

The agency won the business. Procurement delivered savings up front. But, who really won here?

Media buying in a time of disruption

Only a few weeks ago, a client asked if we should include a media-buying exercise in the media tender. As always, the answer was no, especially now. Why? Because how can you lock in a media-buying position in a state of so much uncertainty? Not only was the client unsure of its budget for the coming year, the media agencies and owners are also in a state of unprecedented uncertainty.

The Covid-19 pandemic has led to a drop in demand for media across most channels. This has had a significant downward impact on media rates. Where does this leave the advertiser who has locked in their agency to a media rate position previously? It is highly unlikely the agency is sitting on its hands. Any and every agency will be working to deliver the best possible rate no matter what their contractual arrangement. This is the point. Selecting good agencies and setting them clear performance objectives and paying them well will lead to the

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best performance. Having agencies win your business through a race to the bottom will not.

But likewise, the media are not giving away their margins. Most media are protecting their margins. Rather than heavily discounting, they are protecting rates with lavish added media value. They know that once you heavily discount media rates, it is very hard to recoup lost margin, even when demand returns to normal. So, locking in on rates means you will likely be missing out on the value on offer right now in the market.

And really, who knows when the market demand will return to normal? Isn't it better to have your agency constantly negotiating value rather than focusing on it to win your business in the first place?

A better way

If you don't want agencies playing media arbitrage, leveraging value banks, lying to you from day one to win your business, then don't demand they offer a buying position up front to be locked in. You will just be disappointed.

We are not suggesting price is not a factor in value. It is. So use a media-buying exercise to understand the agency's approach to trading. Use it to set a view of the coming year. Use it to see how the agency understands your needs, not just from a buying position but from a performance position.

If the past five months has taught us anything, it is the world is a dynamic and unpredictable place. Those that survive and thrive are those best able to adapt. In this environment it is better to have the media-agency partner that is focused on delivering the best outcome, not locked-in to delivering the cheapest outcome.

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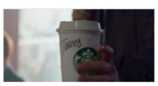

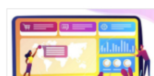


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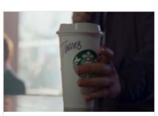

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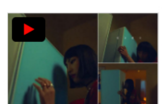

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