MEDIA AGENCY COMPENSATION PRACTICES

SEPTEMBER 2019

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BACKGROUND AND METHODOLOGY

Given the rapidly changing digital, social, and programmatic media landscape, the ANA fielded this survey to delve into the topic of current media agency compensation practices and the related issues of media service costs and cost transparency.

- The survey was fielded online in April 2019. There were 86 respondents.
- Following completion of the survey, one-on-one phone interviews were conducted with six of the survey respondents to provide additional perspective on the findings.

The survey respondents reflect a good balance of larger and smaller advertisers.

- 22 percent spent under $30 million in annual U.S. media.
- 28 percent spent $30 million to under $100 million.
- 29 percent spent $100 million to under $500 million.
- 21 percent spent $500 million or more.

Respondents represent a variety of different job functions, mostly at the “Director” or “Manager” level.

- 41 percent Director
- 24 percent Manager
- 13 percent Vice President
- 6 percent Brand or Product Manager
- 4 percent Chief Marketing Officer
- 3 percent Executive or Senior Vice President
- 1 percent Assistant Manager
- 8 percent Other

In terms of experience level (number of years working in marketing or advertising), the significant majority of respondents (76 percent) have at least 10 to 15 years of experience.

- 10 percent under 5 years
- 13 percent 5 to under 10 years
- 15 percent 10 to under 15 years
- 23 percent 15 to under 20 years
- 20 percent 20 to under 25 years
- 8 percent 25 years to under 30 years
- 10 percent 30 years or more

50 percent of the respondents represent business-to-consumer marketers, another 32 percent conduct both business-to-consumer and business-to-business marketing, and the remaining 18 percent are business-to-business marketers.

The complete survey questionnaire is here.

SUMMARY OF FINDINGS AND IMPLICATIONS

Key takeaways from this survey and the implications for ANA members:

1. The ANA/K2 examination of media agency "transparency" issues has had a significant and increasing influence on media agency contracting and cost governance, but there is still some room for improvement.

    - 31 percent of the respondents have either not updated their media agency contract (17 percent), have not updated it in the past three years (10 percent), or don't know whether they have updated it (4 percent).
    - Although the number of members who have not recently updated their media agency contract in light of the ANA/K2 report is still surprisingly high, it is far lower than the 55 percent reported in the 2017 triennial Trends in Agency Compensation survey. So the ANA/K2 report has clearly had some impact.
    - 60 percent report that media rebates, discounts, AVBs, etc. are not considered as part of the agency's compensation and the advertiser receives their fair share return of any rebates — further evidence that the ANA/K2 report has had impact.
    - Over 70 percent reported paying "tech fees" related to programmatic services.
    - 42 percent claim to receive full and complete detail of their agency's programmatic media costs, and another 40 percent receive some but not all detail. The remaining 18 percent either receive no detail or do not know. While the level of reported cost transparency is encouraging, there is clearly still room to improve.

    Implications: Those ANA members who have not yet updated their media agency contracts to address agency volume rebates, bonuses, and transparency issues should do so. The ANA, in conjunction with its general counsel, Reed Smith LLP, has developed a media agency Master Media Planning & Buying Services Agreement (Version 2.0) which can be used by advertisers in developing their own agency agreement. Additionally, those members receiving no or only partial cost details on their agency programmatic costs should request full detail to ensure confirmation of where their media investment dollars are going. The fundamental questions which advertisers should ask their agencies about programmatic media and service costs, and that agencies should be expected to provide:

    - What are the ad serving costs?
    - What are the ad verification costs?
    - Are there any pre-bid costs?
    - What is the cost to use the programmatic platform?
    - How much of my buys use third-party data segments, and what are those costs?
    - Are there any other third-party costs being charged?
    - What is the agency fee (or estimated commission or CPM revenue if not based on fees)?
    - What is the actual cost of the media inventory?

2. Media agency compensation practices differ from other agency compensation practices in only one notable regard: media commissions are more likely to be employed for media buying services, and particularly for programmatic media services. For the small number of respondents who employ commissions, the commission rates paid vary considerably, and due to the small respondent sample size, are not easily projectible to other advertisers.

   - 24 percent use commissions for digital media buying services, and a significant 40 percent for programmatic media services. This compares to only 12 percent who reported using commissions for agency services in general in the 2017 triennial Trends in Agency Compensation survey.
   - The rationale for commissions for media buying and programmatic services is primarily based on simplicity and flexibility, given that: a) most media agencies buy for multiple clients and it is difficult to isolate labor hours and fees for any given client; b) client media budgets often shift and change throughout the year, and commissions allow agency revenue to shift accordingly without revisiting agency scope and staff time; and c) programmatic advertising involves a combination of agency labor and various technical costs.
   - Consistent with the compensation practices for other agency services, over 70 percent of the respondents use a fee method of compensation for "traditional," offline media planning and buying services, and nearly 60 percent use fees for digital media services.

   Implications: For those ANA members who employ, or want to consider, media commissions, this survey does not provide any clear-cut commission rate "benchmarks" (given the small respondent base); however, the survey does directionally indicate that:

   - Commission rates for traditional media channels will be in the lower single percentage range for national media, ranging from 1.5 to 6 percent for most of the respondents.
   - Commission rates for online media channels are higher than traditional channels, ranging from 5.5 to 10 percent for most respondents, and even 10.5 percent or higher for search and social media. The primary reason for the higher rates is that online media channels can be very labor-intensive to plan and buy, and the media revenue associated with these channels is often relatively low compared to a traditional media purchase. Therefore, the agency needs a higher commission rate to cover costs.
   - Commission rates that cover both agency planning and buying services will be higher than for buying services only.

3. Consistent with previous ANA trends surveys, nearly half of the respondents include performance incentives as part of their media agency compensation, and marketers with larger budgets are more likely to employ them. Some very common issues and barriers prevent more advertisers from using incentives:

   - It is difficult to separate and attribute media agency performance versus the many other internal and external factors that affect sales and brand performance.
   - Cost budgeting and governance practices do not allow some marketers to easily set aside money for variable agency compensation if the incentives are achieved.
   - It can be difficult to establish and align on the right performance metrics and targets with the agency.

   Only a relatively small percentage of ANA members use media delivery goals (e.g., media impressions, plan delivery vs. budget, reach/frequency, online viewership, media cost per lead or inquiry) as key performance incentive metrics: 33 percent for online, social, and search delivery goals, and 25 percent for offline media channel delivery goals.

   Implications: Given the increasing ability to measure media performance, and in real time, there is an opportunity for ANA members to take a fresh look at tying media agency compensation to specific media metrics versus more general sales or marketing communications metrics (e.g., brand awareness, perceptions, preference or other brand health metrics) that are significantly influenced by other internal and external agency partner factors.

4. The use of programmatic media is now nearly universal, with 91 percent of the survey respondents reporting it. Although 84 percent of the respondents use their media agency for some or all of their programmatic buying, 35 percent use another third party or handle it in-house (either exclusively or in addition to their media agency). The reasons a marketer might execute programmatic advertising in-house or through another third party typically relate to objectives for greater cost transparency and efficiency, and for greater internal control, flexibility, and speed in synchronizing online and social media content to programmatic media purchases.

   Implications: Because programmatic media is complex and still evolving, there are many benefits to working through a media agency, as they have experience and have invested in the tools to provide this service to multiple other clients. However, ANA members have many options for securing these services. If there is dissatisfaction with agency performance and/or transparency, there are third-party options that can be considered, along with the possibility of developing or licensing an in-house operation.

SECTION I:
MEDIA AGENCY COMPENSATION METHODS

Most Advertisers Employ Fee-Based Methods of Compensation; Commissions Come into Play for Media Buying and Programmatic Services

ANA members were asked to provide their method of media agency compensation, specifically by media service and channel; results are detailed below. The intent is to note any differences between compensation methods for media planning versus media buying or for offline media (traditional TV, radio, print, and out-of-home channels) versus online media (digital, search, and social media).

Consistent with the ANA's previous triennial Trends in Compensation surveys, the majority of ANA members employ fee-based methods of compensation for media agency services.

- Over 70 percent use either labor-based or "fixed" (deliverables-based) fees for media planning, for both offline and online channels, and for the buying of offline media channels.
- Nearly 60 percent use either labor-based or fixed fees to compensate for the buying of digital, search, and social media channels.
- Of the 30 to 40 percent of members not using fees to compensate for media services, almost all are using commissions or a combination of commissions and fees. Less than 5 percent responded that they use some "other" method of compensation that is not fee- or commission-based.

Commissions are most frequently employed to compensate for media buying and programmatic media services.

- 40 percent of members use either a fixed commission rate or sliding scale commission for programmatic services. This is likely due to the fact that programmatic services involve not only agency labor, but also various technologies and technology-related charges. Commissions can be a simple way to compensate for these various labor and non-labor costs.
- 24 percent of members use commissions to compensate for digital, search, and social media buying, and 12 percent for traditional media channel buying. Given that the buyers at media agencies typically buy for multiple clients, it is harder to precisely track their time on any given client, so commissions are simpler than trying to account for agency labor time and cost. Commissions also offer advertisers a bit more flexibility if the media spend level and mix is uncertain or varied throughout the year.
- Between 11 and 15 percent of members also use a combination of fees and commissions. Follow-up phone interviews with ANA members confirmed a common rationale for this approach: fees for planning lock in key agency account leadership and planning staff and can be tied to relatively predictable annual planning requirements, while commissions allow flexibility and simplicity in compensating for more variable media mix investment increases and decreases during the year.

Methods of Agency Compensation for Media Planning and Buying Services

Base: 86

	Offline Media Planning	Offline Media Buying	Digital, Search, Social Media Planning	Digital, Search, Social Media Buying	Programmatic Services
Commission — Fixed-Rate	4%	10%	8%	17%	28%
Commission — Sliding Scale	1%	2%	6%	7%	12%
Labor-Based Fee	54%	48%	48%	38%	25%
Fixed Fee (based on specific deliverables/outputs)	24%	25%	23%	21%	18%
Value-Based Fee	1%	0%	0%	0%	1%
Media Performance-Based Fee	0%	0%	0%	0%	1%
Combination of Fees and Commissions	14%	13%	13%	15%	11%
Other	2%	2%	2%	1%	4%

Q. Please indicate your method of agency compensation for media planning and buying services by checking the appropriate method in each column. If you employ multiple agencies that have different compensation methods for any of these services, please only select your primary or most common method of compensation.

Note: Some numbers may not add up exactly to 100% due to rounding.

Negotiated Commission Rates Vary Considerably by Media Channel and by ANA Respondent

"What commission rate should I be paying for media services?" is one of the questions most frequently asked of the ANA Marketing Knowledge Center by ANA members. This survey asked members who use commissions to note the percentage rates they pay across a wide range of traditional and "new media" channels.

An important caution: Although 41 respondents pay their agency on commission for at least some services according to this survey, when that commission rate was broken down by type of services within certain percentage ranges, the sample size was further reduced. In many cases, a given commission rate is being reported by only one or two respondents.

While we would strongly suggest that no ANA member project off these limited data points, a few general observations can be made that are supported by industry experience:

- Traditional mass media channels typically have lower commission rates compared to digital, social, and programmatic media.
- Media buying of "local" traditional channels (spot broadcast, newspaper, out-of-home) tends to have higher commission rates than national channels due to the greater agency labor required to plan and buy across multiple local markets.
- Social and search media channels tend to have higher commission rates (often in double digits) because the paid media investment is usually very low relative to the agency labor cost.
- Programmatic media often has the highest commission rates, to cover both the agency labor to manage it and the various "tech" requirements and fees.

Commissions for Media Planning and Buying Services Combined — Traditional Media

*Base: 10**

Medium (base*)	1.5–2.0%	2.5–3.0%	3.5–4.0%	4.5–5.0%	5.5–6.0%	6.5–7.0%	7.5–8.0%	9.5–10.0%
Network TV (9)	22%	11%	0%	11%	33%	0%	11%	11%
Cable TV (8)	25%	25%	0%	0%	25%	0%	13%	13%
Spot Market TV (8)	38%	13%	0%	0%	25%	0%	13%	13%
Network Radio (7)	29%	14%	0%	0%	29%	0%	14%	14%
Spot Market Radio (6)	17%	17%	0%	0%	33%	0%	17%	17%
Consumer Magazines (7)	29%	14%	0%	0%	29%	0%	14%	14%
Newspapers (6)	17%	17%	0%	0%	33%	0%	17%	17%
Trade Publications (7)	29%	14%	0%	0%	29%	0%	14%	14%
Out-of-Home (7)	14%	29%	0%	0%	29%	0%	14%	14%

Q. If you employ media commissions, please indicate your agency's negotiated commission rate for each of the media channels listed. If you employ a single rate across all or multiple channels, please provide that rate for each channel listed that you advertise in.

**Note of caution: Out of the 86 survey respondents, there were only 10 respondents to this question. Results should be considered directional only.*
Note: Some numbers may not add up exactly to 100% due to rounding.

Commissions for Media Planning and Buying Services Combined — Digital Media

*Base: 25**

Medium (base*)	1.5–2.0%	2.5–3.0%	3.5–4.0%	4.5–5.0%	5.5–6.0%	6.5–7.0%	7.5–8.0%	8.5–9.0%	9.5–10.0%	10.5% or more
Online Display (13)	8%	8%	0%	8%	15%	8%	23%	8%	8%	16%
Online Video (12)	8%	8%	0%	11%	17%	8%	17%	8%	8%	16%
Online Audio (10)	10%	10%	0%	0%	20%	10%	20%	10%	10%	10%
Social Media (10)	10%	0%	0%	0%	20%	10%	30%	20%	10%	0%
Search Media (15)	7%	0%	0%	7%	13%	20%	20%	0%	7%	27%
Native Media (8)	13%	0%	0%	0%	25%	25%	25%	0%	13%	0%
Programmatic Media (20)	10%	0%	10%	0%	10%	5%	15%	0%	25%	25%

Q. If you employ media commissions, please indicate your agency's negotiated commission rate for each of the media channels listed. If you employ a single rate across all or multiple channels, please provide that rate for each channel listed that you advertise in.

**Note of caution: Out of the 86 survey respondents, there were only 25 respondents to this question. Results should be considered directional only.*
Note: Some numbers may not add up exactly to 100% due to rounding.

Commissions for media buying only are generally lower than when planning is included. The inclusion of planning services often adds anywhere from 1 to 3 percent to the commission rate, depending on the media mix.

Commissions for Media Buying Only — Traditional Media

*Base: 14**

Medium (base*)	1.0%	1.5–2.0%	2.5–3.0%	3.5–4.0%	4.5–5.0%	5.5–6.0%	6.5–11.5%	12.0% or more
Network TV (9)	33%	22%	11%	11%	0%	11%	0%	11%
Cable TV (9)	22%	22%	11%	11%	11%	11%	0%	11%
Spot Market TV (9)	0%	22%	44%	0%	11%	11%	0%	11%
Network Radio (7)	0%	71%	0%	0%	0%	14%	0%	14%
Spot Market Radio (6)	0%	17%	50%	0%	0%	17%	0%	17%
Consumer Magazines (9)	11%	33%	11%	11%	0%	22%	0%	11%
Newspapers (7)	0%	29%	14%	14%	0%	29%	0%	14%
Trade Publications (8)	0%	38%	13%	13%	0%	13%	0%	25%
Out-of-Home (9)	0%	11%	33%	22%	11%	11%	0%	11%

Q. If you employ media commissions, please indicate your agency's negotiated commission rate for each of the media channels listed. If you employ a single rate across all or multiple channels, please provide that rate for each channel listed that you advertise in.

**Note of caution: Out of the 86 survey respondents, there were only 14 respondents to this question. Results should be considered directional only.*
Note: Some numbers may not add up exactly to 100% due to rounding.

Commissions for Media Buying Only — Digital Media

*Base: 15**

Medium (base*)	1.5–2.0%	2.5–3.0%	3.5–4.0%	4.5–5.0%	5.5–6.0%	6.5–7.0%	7.5–8.0%	8.5–9.0%	9.5–10.0%	10.5% or more
Online Display (10)	20%	10%	0%	10%	10%	10%	10%	10%	0%	20%
Online Video (9)	22%	11%	0%	11%	11%	11%	11%	0%	0%	22%
Online Audio (7)	29%	14%	0%	0%	14%	14%	14%	0%	0%	14%
Social Media (12)	8%	0%	0%	33%	0%	8%	17%	8%	8%	16%
Search Media (7)	14%	0%	0%	14%	0%	29%	14%	0%	0%	29%
Native Media (5)	20%	0%	0%	20%	20%	0%	20%	0%	0%	20%
Programmatic Media (13)	8%	8%	0%	0%	0%	8%	8%	0%	15%	54%

Q. If you employ media commissions, please indicate your agency's negotiated commission rate for each of the media channels listed. If you employ a single rate across all or multiple channels, please provide that rate for each channel listed that you advertise in.

**Note of caution: Out of the 86 survey respondents, there were only 15 respondents to this question. Results should be considered directional only.*
Note: Some numbers may not add up exactly to 100% due to rounding.

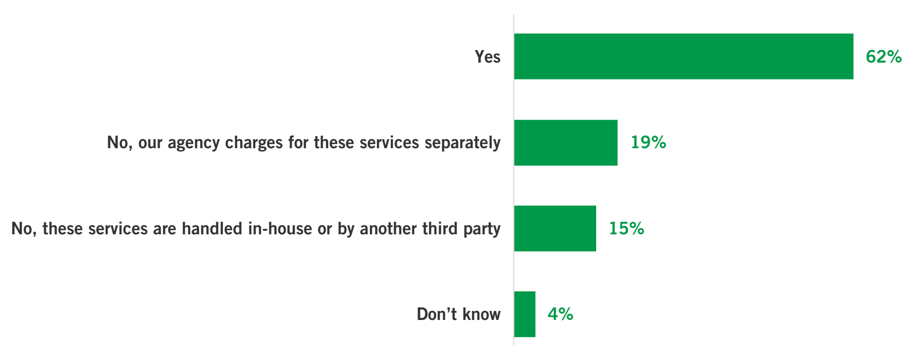
Most ANA Members' Media Agency Compensation Includes Some Level of Data and Analytics Services

Because the realm of "data and analytics" is very large and diverse, it should not be assumed that every possible agency service is covered under a media agency compensation agreement, even among the respondents who answered "yes" to this question. Follow-up phone interviews with ANA members confirmed that:

- The data and analytics services covered by the media agency's compensation will almost certainly include media "performance" tracking and analysis (basic "pre-buy" media channel, vendor, and mix analysis; "post-buy" analysis of the client's investment performance; digital media tracking metrics; assessment of media proposals and opportunities).
- Other agency research and analysis might be covered by the agency's compensation, but larger and more complex ad hoc research and analytics will likely involve a separate agency charge.

Media Data and Analytics Covered Under Media Agency Compensation

Base: 82



Q. Does your media agency compensation cover media data and analytics services?

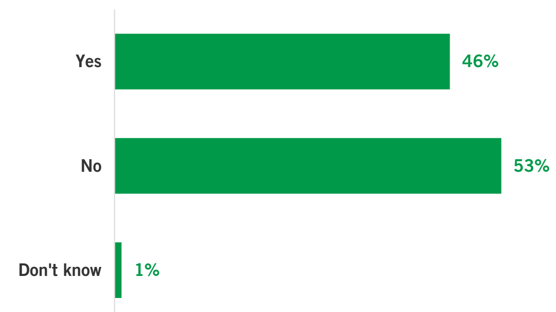
SECTION II:
MEDIA AGENCY PERFORMANCE INCENTIVES

Nearly Half of ANA Members Include a Performance Incentive as Part of Their Media Agency Compensation

Larger spenders are even more likely to employ incentives: 65 percent of respondents who annually spend $100–$500 million in media, and 75 percent of respondents who spend over $500 million. Only 21 percent of business-to-business advertisers report employing incentives. This is likely due to their smaller media investment compared to consumer marketers. All of this is generally consistent with the 2017 ANA Trends in Agency Compensation survey.

Performance Incentives as Part of Media Agency Compensation

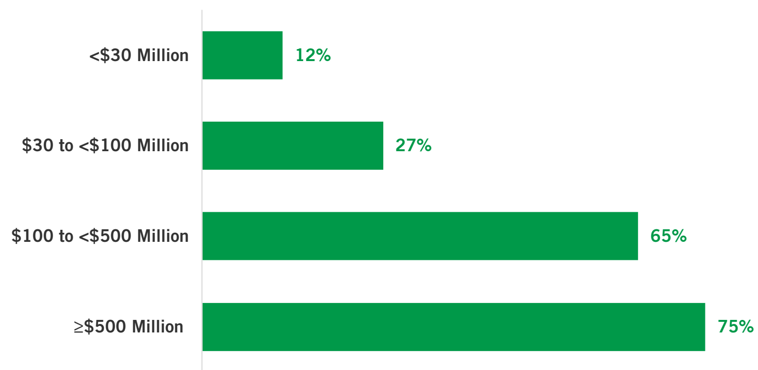
Base: 83



Q. Do you include performance incentives as part of your media agency compensation (i.e., are performance incentives an additional element of your base compensation structure)?

Performance Incentives as Part of Media Agency Compensation By Annual U.S. Media Budget

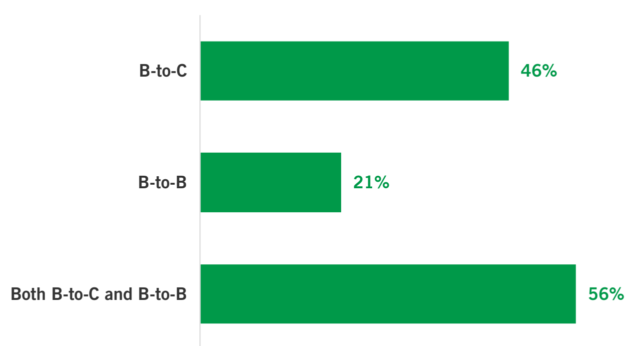
Base: 78



Q. Do you include performance incentives as part of your media agency compensation (i.e., are performance incentives an additional element of your base compensation structure)?

Performance Incentives as Part of Media Agency Compensation By B-to-C/B-to-B

Base: 78



Q. Do you include performance incentives as part of your media agency compensation (i.e., are performance incentives an additional element of your base compensation structure)?

Challenges of Media Agency Incentive Compensation

In speaking with ANA members who do not use incentive compensation with their media agencies, some common challenges were expressed:

- Difficulty in separating and attributing media agency performance versus the many other internal and external factors that affect sales and brand performance (e.g., client salesforce contributions, product pricing changes, other agency partners' contributions, product improvements or issues, etc.)
- Budgeting issues related to the uncertainty around the agency's resulting performance and payout
- Difficulty in establishing and aligning on the right performance metrics and targets with the agency

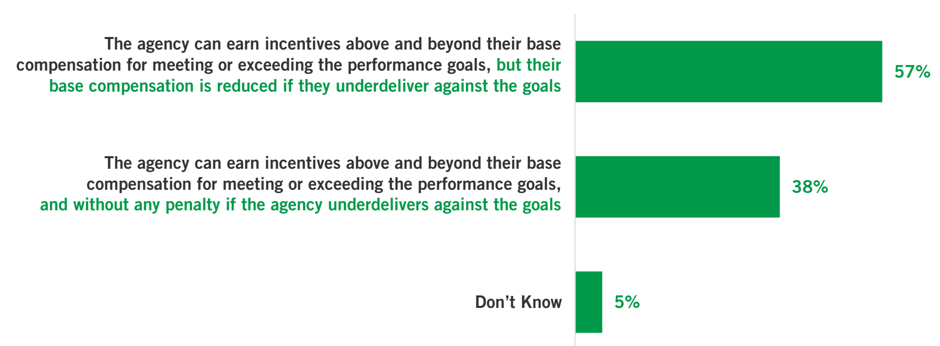
Most Media Agency Incentive Plans Structured on a "Risk-Reward" Basis

Fifty-seven percent of the members who use performance incentives structure them so that their media agency earns lower revenue for underperformance against goals in exchange for upside revenue for meeting or exceeding goals.

Another 38 percent structure the incentive as simply an upside reward for meeting or exceeding performance goals without any penalty if the agency underdelivers against the goals.

How Performance Incentives Are Financially Structured

Base: 37



Q. How are your performance incentives most commonly financially structured?

Advertisers Employ a Variety of Performance Metrics, Most Commonly Annual Performance Reviews, Media Savings, and Business Performance Goals

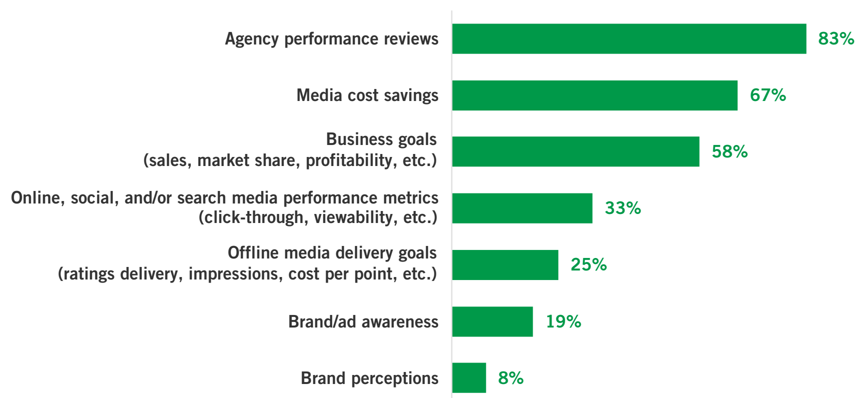
Consistent with previous ANA triennial Trends surveys, over 80 percent of members use an annual performance evaluation as a key criterion for media agency performance.

Sixty-seven percent use media savings as a key criterion, with 58 percent using a business performance metric (e.g., sales, market share, profitability).

Given the ability to measure much of today's media delivery performance in real time, it is somewhat surprising that a relatively small percentage of ANA members use media delivery goals as a key performance incentive metric (33 percent for online, social, and search delivery goals and 25 percent for offline media channel delivery goals).

Incentives Performance Criteria

Base: 36



Q. Which performance criteria are used as the basis for the incentives? Please check all that apply.

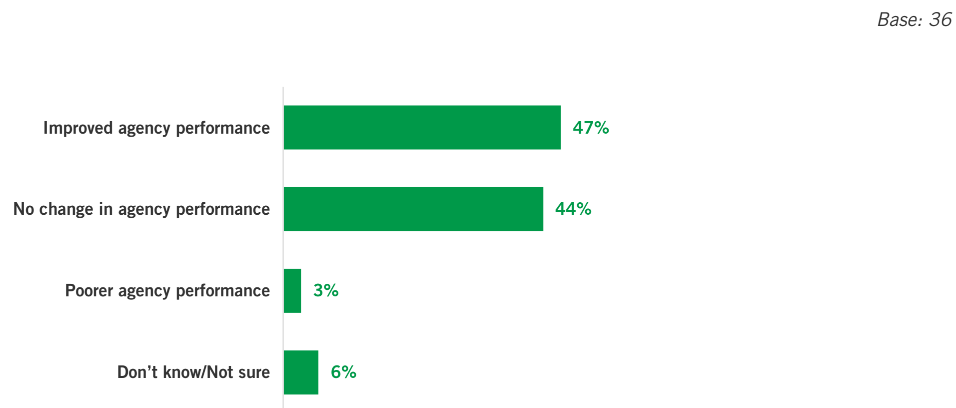
The Reported Impact of Incentives on Media Agency Performance Is Mixed

Forty-seven percent of the ANA members who use performance incentives for media agency services reported improved agency performance. Yet an equal number reported no change in performance, or in a small handful of cases, poorer performance.

Some possible causes for the relative lack of improved performance:

- The incentive plan is poorly structured.
- With the complexity of today's media landscape and questions about the results reported by the major digital and social platforms, advertisers might be uncertain about attributing results, good or bad, to their media agency.

Results of Incentives



Q. For the media agency/agencies for which you use performance incentive compensation, which statement do you believe best reflects the overall result of the incentives?

SECTION III:
PROGRAMMATIC COMPENSATION AND TRANSPARENCY

Nearly All Advertisers Employ Programmatic Media Services

Programmatic media buying is defined as *the automation of media buying and selling processes and decisions, enhanced through data*.

The 91 percent figure might seem high, but it is important to remember that as the digital landscape has changed over the years, so has the demand for efficiency in rates and cost per customer acquisitions. This demand has pushed advertisers towards programmatic buying but also has caused media networks to offer programmatic trading platforms and offerings, as well as digital agencies to hone their trading skills. Therefore, the 91 percent doesn't just represent advertisers who buy digital programmatically in-house from one trading platform; rather, it also represents advertisers who employ their agency to either outsource to one or multiple third-party vendors, manage internally or all the above.

Programmatic Media Services

Base: 80

Q. Do you employ programmatic media services?

Most Advertisers Engage Their Agencies for Programmatic Services, But a Small Percentage Manage It In-House

Of those respondents who employ programmatic media services:

- 84 percent outsource some or all of the services to their media or digital agency.
- 25 percent indicate they use a third party that is not the agency.
- 10 percent handle it in-house.*

(Note: The responses add up to more than 100 percent because this question allowed for multiple responses; some marketers use multiple resources for programmatic media.)

Benefits to working with an agency for programmatic services:

- The burden is on the agency to ensure accuracy in budgets, creative rotation, and audience targets. If a mistake occurs, a monetary credit is due to the advertiser.
- The cost of hiring, training, and managing a programmatic team falls on the agency, not the advertiser. It involves hiring for very specific skill sets.
- Programmatic buying requires minimums; the advertiser benefits from the agency managing multiple advertisers. The advertiser can also benefit from any volume discounts that come with managing several advertisers through the same platform.

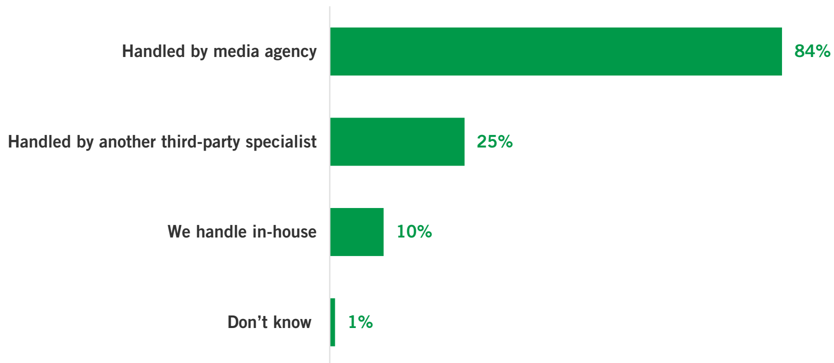
For the advertisers who handle programmatic in-house, there are also a number of potential advantages:

- Cost savings are a top priority.
- Many advertisers believe that an in-house operation gives them greater flexibility to quickly scale their investment up or down in response to changing market conditions and opportunities.
- There is an opportunity for higher attention to detail regarding campaign performance and management, as the in-house team only has one client to focus on and the advertiser's internal marketing and media team stakeholders are working beside them.
- There can be time efficiencies. Changing content or addressing website issues can be resolved in less time than if an agency were involved.
- Greater cost transparency is possible when the advertiser is in control of the programmatic investment.

*According to the 2018 ANA report "The Continued Rise of the In-House Agency," 30 percent of respondents have in-house programmatic capabilities. The much higher response for use of in-house programmatic services in the 2018 ANA In-House Agency survey (30 percent vs. only 10 percent in this survey) is likely due to differences in the respondents to the two surveys; i.e., the respondents to the In-House Agency survey were very focused on that particular issue, and there was probably a higher proportion of respondents in that survey that had taken services in-house.

How Programmatic Media Services Are Provided

Base: 73



Q. Are your programmatic services provided through a media agency, another third party that is not your media agency, or do you manage it in-house (through your own or a licensed platform)? Please check all that apply.

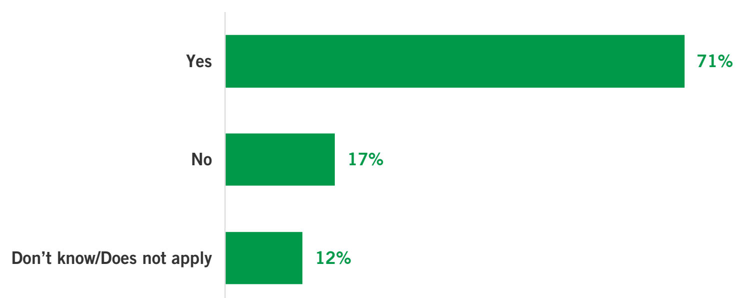
Nearly Three-Quarters of Advertisers Report Paying Tech Fees in Addition to Their Agency's Compensation

This high incidence is encouraging: it reflects a growing trend of advertisers requesting, and agencies providing, greater transparency on the costs related to buying digital media programmatically. These fees include, but are not limited to:

- *Ad Serving Fees:* Address all the costs incurred to serve creative or track a digital ad.
- *Ad Verification Fees:* Include the expense of monitoring digital ads for Viewability, Fraud, Brand Safety, or Out of Geo violations after serving the ad.
- *Data Fees:* Generally refer to the cost incurred when overlaying data segments from third-party data partners to target a specific audience.
- *Pre-Bid Verification Fees:* Applied when setting ad quality thresholds before serving the ad. An example of using Pre-Bid Verification is setting Viewability thresholds to ensure a minimum Viewability is guaranteed.
- *DSP/Platform Fees:* Costs incurred when using the programmatic desk.

Tech Fees

Base: 72



Q. If your programmatic services are provided by a media agency or other third-party specialist, do you pay "tech fees" for technical or other services (ad serving, DSP/DSM services, third-party data and analytics, ad verification, etc.) that are incremental to your media agency (or other third-party) compensation (i.e., are in addition to versus being included in your agency or third-party fees and/or commissions)?

The Majority of Advertisers Pay for Tech Fees on a CPM Basis

Of those who reported paying tech fees, most pay on a CPM basis for ad serving (61 percent), third-party data (61 percent), and ad verification (54 percent). Compensation for DSP/DSM services is roughly split between CPM (41 percent) and commission (37 percent). Paying a fixed fee for these services represents roughly a quarter of advertisers across the board.

While a fixed cost is an easy way for advertisers to pay, especially if they are paying their agency via a fee, there is the potential for lack of transparency unless the agency provides a breakout of the tech fees vs. the agency's labor fees. CPM and commission methods are transparent and are tied directly to the advertiser's media investment.

Compensation for Tech Fees

Base: 50

	Ad Serving	DSP/DSM Service	Third-Party Data	Ad Verification
Fixed Fee	20%	22%	23%	30%
Commission	18%	37%	13%	14%
CPM	61%	41%	61%	54%
Other	0%	0%	3%	2%

Q. If you answered "yes" to the previous question, please indicate which of the following are charged to you in addition to your media agency's compensation. Please indicate if these services are charged as a fixed fee, commission, a CPM, or other basis.

Note: Some numbers may not add up exactly to 100% due to rounding.

Most Advertisers Believe They Receive Some Level of Transparency

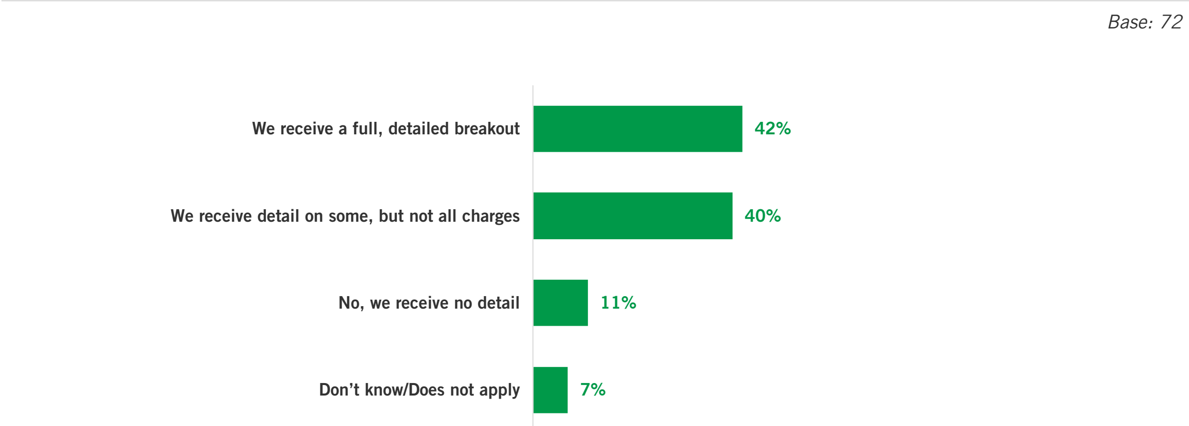
Forty two percent of advertisers reported receiving a "full, detailed breakout" of all programmatic charges.

Advertisers who want to unravel the CPM, and gain a better understanding of the entire investment, should ask these questions of their agency (or other third party):

- What is the ad serving cost?
- What is the ad verification cost?
- Are there any pre-bid costs?
- What is the cost to use the programmatic platform?
- What are my media and supplier costs?
- How many of my buys use third-party data segments, and what are those costs?

Advertisers should also keep in mind that many of the fees incurred are necessary for the success of the buy. For example, while a data segment can come at an additional cost, depending on the type of audience needed to reach, it may be necessary to achieve the advertiser's KPIs.

Programmatic Fees



Q. If you use a media agency or other third party to provide programmatic services, do you receive a complete, transparent breakout of all fees and charges?

There Is No Industry Standard Practice Regarding Programmatic Reporting

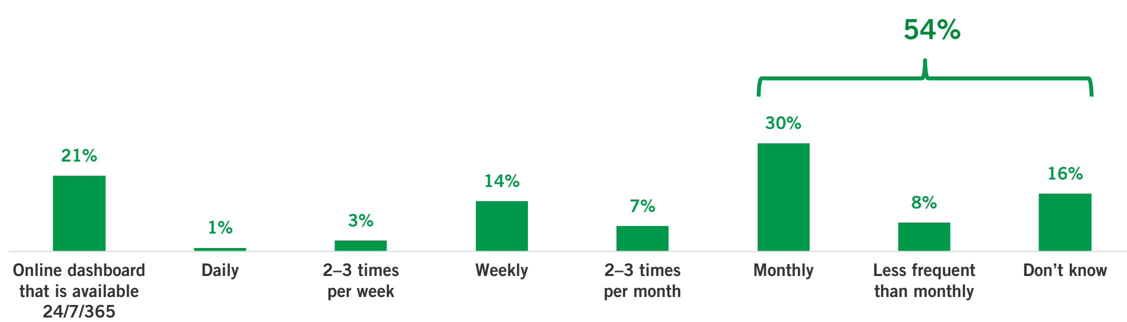
While 42 percent of advertisers reported receiving a “full, detailed breakout” of all programmatic charges, only 21 percent report access to an “online dashboard report that is available 24/7/365.” On the other end of this spectrum, 54 percent received programmatic reporting monthly, less frequently than monthly or did not know. This data underscores that there is not a common industry standard or practice on how advertisers receive their programmatic reporting.

In a perfect world, the advertiser would have access to an online dashboard showing a real-time view of all expenditures. However, this benefit usually results in an additional cost to the agency, and then ultimately the advertiser. The agency may also be concerned about providing too much access to the advertiser, which could hinder the efficiency of the programmatic buying team.

The bottom line is that if the advertiser understands the tech and media fees of the agency’s buy, and reporting is automated and delivered with regularity, then the essentials are being met. When the advertiser believes these essentials are not being met, then concerns around the cost and transparency of programmatic reporting are a key reason why some are moving programmatic services in-house.

Frequency of Programmatic Reporting

Base: 73



Q. For your agency’s (or other third party’s) programmatic buys, how often do you receive spending and media performance reports?

SECTION IV:
REBATES, DISCOUNTS, AND PRINCIPAL-BASED BUYING

A Significant Majority of Advertisers Have Updated Their Media Agency Contracts to Address Transparency Issues, But Too Many Still Have Not

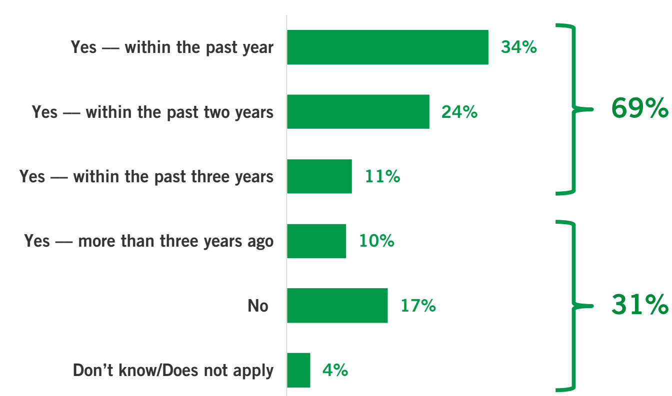
Reflecting the ANA/K2 initiative and report on transparency on media volume discounts and rebates, two-thirds of advertisers have updated their agency contracts to address these concerns within the past three years, and one-third have updated within the past year alone.

However, 31 percent of the respondents have either not updated their contract (17 percent), have not updated it in the past three years (10 percent), or don't know whether they have updated it (4 percent).

This percentage, although significantly lower than the 55 percent who reported not having updated their contract in the 2017 triennial Trends survey, is still surprisingly high. For global marketers who already had contract clauses related to rebate practices that have long been common in Europe, Asia, and Latin America, there might have been little need for an update. The bigger opportunity is likely with domestic marketers who have not had experience dealing with these practices.

Updates to Contracts to Address Transparency Issues

Base: 80

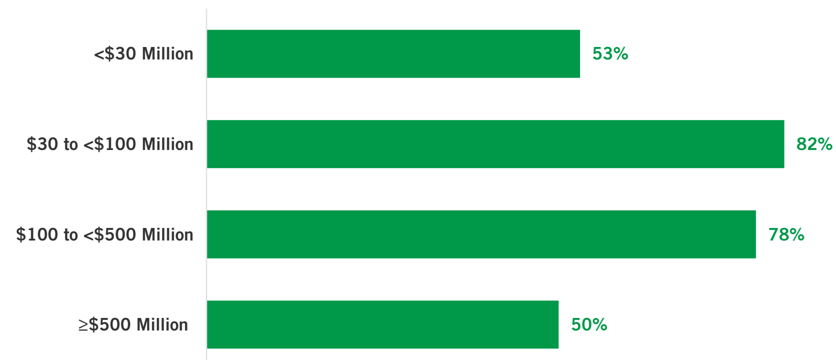


Q. Have you updated your media agency contract to address "transparency" issues around media rebates, discounts, AVBs, and other cost benefits the agency might receive from media sellers?

The results vary by media budget. Nearly 80 percent of advertisers with annual budgets between $30 million and $500 million have updated their contracts to address transparency issues in the past three years. On the surface, it seems surprising that only 50 percent of advertisers spending more than $500 million have done so. But one should keep in mind that this group includes many global marketers who have been dealing with these bonus and rebate issues for quite some time in large parts of Europe, Asia, and Latin America.

Updates to Contracts to Address Transparency Issues Within the Past Three Years (or More Frequently) by Annual U.S. Media Budget

Base: 78



Q. Have you updated your media agency contract to address "transparency" issues around media rebates, discounts, AVBs, and other cost benefits the agency might receive from media sellers?

Business-to-consumer advertisers are more likely to have updated their contracts within the last three years than business-to-business advertisers. This is very likely because many business-to-business marketers require a much smaller media investment vs. advertising to consumers.

Updates to Contracts to Address Transparency Issues Within the Past Three Years (or More Frequently) by B-to-C/B-to-B

Base: 78

Q. Have you updated your media agency contract to address "transparency" issues around media rebates, discounts, AVBs, and other cost benefits the agency might receive from media sellers?

Most Advertisers Report Receiving a Fair Share of Any Agency Rebates or Discounts Returned

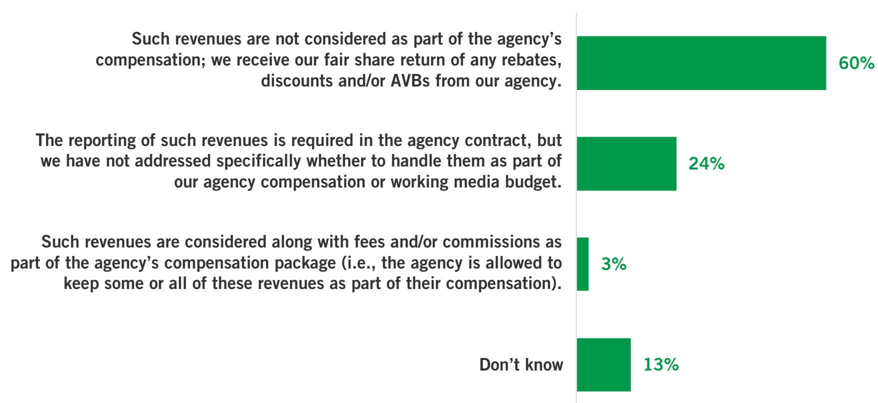
Sixty percent of advertisers report receiving a return of their share of any volume discounts or rebates earned by their media agency. The financial benefit is considered part of the media investment and is not tied to the agency's compensation. For global marketers, this is a well-understood and common practice in the handling of AVBs in many parts of Europe, Asia, and Latin America, where such media buying "volume" bonuses have been around for years.

Only 3 percent of the respondents indicated they treat such revenues as part of their agency's compensation.

Almost a quarter of the respondents have not addressed how to treat these revenues, indicating that working practices have not yet caught up to the contract terms for some.

Handling of Media Rebates, Discounts, AVBs

Base: 63



Q. How have you negotiated the handling of media rebates, discounts, AVBs, etc. with your media agency?

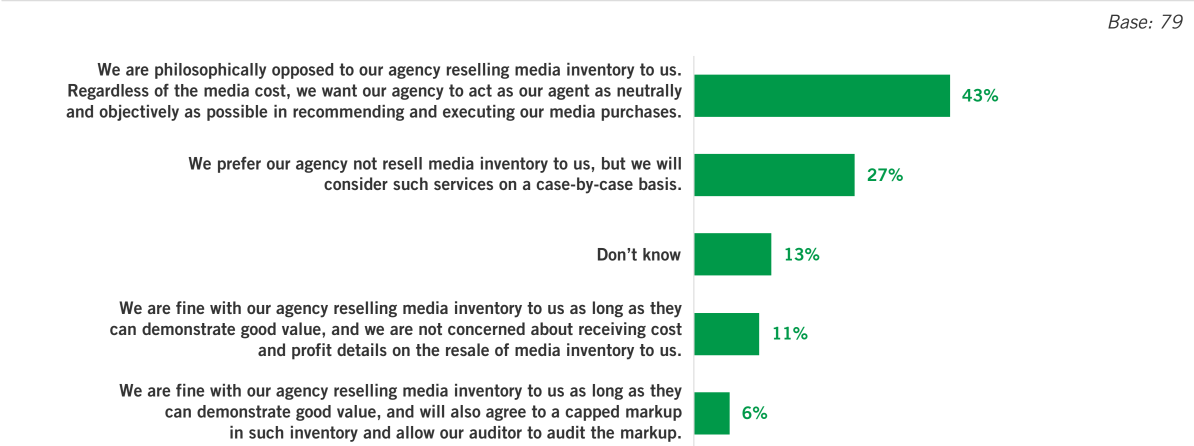
Most Advertisers Prefer Their Agencies to Buy as an "Agent," But Some Are Open to Their Agency Buying as a "Principal," If Favorable Media Cost/Value Is Demonstrated

Many agencies purchase media inventory on their own and then re-package and re-sell that media to the advertiser, generally at a higher price.

Over 40 percent of the respondents to this survey indicated that they are philosophically opposed to their agency buying and re-selling media to them. They want their media agency to act as an agent in a neutral and objective manner on their behalf. This was confirmed in follow-up interviews where ANA members suggested that their agency having a financial stake in the media inventory could potentially cloud their objectivity and lead to less than optimal media purchases for the client.

Another 27 percent of the respondents reported that they were generally opposed to the practice but would consider agency-purchased inventory on a case-by-case basis. Not surprisingly, interviews confirmed that the basis for consideration would be cost-driven: if the agency's inventory was desirable based on the advertiser's target delivery goals and it resulted in significantly lower costs (vs. similar inventory not purchased directly by the agency), then it would make sense for the advertiser to purchase it.

Agency Buying Media as Principal



Q. Is your company comfortable when your media agency resells media inventory to your company with an undisclosed markup (e.g., when the agency buys media as a "principal" rather than an "agent" or offers value-based or other bundled media at a flat rate without disclosing underlying costs or markups)?

ABOUT THE AUTHORS

David Beals is president/CEO of JLB + Partners (JLB+P), a leading consultancy focused on agency sourcing, search, and selection; agency contracts and compensation; and client/agency relationship management. Mr. Beals has written the last six editions of the ANA's triennial Trends in Agency Compensation reports as well as the ANA's Agency Compensation guidebook. He is a frequent speaker at ANA conferences and committee meetings and is a regular contributor to the ANA Marketing Knowledge Center, addressing member questions on agency compensation and relationship practices.

At JLB+P, Mr. Beals has consulted for a large and diverse list of clients, including Walmart, the U.S. Army, S.C. Johnson & Son, GM, Kimberly-Clark, Allstate, and Microsoft. Prior to JLB+P, he had a 19-year career at the DDB advertising agency working on clients such as McDonald's, General Mills, Anheuser-Busch, and Campbell Soup Company. Mr. Beals has a B.A. in international affairs from the University of Colorado and a master's from the American Graduate School of International Management (Thunderbird).

Brittany Elliott is vice president of digital media at ami+partners, a division of Advantage Media Management, Inc., a leading media performance management and stewardship firm. She is responsible for the auditing, analysis, and reporting of all digital plans and placements developed by agencies on behalf of ami+partners advertiser clients. She also provides third-party advice, counsel, and oversight to her clients on all matters relating to their digital advertising investments. Prior to joining ami+partners, Ms. Elliott was AVP, advertising and media operations at Trueffect, where she oversaw all programmatic buying and advertising operations for several Fortune 500 companies.

The ANA project team on this initiative was:
Bill Duggan, Group Executive Vice President
Irene Pantazis, Director, Research Services, Marketing Knowledge Center

ABOUT THE ANA

The ANA (Association of National Advertisers) makes a difference for individuals, brands, and the industry by driving growth, advancing the interests of marketers, and promoting and protecting the well-being of the marketing community. Founded in 1910, the ANA provides leadership that advances marketing excellence and shapes the future of the industry. The ANA's membership includes more than 1,800 companies with 20,000 brands that engage almost 50,000 industry professionals and collectively spend or support more than $400 billion in marketing and advertising annually. The membership is comprised of more than 1,100 client-side marketers and more than 700 marketing solutions providers, which include leading marketing data science and technology suppliers, ad agencies, law firms, consultants, and vendors. Further enriching the ecosystem is the work of the nonprofit ANA Educational Foundation (AEF), which has the mission of enhancing the understanding of advertising and marketing within the academic and marketing communities.

MEDIA AGENCY COMPENSATION PRACTICES