The Subject

Undisclosed Media Cost

As the primary connection point to potential customers, for marketers, media is necessary – some might say necessary evil. Yet, many brand marketers don't understand the intricacies of media or the implications of their actions on the ad-tech ecosystem. This fosters a negative feedback loop that requires correction.

Specifically, tech stacks and programmatic media, the domain of ad-tech and agency vendors becomes the battleground for optimization – of performance for the advertiser and revenue generation for the agents and vendors. This creates an asymmetrical relationship where each entity is the exploited and overseer.

One of those exploitative practices is undisclosed revenue models. These are revenue models where brands get a total cost, without understanding itemized costs.

The Claim

The ANA produced a report, titled [The Acceleration of Principal Media] which shines a light on marketer ignorance to the complexities of the myriad methods organizations use to generate revenue from brand investment in advertising. When all is healthy, these methods are disclosed and can be audited, thus the marketer understands the itemized margin of their dollars' impact.

The disclosed model is not ubiquitous, however. The ad-tech tax, principal-based media buying, undisclosed media operations costs, and various rebate methods have become popular. These undisclosed revenue modalities benefit the agency at a cost to the entire industry.

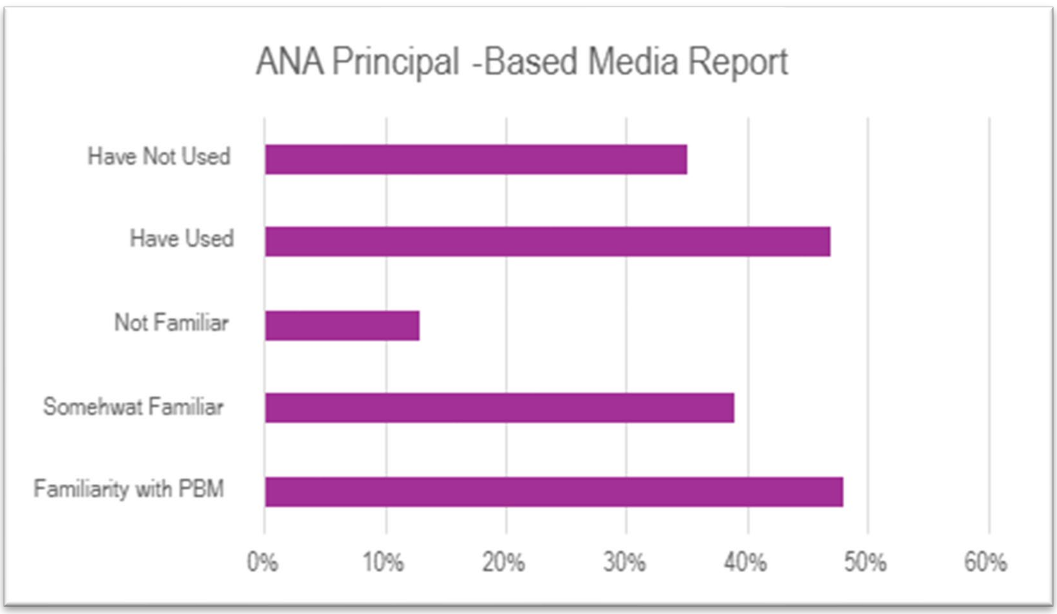
How it Works

Undisclosed models hide the true cost of agent engagement, such that the item-for-item cost is not available to the marketer. For instance, in a normal client model, agencies will advise the client exactly how many people are assigned to their account, and at what title/cost. This creates a fixed cost the client understands and can itemize within the construct of a full ad budget.

When the agency goes to undisclosed models, they may have people who flex in and out of an account, thus lowering the total cost of doing business for the agency while charging the brand as if those people were all full time, or at a minor discount not commensurate with agency savings.

In the latest edition of what's old is new again, the industry has seen an uptick in a specific undisclosed model called principal-based buying. This happens when a holding company or agency buys media from publishers up-front and then reps that media as the principal rather than the agent. It's a great way for the agency to control media costs. Many wonder the implications of this action.

Yet marketers do not fully understand this inventory acquisition method, as evidenced by this ANA study, that shows how few marketers are truly aware of the business model of undisclosed pricing:



*ANA | The Acceleration of Principal Based Media, 25.05.14

Less than half the industry is familiar with principal-based media (PBM). That leaves a great deal of room for agents to increase margins but also favor pre-purchased inventory, among other things.

The -ablement

This commercial practice is one that gives the agency some marginal flexibility. It **enables** them to control costs so they can deliver quality service and maintain a business. It **disables the** line of sight of cost for the buyer. Each method of undisclosed buying reflects a different type of control, however. Let's review some of the top options various agencies use to maintain this marginal leverage.

Principal Buying Methods -- PBM

This method sees the agency turn to the publisher to buy inventory up front and inexpensively, so they can use that inventory to fulfill their impression volume obligations and media spend for the advertiser.

This method is a good way to guarantee publisher and cost. The marginal savings are earned by buyers using the inventory from the agency without knowledge of the actual cost per thousand impressions. The cost is often at a much better rate than the open market, given the agency up front commitment.

Team Flex

Instead of X Number of people working on a brand's business full time, the agency indicates a minimum number of Strategy and Planning roles but pools resources at the programmatic activation and operations functions, where one operations employee or digital buyer will likely work on multiple brands. The human, nor their individual cost to the advertiser, is ever exposed to the brand. The marginal savings are earned when hours are only used for activity associated with that brand.

Rebates or Agency Volume Bonuses (AVB's)

Sometimes agencies get a volume discount in the form of rebates. They're not usually realized as cash incentives but as platform incentives. This means the more an agency buys on a platform they get more access to free services on that platform. The marginal value is in the defrayed expense of using a certain vendor at scale.

Tech Fees

This cost doesn't always fit squarely into buying media but impacts the activity. Agencies will use their own technology for Media Planning, Data Strategy, Business Intelligence, etc. These are all activities that are a part of the campaign launch and/or review process that are required to buy programmatic media intelligently. Instead of using 3P tools which are often more robust, agency tools are used without an RFP or per unit cost of doing business figure ever provided. The cost is just a bundled tech fee to the marketer.

The Quiet Part

While undisclosed pricing models are a tool of the agency, they were created by marketers. There used to be standard 15% fees that agencies used to build their businesses, pay their people, invest in tech, offices, travel, social gatherings, etc. Marketers have squeezed that margin down to a single digit percentage in some cases, over the years.

Some fault can be placed on the fact that marketers don't fully understand what it takes to reach their business metrics programmatically. Instead, pressure agency partners to use investment on "working media dollars." This phrase has driven the agency Investment and Data teams to get creative in the satisfaction of campaign requirements or take on the total cost of tech investments that are not directly tied to media spending.

Trust also erodes due to agency mismanagement of programmatic budget, compounding media-only investment demands. Brands, in turn, further squeeze agencies on their fee and people, prompting those agencies to make margin from periphery services, AVB's, and PMB's.

The To-Do

Short of the entire system being remade, there are some steps marketers can take to feel more comfortable about cost.

MARTech Knowledge

One doesn't have to be a technologist to understand the flow of information throughout the ecosystem. There are too many marketers that don't have a working knowledge of programmatic buying, platform architecture, or data orchestration. Yet, they intend to be able to collaborate with their agency. This lack of empathy and understanding for the agency plight leads to unsustainable payment models and requests above and beyond the allocated working hours for employees assigned to an account.

Collaboration

This is a requirement in MADTech. Indirect cost (like data, automation platforms, audience modeling, et al) can make the direct cost (media, DSP fees, analytics platforms) more efficient. Collaborating with agency team members to come up with revenue efficiency models with or without the people, technologies, and services provided need to be calculated. The paradigm that agencies are only useful for media cost negotiation is not true.

The Impact

Left unchecked the friction will cause additional pressure between brand investment and agency revenue generation practices. There is already a somewhat contentious relationship. Even before signing with an agency brands place unrealistic investment demands on agency teams, making the choice to find margin one of necessity. That relationship is toxic, and toxicity only begets poison.

Agency teams can mitigate impact by understanding the costs they're asking clients to pay, also. They must show value for all programmatic activities, people, and technologies. If it is unexplainable, then why would a client pay for it? This requires some rigor to sit down with vendors and internal Finance teams to outline the cost-benefit ratio of their services.

Second, estimate the efficiency gains or capabilities achieved from programmatic investment, as well as additional tech fees required to adhere to brand performance demands. If marketing budget appears misused agencies must isolate cost variables to remove or reduce impact to campaigns and margin.

Lastly, we must communicate with each other. Too often agencies are negotiating with intermediaries that only understand procurement, not marketing. Brand marketers fear underperformance and overpayment so there is no discussion about the business implications of decisions and cost cutting. It sounds simple, but like any good relationship it always comes down to clear and defensible communication.

The Competition

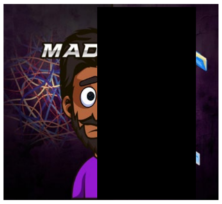
Agencies compete on price. This will not change. However, removal of fees without commensurate changes in service, tech, or people expenditure is an unchecked systemic function used to win business pitches and agency reviews.

Hero brand logo wins can be valuable but not when they ruin the balance sheet. Holding Companies need to stop this practice. While unlikely in the near term, it would change the industry overnight.

Conclusion

Agencies and all media buying platforms are incentivized to obfuscate cost to brand marketers. There is a lack of trust due to a lack of understanding surrounding value. Agencies need to do a better job of bringing in talent that can draw the connections to investment and how it optimizes media spend. If not, undisclosed buying models will proliferate.

This method of interaction is certainly unhealthy but is a natural progression of the agency/brand relationship. It is time to work together to make the advertising industry healthy.



82%
MAD

18%
Sense

The MAD-Sense-O-Meter© quickly visualizes the merits of the value proposition in question on a methodological framework built by the MADSense Team

MADSense-O-Meter Score: **82% MAD; 18% sense**

On the MADSense-O-Meter undisclosed buying models in programmatic environments makes almost no sense. Yes, the brand buys what the agency is selling and remains ignorant. However, that is not a quality relationship. It is one that depends on the ignorance of one entity and the subservience of the other.

Valuing each other's acumen and input into the overall health of a brand is tantamount to success in this scenario. It's clearly time to bring transparency fully back for the benefit of the industry.

About MADSense:

MADSense is a MADTech Intelligence company, dedicated to reducing the amount of time it takes to understand the dynamism of the space and apply solutions. These are derived through Functional POV's™ to help marketers make better decisions on the impact of new products, partnerships, and mergers & acquisitions in the field. We make MADTech make sense.

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