The Subject

Undisclosed Media Cost

As the primary connection point to potential customers, for marketers, media is necessary. Yet, many brand marketers don't understand the intricacies of media or the implications of their actions on the entire downstream environment.

Largely, programmatic advertising is thought to be the domain of ad-tech and agency partners. However, the marketer is more impactful than most understand. The marketer has helped create multiple phenomena in media buying that has impacted the industry in profound ways.

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. Often these methods are disclosed and can be audited, thus the marketer understands the itemized margin of their dollars' impact.

This clear line of sight has eroded. The ad-tech tax, principal-based media buying, undisclosed media operations costs, and various rebate methods have become popular. This is largely due to brand marketers requiring every dollar be spent on, "working media." With the complex array of requirements to get to a reasonable ROI, generate revenue, and maintain healthy relationships with partners agencies, publishers, and ad-tech brand partners have resorted to these undisclosed methods.

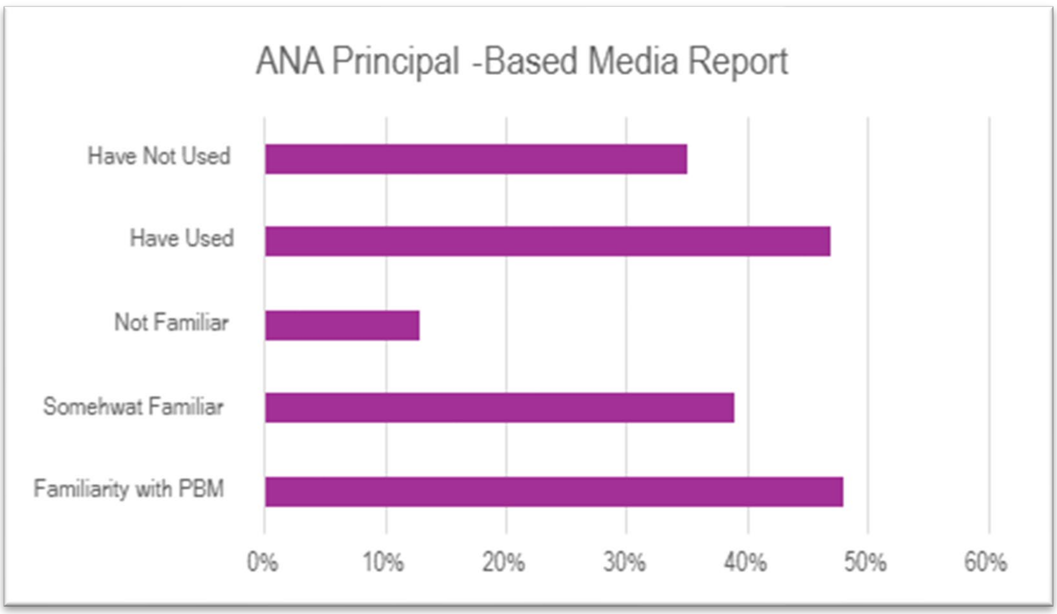
How it Works

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 cost. This creates a fixed cost the client understands and can itemize within the construct of full ad budget.

When the agency goes to undisclosed models, they may have people who flex in and out on the account, thus lowering the total cost of doing business for the agency and charging the brand the same amount.

In the latest addition of what 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 cost. Many wonder the implications of this action.

The advertising and marketing field does not fully understand these methods, as evidenced by this ANA study, that shows how few marketers are truly aware of the business modality of undisclosed pricing:



[*ANA | The Acceleration of Principal Based Media, 25.05.14]

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** line of sight for 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

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 on the Activation and Operations side, where one Operations or Digital buyer will likely work on multiple brands. The human, nor their individual cost to the advertiser is ever exposed to the team. 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 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, social gatherings, etc. Marketers have squeezed that margin down to a single digit percentage in some cases, over the years.

A large part of the reason for this is that many marketers don't fully understand what it takes to get their media purchased intelligently, at scale, with omnichannel measurability. Much conversation is placed on "working media dollars." This phrase has driven agency Investment and Data teams to get creative about fulfilling the needs of the brand while making it look as if all dollars are “working” for them.

All dollars are working for brands, in fact. This is not to say dollars are spent perfectly by agencies, as make-goods and other monetary returns from mistakes take place regularly. However, many agencies and holdcos have decided to “buy the business” up front and try to make margin on the back end.

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 work with agencies without the full knowledge of the systems employed to spend their company’s money. This is a flaw in partnership. To be able to hold teams accountable and truly value their contribution it is imperative brands have a working knowledge of the go-to-market process.

Collaboration

This is a requirement in MADTech. The idea that indirect cost can make the direct cost more efficient is a concept that must be accepted. 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 dead. In other words, reframe cost as investment.

The Impact

If this continues, trust will be further eroded between brands and agencies. There is already a somewhat contentious relationship. Immediately upon signing with an agency brands are upset and agency teams are stressed out. The relationship has become toxic, and toxicity only begets poison.

Agencies are employing more and more methods to obfuscate cost to buy impressions cheaper to be able to report a topline volume and vanity performance metrics scores that will maintain a relationship with the brand that limits fervor for agency review before the contract expires.

Sharing in an honest cost-value conversation with brands is hard. It will require education and patience. Changing agency thinking from a secretive pricing model to be able to buy the business and earn a profit will mean that brands need to lower the hostility toward investment in any area of agency cost besides media spend.

The Competition

Agencies compete on price. This will not change. However, the downward price pressure faced by holding company competition is driving the cost down as much as brands.

Famous logos look great but ruin the balance sheet and this ends up impacting the entire agency. Holding Companies need to stop this practice. They won't, but they should.

Conclusion

Agencies and all media buying entities for that matter are incentivized to obfuscate cost to brand marketers, by 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 value proposition work so there is value associated to the requirements to bring ads to market in this environment.

MADSense-O-Meter Explanation

On the MADSense-O-Meter this makes almost no sense. Yes, the brand buys what the agency is selling and remains ignorant. However, that is not a healthy 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 this industry.

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The MADSense-O-Meter is a visual way to see an opinion on the information received available. It is not an indication of the viability of any product, service, or methodology.

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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