



MEDIA DEALS, TRANSPARENCY AND BEST PRACTICE: THE7STARS VIEW

A WHITE PAPER PREPARED FOR CLIENTS
AND FRIENDS OF THE7STARS



CONTENTS

5

INTRODUCTION

6

MANAGEMENT SUMMARY

7

AT THE7STARS, WE BELIEVE...

8

IN THE BEGINNING...

9

WHOSE REBATE IS IT ANYWAY?

14

BEYOND REBATES

19

ADVERTISERS' CONCERNS SURFACE

21

THE7STARS POSITION

23

THE7STARS 7 TOP TIPS FOR ADVERTISERS



INTRODUCTION

For many years media agencies (and before them, full-service advertising agencies) have used their total volumes to extract additional value from media vendors for the benefit of their clients.

Advertisers hire media agencies in part because of their specialist ability to negotiate the best prices from media owners on their behalf, thus ensuring the best possible value for their budgets.

If the agency is able to enter negotiations with a hand containing all of the budgets at the agency's disposal, it increases its clout, strengthens its position, and maximises the value it is able to obtain on behalf of all of its clients.

WHAT COULD BE SIMPLER?

If the buying and selling of media worked openly, transparently and was always undertaken in the sole best interest of those ultimately paying for the advertising (the client) it would indeed be simple.

But, sadly the workings of the media market-place have become increasingly convoluted and complex over time. This has led advertiser trade bodies in a number of markets to question whether buys are indeed always made in the best interest of the advertiser paying for them.

This White Paper seeks to explain some of the more important ins and outs of media trading. It's been written to try to explain to our advertisers how the market is today, and how it got here. We also aim to lay out our principles on trading and the thinking behind these principles to those who know us less well.

MANAGEMENT SUMMARY

- Media agencies have always been focussed on ensuring the best possible deals from media vendors
- As competition grew, so agencies started to use their total volumes to favour the largest clients (those whose spend was being monitored) over smaller, less well-resourced advertisers. Smaller advertisers were often used as make-weights in these agency-wide deals.
- At the same time, some agencies started keeping some of these negotiated discounts for themselves as opposed to rebating them fairly to all of their clients, whose budgets generated the discounts in the first place.
- As the large publicly quoted marketing services groups have acquired many of the largest media agencies, so the drive to keep revenue and margins trending upwards has aligned with the increase in opportunities to create new agency revenue streams.
- This drive has coincided with the growth in influence of client procurement officers examining and questioning agency fees. Rather than make the case for higher fees from their clients, some agencies have chosen to boost their income from media vendors.
- The drive for agency revenue can conflict with objectivity in media planning. 'Agency deals' (deals based on the agency's total volume) can mean the agency is conflicted between those media channels most profitable for the agency, and those that are the most appropriate for the client's particular business needs.
- The advent and growth of online channels has brought together the trader's 'holy trinity': virtually infinite supply, complexity, and a lack of benchmarks and measurement.
- Advertiser trade bodies, particularly in the USA but also in the UK and globally have made their members aware of the lack of transparency that exists in many media trades and are currently (in the USA) undertaking a major investigation into how client budgets are spent.
- All of which has led to a lack of trust in the relationship between many large advertisers and their media agencies.

AT THE7STARS WE BELIEVE

- That our clients should be our sole source of income.
- That our clients should be fully informed as to the deals we do. It's your money we're spending and we think you should know everything about how it's being spent.
- We do not do deals that benefit us as an agency.
- That it should not just be the size of the client's budget that drives the value achieved.
- In always seeking out new and valuable deal opportunities for all of our clients, regardless of size.

IN THE BEGINNING

Although media agencies (or media independents as they were originally known) began in the UK in the early 1970's as breakaways from full-service advertising agencies, the sector really took off when the full-service agencies got involved by supporting their own media breakaways.

The first of these was Zenith (out of Saatchi and Saatchi), to be followed by MediaEdge (now MEC) from Young and Rubicam, MediaCom (from Grey), Initiative (Lintas) and others.

As with the original media independents the original appeal lay in their ability to save their clients money through a focus on aggressive negotiations. Planning was something of an after-thought; indeed as one example, the original Zenith shared media planning duties with its parent Saatchi and Saatchi for a number of years.

WHOSE REBATE IS IT ANYWAY?

As they became more established, attracting more and more clients, the media agencies' ability to negotiate on the basis of the total money at their disposal grew. To begin with these additional discounts benefited the agency's clients – being rebated to them, more often than not pro-rata to each client's spend (or share) with the vendor in question.

Over time the practice of negotiating deals across the totality of their business (so-called 'agency deals') grew. These deals were designed to benefit the agency, as well as those of their clients sufficiently informed to track the value being delivered.

Smaller (or less well-informed) clients were increasingly used as make-weights in these deals, with the benefits going to either the largest and best resourced, or to support promises made during new business pitches.

As media agencies became established as major players within the agency sector it was only a matter of time before the biggest became of interest to the publicly quoted marketing services holding companies (the likes of WPP, Omnicom, IPG and Publicis).

There were three reasons for this. First, as the media agencies added services (starting by adding planning to what was often initially a buying-only relationship) they found themselves playing an increasingly important part in the relationship with the holding groups' clients.

Secondly their ability to generate benefits for themselves from media vendors was becoming financially significant to their parent businesses.

Thirdly their ability to manage their cashflow (agencies require their clients to pay them before they need to pay the media vendors) had become highly sophisticated.

Together these factors were driving media agency margins higher, making them an attractive target.

These margins were generally ahead of those enjoyed by their creative counterparts, originally as a result of strict cost control and more latterly via their access to large budgets.

Media agencies' financial significance and importance to publicly quoted holding companies has grown, as creative margins have declined in the face of the evolution of digital technologies.

The new breed of publicly owned media agencies have over time inevitably come under pressure from their holding companies to continue to deliver increased revenues and margins.

The 'mini holding companies' formed to oversee a Group's media agency interests (businesses like WPP's GroupM, Publicis' Vivaki, and Aegis' Amplifi) have extended the agency deal concept to encompass all media agencies within the Group.

This development opened the door for the smaller, independent agencies. It is after all more affordable financially for a media vendor to offer deals to those agencies not part of a conglomerate, as opposed to deals that are applied across a very large aggregated spend.

The once obvious link between size of buyer and deals achieved has been broken; today any agency with the tools supporting their planning and buying skills can compete on price with the largest agency groups.

Over time, the advance in new technologies (and eventually online technologies) led to new media vendors appearing, in increasing numbers. Supply started to exceed demand, and agencies started evolving new, more complicated and multi-layered negotiation techniques.

Some of the largest holding companies began to acquire new technology businesses within the broad media space, and put them together with operating units owned by the media agencies. In at least one instance this led to a media agency trading desk owning a digital network or group of sites.

Thus, in this rather extreme but not unique example, the trading desk was in a position to buy from itself; hardly a model designed to deliver objectivity and transparency.

As media negotiations became more and more complex so many advertisers, aside from the very largest found they didn't possess the knowledge or the resources to keep up with every twist and turn in media negotiations.

Advertisers had for some years found it difficult to monitor the value being achieved with their budgets. As digital

technologies transformed the media landscape many turned for assistance to in-house procurement experts focussed on ensuring that their organisations benefited fully from their scale.

By focussing on both the fees charged by the agencies, and on the value obtained through the agencies' negotiations with the media vendors, these procurement managers became over time increasingly knowledgeable about the financial detail of media agencies' operations.

Armed with this knowledge and well aware that they were buying a service from a market over-supplied with agencies, advertisers started some time ago to push for reductions in commission levels. Average commission levels started to fall as client marketing teams found what was for them a painless way to reduce costs.

The drive towards efficiencies in every aspect of media spend was helped by media auditors, hired primarily by advertisers to ensure that their agencies delivered market-place value.

Faced with the option of justifying a higher fee to their customers on the basis of the benefits brought by their services, many agencies chose to accept the lower fees and make up the deficit by negotiating discounts for themselves from media vendors.

The temptation was there within the structure of the market-place for some agencies to push vendors to provide them with larger and larger discounts, kept by the agency and hidden from their clients.

Today it is common practice for agencies to strike deals with vendors using their total budgets (and even to publicise these deals). The benefits (it is widely understood) rarely find their way back to the clients whose budgets make them possible.

IN SUMMARY, THE DYNAMICS THAT HELPED SHAPE TODAY'S MEDIA NEGOTIATION MARKET LOOK LIKE THIS:

- Agencies hired in part because of their ability to negotiate ever cheaper prices, use their total volume to drive the best deals. Increasingly the largest agencies find ways to keep some discounts for themselves.
- These agencies' revenues and cash-flows make them attractive to publicly-owned marketing service holding companies.
- Agencies within these groups form mini-holding companies, and negotiate across all owned media agency operating companies.
- Vendors find it more affordable to offer deals to smaller independent agencies, as opposed to having any deal shared across multiple agencies under common ownership.
- As the market becomes ever more complicated, so advertisers find it harder to monitor value, turning to in-house procurement specialists and media auditors.
- Advertisers finding themselves in a buyer's market push agencies for lower fees/commissions.
- Many agencies agree to reduce fees/commissions, knowing full well they can make up any difference by keeping rebates.
- Share price pressures (and a financially under-performing creative agency sector) mean the holding companies rely more and more on their owned media agencies to deliver ever greater revenues and margins.

The stage was therefore set for those agencies striking agency deals to offer their clients low fees or commissions, whilst making up any shortfall in revenue by driving ahead with deals with media vendors that benefited them, the agencies.

Time-stretched clients have become inured to this sort of behaviour. Convinced of the no longer valid belief that the biggest buyer simply must get the greatest discounts, and unaware of (or uninterested in) the ultimate beneficiary of these discounts, too many advertisers have become detached from the ways their budgets are being spent.

With too many clients looking the other way, or not looking at all, agencies have used the advent of new technologies, and the arrival of new vendors to introduce new approaches to their vendor negotiations.

BEYOND REBATES

A) ONLINE MEDIA

The complexity of deals between media vendors and agencies has continued to grow, in part fuelled by the explosion in online advertising opportunities.

Here we focus first on the online media world, before explaining some of the newer techniques used within more traditional media channels.

Online media brings together three factors beloved by traders:

- Infinite supply
- Complexity, created by masses of data
- Lack of cohesive measurement and thus benchmarking

As there is availability to a virtually infinite supply, the agencies have been able to argue that no vendor is critical to the client's campaigns. Any vendor standing up to the agency's demands risks finding itself on the outside of any schedule. The audience can be found elsewhere, runs the argument.

Some agencies set up trading desks, expert in understanding the very specific complexities built into the digital market. These trading desks often operate as a separate business, physically apart from the mainstream agency's planners and client teams.

Some trading desks have introduced a system of buying audiences, regardless of where those audiences are to be found to aid their negotiations. In one example an agency group's digital traders have as a policy refused to tell their advertisers where their money is being spent, arguing that they need the flexibility to be able to deliver the lowest prices (and anyway what matters is the audience delivered, not where it is to be found).

The weakness in this argument is that it assumes all digital properties are equal qualitatively and that an ad reaching an audience of 1,000 16-24 year olds on site 'A' will deliver the self-same results as the same ad reaching the same numeric audience (but different individuals) on site 'B'.

Many advertisers have chosen to opt out of the trading desk model; preferring instead to leave responsibility for the delivery of their campaign's objectives, across all media forms, with their planning teams.

Recognising this, some agencies with trading desk subsidiaries are bringing those subsidiaries into the main agency; others are refocussing them on technology solutions as opposed to trading; still others are leaving them in situ.

Online media forms have spawned a world of complexity; manifested in what is now a whole substrata of specialist companies providing a link in the chain from advertiser to site owner. Demand side platforms (DSP's), sales side platforms (SSP's), data management platforms (DMP's), verification specialists and more all need a cut from the advertiser's budget, leaving less for the end site owner.

Industry estimates are consistent in putting the extent of this so-called technology tax at between 50% - 60%. So out of an advertiser's 100% budget, only between 40% and 50% ends up with the publisher.

Agencies have taken on the role of managing this process. There have been several reported examples of an agency demanding kick-backs from certain specialists before being prepared to use their software.

On the surface there is nothing much wrong with that – a buyer (the agency in this case) demanding tough terms from a supplier (the software business) – but if the kick-backs start to influence how the agency conducts its handling of its clients' campaigns (maybe by accepting that the adtech chain between client and vendor should remain as long as it is) then that is a concern.

It is rather ironic that the one media form capable of almost total measurement is one of the least accountable.

If a trading desk refuses to tell its clients where their money is being spent, then it becomes next to impossible for anyone to provide any sensible benchmark of costs. Some trading desk contracts have expressly forbidden any client from passing any information to any media auditor.

Media auditors provide their advertiser clients with a valuable service – a comparison of the cost of their campaign versus equivalent campaigns purchased with the average achieved by other comparable advertisers within the auditor's pool of customers.

Auditors provide one way of holding the agencies to account – something the best of them do in a constructive and helpful fashion by proposing ways that campaigns might be improved the next time.

Of course if the agency chooses to operate in anything other than a fully transparent fashion, then auditors potentially pose a threat to their revenues and to their client relationships.

Media planners and buyers within mainstream media agencies might moan about the accuracy of the auditor's data, but most accept that the benefits of being endorsed/critiqued outweigh the pain of having a third party comment on the prices achieved.

Beyond the online space the media agency of today has developed multiple ways of negotiating prices within more traditional media forms.

B) TRADITIONAL MEDIA

Today's media agency has evolved a selection of specialist services of benefit to many advertisers. The early agencies would never have imagined becoming involved in content marketing, sponsorships or even bespoke audience research and measurement programmes.

These services allow the agency the opportunity to offer its clients a more complete communications planning, buying and evaluation service than ever before.

At the same time this evolution has thrown up new negotiating opportunities, not all of which have been designed with the client's interest at their heart.

For example, one common way of 'hiding' kick-backs to agencies from vendors is to handle them at a holding group level, and to build in a degree of geographical flexibility that makes them very hard to spot and even harder to quantify.

So – in theory holding company 'A' could strike a global deal with global vendor 'B', whether 'B' is a technology business or an old-style traditional media owner. This would commit a certain volume of cash from the agency in return for benefits, including specially discounted rates, access to research and data, and so on.

The deal could be struck geographically away from the source of either the cash or the benefit. Clients would most likely not be made aware of the details aside from being told that they're benefiting from (unquantified) 'special treatment'.

Such deals are very difficult for any media auditor to spot, not least because the media agency planners and client teams might themselves be unaware of the detail of any deal struck by their holding company.

The client needs to be comfortable that the benefits of any such deal are indeed of value to the business, and furthermore that the deal doesn't compromise the plans built by the agency on the client's behalf. It is far too easy for a holding company HQ to instruct planners that they need to commit a certain level of funds to vendor 'B' in order to meet a holding company deal.

The client benefit from such a deal is not necessarily at the front of the negotiator's mind when he strikes the deal.

Another technique is to sell the media vendor research generated by the agency. The agency commits a volume to the vendor, but, being fully aware that any kick-back paid to the agency risks being spotted by any third party the agency offers to sell a research study for the amount that has been agreed as a kick-back.

This has led to some of the most expensive research documents ever produced finding their way on to vendors' shelves!

A third approach involves an agency in co-funding TV shows.

This started as an innovative way of bringing money into commercial TV via the funding of independent productions. The benefit for the advertiser was clear – in return for a financial commitment to the show the advertiser would be offered certain benefits such as first refusal on any sponsorship, the possibility of product placements within the show, or airtime placed in the show wherever it aired.

The client knew what he was being asked to do, and could weigh-up the benefits against any risk.

Over time this has led to a situation wherein the agency could be involved in co-funding a show offered to a broadcaster, whilst at the same time negotiating for airtime from the same broadcaster.

These deals are shrouded in secrecy but if, as a for-instance airtime on a channel is used as part-payment for the rights to screen a show then that airtime, not having been purchased in the usual manner will distort the airtime market, and will make it impossible for any benchmarking of prices to be carried out accurately.

At the same time once the agency has secured airtime at a notional cost, the agency is able to sell the airtime on to its clients at a higher price.

It could be argued that programme barter deals such as this can bring benefits to the advertiser; but only if the advertiser is aware of the details of what's been negotiated.

Such deals also put the agency at risk of its planning being driven by deals that have already been agreed, as opposed to by the business needs of its clients.

Media auditors find it harder and harder to take account of the true value and impact on the market of some of the tactics being employed by the largest network agencies.

The check that has existed on how agencies spend their clients' budgets has thus become less efficient, with the agencies involved able to claim that these days there are deals struck that auditors are both unable to quantify and anyway are not qualified to comment upon.

ADVERTISERS' CONCERNS SURFACE

As we've tried to illustrate, agencies have always tried their best to extract additional value from media vendors.

As agencies' revenues have been squeezed, and as the pressure on those of them owned by the largest holding companies to deliver has increased, so they claim that it has been necessary for them to explore new ways of driving revenue and margin.

The modern media agency is as far removed from the original model of the old 'media independents' as it is possible to be. The range of services on offer, and the typical agency's in-house capabilities have both increased dramatically.

Whilst these often bring real benefits for advertisers, there is a question mark over whether some agencies are acting in their own best interests as opposed to in the best interests of their clients.

In March 2015, The Association of National Advertisers (ANA) held its regular media conference. The ANA is the American advertisers' association; the UK equivalent is ISBA.

At the 2015 event, an ex-media agency CEO called Jon Mandel made an incendiary speech. Mandel made two fundamental criticisms of media agencies in the USA.

First - they were guilty of retaining discounts that should rightfully belong to their clients.

Second - they were striking deals that drove an agency's plans in a direction that could be said to benefit the agency's interests ahead of those of its clients.

The US trade title Media Post summed up Mandel's speech as follows: "Jon Mandel To ANA: Agency Media Kickbacks Are Pervasive, Systemic".

As a result of this speech, the ANA has commissioned two consultancy organisations to explore these concerns. This investigation is ongoing; local advertiser associations including the ISBA here are following the ANA enquiry with interest.

ISBA has always made their concerns clear – in their opinion it is the agency's role to act at all times in the best interests of its clients, and to be clear and transparent in explaining their actions to their paying customers.

Whatever the ins and outs, the pros and cons, the arguments and discussions one undeniable fact stands out. Many of the largest advertisers in the world do not trust their media agency partners.

Many feel that there are question marks over their agencies' objectivity, and that the agency would propose a solution that benefits them over one designed to benefit the client.

In 2015 some US\$35 billion in US advertiser billings was at one stage in review.

Of course clients review their media agency arrangements for all sorts of reasons, particularly in times of great market place change, but it seems a strange coincidence for so many to review at the same time.

It is possible that these reviews were in part at least a reaction to concerns over transparency, and were an opportunity for advertisers to ensure contractually that in future their agencies' focus and loyalties were on serving their clients' needs as best they can.

It would be wrong to dismiss the ANA's concerns as uniquely American. Today more and more advertisers and the marketing services groups employed by them are global. Techniques and principles adopted in the US can and do easily travel.

In fact they travel both ways – the American media market has always been held up as transparent and a model to all. The very fact that Mandel's criticisms are specifically US-aimed has added to their impact within that market; and has given added impetus to the concerns of the UK's ISBA amongst other trade bodies in other markets.

THE7STARS POSITION

We have always believed in being totally open and transparent in our relationships not only with our clients, but also with our suppliers, be they media vendors or adtech suppliers.

Our position is straightforward.

We build communication plans for our clients based on what we firmly believe is best for them. We do not do deals with vendors that then drive our plans in a direction not appropriate for that client.

We build the plan first, then we negotiate the deals.

We will certainly enter into volume deals with media vendors when, and only when such deals deliver benefits to our clients and when such deals fit within our plans. We pride ourselves in being open to all new opportunities offered us by media vendors; some of these opportunities involve new ways of dealing, and we are always open to those too.

Our criterion for assessing the relevance and value of any deal, in any media form is always driven by what we believe to be in the best interests of our clients.

As and when we create additional value from deals of any shape and colour we always return the value generated to our clients in a fair, transparent and simple fashion.

We understand and support our clients' use of media auditors. For those clients that choose to use auditors we always co-operate fully, and provide whatever information and data the auditor needs to be able to do his job and provide an objective assessment of the activity.

Our principle is that we have one source of income – our customers. We believe in being fairly paid for what we do, and we always explain the thinking behind any fee proposal. We are open-minded and prepared to negotiate, but at the end of the day we need to make a reasonable profit. We're open about that too.

We believe that media vendors welcome our approach, and reward us by bringing us new ideas and new opportunities, often ahead of some of the larger networked agencies.

Vendors appreciate our single-minded focus on helping our customers build their businesses, and the important role that they as media owners can play in that process.

The fact that we're independently owned, that we have no huge holding company pushing us to deliver to ever tougher financial targets means that we can concentrate on what we're good at and what we firmly believe is best for our clients.

For their part vendors know that if we strike a deal with them there are, by definition zero consequences for any agency beyond the7stars. In the case of the mega holding companies deals with Agency 'A' can soon migrate to negotiations with Agency 'B'.

Finally we do not own any vendor, nor indeed any adtech supplier. Any recommendation that we make is there solely because in our opinion it represents the best opportunity for you our client.

THE7STARS 7 TOP TIPS FOR ADVERTISERS

As we have tried to illustrate, the world of media negotiations is complicated and multi-layered, and it's not getting any simpler.

At the7stars our entire focus is on doing the best possible job for our clients. We aim to be fully approachable, and available to explain how we negotiate, the options open to you, and how you can help us to help you more.

For those reading this who are not our clients we offer up the following tips to make sure your budgets are spent in a manner that does the most good for you.

01

- Don't be afraid to ask questions and to push for answers. If something doesn't look right to you, or if you simply don't understand the deal on offer then ask for a full explanation, and keep asking until you're satisfied. This is especially but not uniquely true of online deals.

02

- Get to know your agency's senior team. Meet the key people involved at the most senior level, and try to understand what they all do on your business. Be interested and involved. Some media agencies prefer not to have their traders meet their clients. Our advice is to insist.

03

- If you haven't already done so take the time to build relationships with your most important media vendors.

04

- If you use a media auditor then use them fully. Media auditors employ experienced people, don't just limit your exposure to them to the formal reviews. They can provide expert advice on any negotiation matter concerning you.

05

- Be aware that sometimes media planners are put under pressure to include certain vehicles on your plan. If something looks out-of-place to you then ask for a full justification for the vehicle's inclusion, again and again until you're satisfied.

06

- Explore every opportunity to learn more and to stay up to date. For years advertisers hardly involved themselves in the media process. Smart advertisers, who are interested and involved in the industry will get more attention from their agency. There are plenty of courses, lectures and seminars. Ask your agency to recommend appropriate events for you.

07

- Use your trade body. ISBA has done a good job for many years ensuring their members are kept up-to-date on all matters to do with the media business. They can help you navigate in a time of great change.

We would add one more. If you're concerned as to how your media money is being spent, if you feel uncomfortable about any of the issues raised in this paper, or simply if you would welcome a conversation and another point-of-view then we would be delighted to hear from you.



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