Submission to

ACCC: Ad Tech Inquiry Issues Paper

on behalf of

The Media Federation of Australia

media federation of australia

12 May 2020

The Media Federation of Australia welcomes the opportunity to make a submission on the Ad Tech Inquiry Issues Paper.

Executive Summary

Competition in the Australian market is intense and increasing for media agencies due to a range of forces including the:

- High volume and diversity of incumbents;
- Growing market power of global digital platforms;
- New entrants such as global consulting firms;
- Recent emergence of clients in-housing ad and media services;
- Disintermediation and commoditisation of digital market products and services; and
- The option available for any advertiser to use direct sales and aggregators in the digital space at any time.

Advertisers use their substantial market power to obtain best possible pricing for digital marketing services. In a highly competitive supplier market, the strength of the market and bargaining power of the advertiser, especially larger advertisers, has driven down pricing and margins, and extended payment terms beyond industry standards. At the same time, media agency costs have risen due to the demand for increasingly sophisticated digital marketing campaigns and the associated necessary investments in people, skills and technology.

Advertisers appoint media agencies as independent contractors, not as agents, for the provision of media services. The contractual relationship between agencies and advertisers requires the agency to pay the entire cost for media bought to deliver services to advertisers and to carry the full financial risk until reimbursement. This risk becomes onerous as advertisers extend their payment terms well beyond industry standards.

Advertisers increasingly prefer using programmatic technology because it delivers effective digital ad campaigns and efficient use of marketing budgets. Programmatic is not a fully automated set of processes but a suite of complex and layered services that requires highly skilled people and sophisticated technologies to deliver marketing outcomes for the advertiser.

Media agencies provide advertisers with highly detailed information so that they can make informed decisions on digital marketing providers and strategies. The information provided to potential and existing advertiser clients on pricing of services and agency and supplier fees, is highly granular and provided in line-by-line details in tender processes and reporting requirements. Strong competition from other agencies and suppliers enables advertisers to compare offerings and prices, typically with advice from internal and external procurement and benchmarking services.

Media agencies have responded to the increasing preference of advertisers for programmatic campaigns and advertisers' demand for more visibility over costs by providing itemised fee arrangements, now the most common industry model. Guaranteed outcome-based remuneration arrangements remain available to those advertisers that prefer the agency manage some components of decision-making on the choice of media, data sources and third-party platforms. Both models clearly define contractual arrangements.

Media agencies have highly sophisticated planning tools that identify where audiences are, and how to most efficiently and effectively reach them. Audits, performance measurement, and other checks provide advertisers with close scrutiny on both costs and effectiveness. Clients approve detailed plans and costs before any money is spent. Reporting on campaign costs and outcomes is equally detailed. The ultimate measure of the effectiveness of a campaign is if it sells products and services to the desired or anticipated rate, within the agreed budget.

Over recent years, the MFA has been responding to advertiser demands for more transparency on pricing and contractual arrangements by working with advertiser groups and industry to develop and implement best practice standards. This agenda is ongoing with the current focus on industry understanding and compliance with the 2020 updated best practice standards; training; and measures to assure compliance.

1. About the Media Federation of Australia (MFA)

The Media Federation of Australia (MFA) represents media agencies providing services to advertisers across all media channels, including media planning and buying, proprietary systems and tools, data and analytics, and content development. The MFA's members account for over 90 percent of all media billings placed by media agencies in Australia.

The media agency sector comprises a diverse range of firms, including highly specialised agencies and full-scale agencies offering a comprehensive suite of advertising and media services. MFA's members include the local offices of all the major media agency networks including Omnicom Media Group, GroupM, Dentsu Aegis Network, Publicis Media, IPG Mediabrands and Havas Media, as well as Australian independent agencies such as Hyland, The Media Store and Pearman Media.

As an alliance of media agencies, the MFA's charter is to:

- Represent and advocate for the industry;
- Set best practice standards and guidelines; and
- Provide skills and best practice training for our members.

The MFA aims to share its deep and practical knowledge of the industry to assist the ACCC in further understanding the ad tech supply chain. We also seek to bring the demand side of the digital advertising market into the discussions on the Ad Tech Inquiry.

2. The impact of the coronavirus health and economic crisis

At the time of submitting, we cannot overlook the devastating socio-economic effects of the coronavirus pandemic. Like many sectors of the Australian economy, coronavirus and the measures introduced to contain its spread are having a severe and ongoing negative economic impact on advertisers, media groups, content developers, digital advertising, and the media agency industry and its employees. The MFA recognises that our agencies and our people are dealing with an unprecedented economic shock of uncertain duration and impact.

Media and ad agencies are doing all they can to retain staff and limit redundancies as advertisers cut their marketing and ad budgets and pause or halt spending in response to economic dysfunction and changing consumer needs and behaviour. IAB's Australian study show 78 % of marketers and buyers have adjusted or paused their planned digital advertising spend and market analyst are predicting a 40 % decline in ad spend for the June quarter. Immediate cutbacks and pauses in advertising are being seen in many sectors such as travel, hospitality, offline entertainment and areas of retail. The production of media content is strictly limited by social-distancing and challenging with most employees working from home.

The full impact of lower ad and marketing spending is uncertain, as it is still evolving. Meanwhile, media agencies have introduced measures such as voluntary salary cuts and reduced hours and other cost controls while retaining as many staff as possible and carrying the financial risk of pre-booked media committed by clients before the crisis. Some agencies may not be able to survive in their curent form if the economic fallout of coronavirus is prolonged. A major bounce back is unlikely this year. In this climate, the global digital platforms may be more insulated and could possibly strengthen their presence in Australian advertising. This can already be seen as major media groups suspend some media operations, such as print editions of community newspapers and magazine titles.

This submission attempts to abstract from this disruption and uncertainty about the viability of the advertising and media services industry. First, we profile the media agency sector and then address relevant questions in the Issues Paper and make critical points about the:

- Intensity of competition in the market;
- Legal relationship between the advertiser and media agencies;
- Power of the advertiser;
- Modern models of remuneration and pricing;
- Availabilityof information and pricing transparency; and
- Industry initiatives to enhance transparency with advertisers.

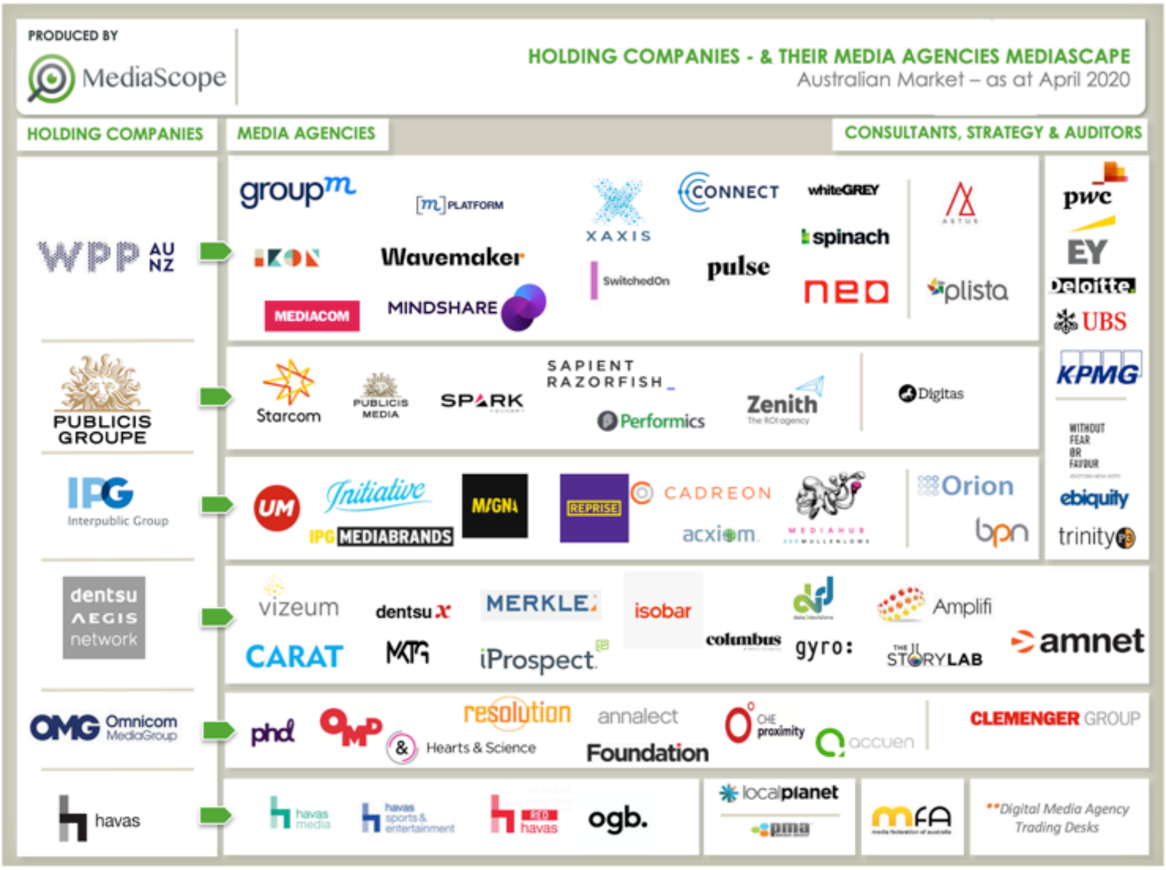
3. Profile of the media agency industry

This section presents information on the media agency sector and its firms, services, skills, and role in the digital advertising ecosystem.

Media agencies compete in a market characterised by a large volume of firms of diverse size, structure and specialisation in services.

Below we show the MediaScope profile of media agencies operating in Australia, which includes:

- Global media agency networks (holding groups):
  Omnicom Media Group, GroupM, Dentsu Aegis Network, Publicis Media, IPG Mediabrands, Havas Media
- Smaller internationally owned agencies, such as:
  Bohemia and Paykel Media
- Australian independent agencies, such as:
  Hyland, Pearman Media, The Media Store, Nunn Media, Cummins and Partners
- Some of the specialist media service agencies that provide specific services, for example:
  Search agencies, digital marketing agencies and ethnic media agencies.


PRODUCED BY
MediaScope
HOLDING COMPANIES - & THEIR MEDIA AGENCIES MEDIASCAPE
Australian Market – as at April 2020
HOLDING COMPANIES
MEDIA AGENCIES
CONSULTANTS, STRATEGY & AUDITORS
*Digital Media Agency Trading Desks


PRODUCED BY
MediaScope
MAJOR INDEPENDENT MEDIA AGENCIES MEDIASCAPE
Australian Market – as at April 2020
FULL SERVICE

As the MediaScope profile highlights, the media agency sector has a high volume of businesses all competing for the advertiser's business. In 2019, a total of 276 media agencies was responsible for placing $5.7billion of advertising on Television, Magazines, Radio, Cinema and Out of Home (source: Nielsen Ad Intelligence). This number excludes agencies that place digital advertising bookings and small agencies who utilise larger accredited media agencies to book and bill media on their behalf.

In addition to agencies owned by holding groups, the industry has a strong and thriving mix of non-holding group agencies. These are well established and sophisticated businesses that compete directly with the holding group agency brands.

Top 5 Agency Expenditure rankings for 2019 (excludes Digital and Subscription TV):

Source: Nielsen Ad Intelligence

1.	**OMG**
2.	**GroupM**
3.	**Top 5 non-holding group agencies (combined)**
4.	**Dentsu Aegis Network**
5.	**Publicis Media**

Competition in the sector has been heightened by the growing trend of advertisers booking media directly with media publishers and platforms, aided by an increasing number of self-service tools and services such as Google Ads, Facebook Business Manager, 9Voyager, Buy10, and News Concierge.

Facebook and Google do not publish advertising spend information, however Nielsen Ad Intelligence reports direct advertiser bookings account for 29% of non-digital advertising spend in 2019. NewsMediaWorks reports share of news media advertising expenditure placed directly by advertisers and not through an agency is now 58%, a 26% increase compared to 5 years ago (2014).

Services provided to advertisers by media agencies are extensive, specialised and continually innovative

Media agencies contribute to their clients' business growth by designing and executing customised marketing strategies. Advertisers employ media agencies for the specialist expertise, tools and technology they harness for the client, including:

- Expertise in media, technology, brand and audience engagement;
- Precise audience and marketplace insights;
- Data intelligence, tools, technology and creativity;
- Media specialists and trading, analysis and optimisation tools; and
- Accountability in providing detailed costings of services and in delivering outcomes and results for clients through detailed reporting, often using clients' templates.

The services provided by media agencies are extensive, with a bespoke suite of services offered or provided to each client based on their specific requirements and to deliver the most effective advertising solution. Digital services, such as the planning and buying of digital media are integral components but not generally provided in isolation of other services.

SERVICES TYPICALLY OFFERED BY MEDIA AGENCIES

Strategy & Business Development

- E-commerce
- New business and product concept development
- Marketing and communication strategy development

Media & Strategy Planning

- Media research and insight curation
- Creative media strategies to deliver business and marketing objectives
- Develop optimal media channel mix and channel plans
- Determine media metrics to connect to business performance

Media Implementation

- Media channel investment and deployment
- Media delivery accountability and reporting
- Media price negotiations
- Media partnership management
- Media experiences and activation
- Sponsorship management and integration

Digital Media Services

- Programmatic media planning and buying
- Ad Tech value chain consultation
- Advertiser in-house programmatic consultancy
- Online community management
- Search Engine Optimisation (SEO)
- Search Engine Marketing (SEM)

Data Analytics

- Data visualisation and dashboard development
- Data segment creation
- Market mix modelling
- Search Analytics
- Marketing Technology consultation

Content Creation & Distribution

- Creative development services *(including digital and non-digital content creation)*
- Mobile application development
- Website development

The increasing diversification of media agency services has led to greater customisation for each advertiser, and potentially more effective outcomes for advertisers. Customisation has also increased costs for agencies, not least in developing appropriate remuneration models to reflect the diversity of services. In section 4, we discuss the changes in remuneration and pricing models that have occurred with the evolution of the digital advertising market.

Major investments in people, skills and technology

Advertisers and the competitiveness of the market has increasingly demanded the continuous adaptation of highly specialised digital and data services and innovative technology products and tools. This has significantly increased the cost of doing business for media agencies.

Technology has transformed our industry and demanded major investments. Media agency investment in tools and data has increased by 79 % in the 6 years from 2012 to 2018 (source: annual MFA Cost Benchmark Report). Media agencies also invest heavily in technical and creative capabilities across websites, apps, customer experience/user experience, transactions, Artificial Intelligence, programmatic/digital advertising trading, and data and analytics, to provide the specialised services required to create compelling advertising and to remain competitive in the market. Specialised digital services now make up 30 % of media agencies employee base, almost 4 times that of 10 years ago (source: annual MFA Census).

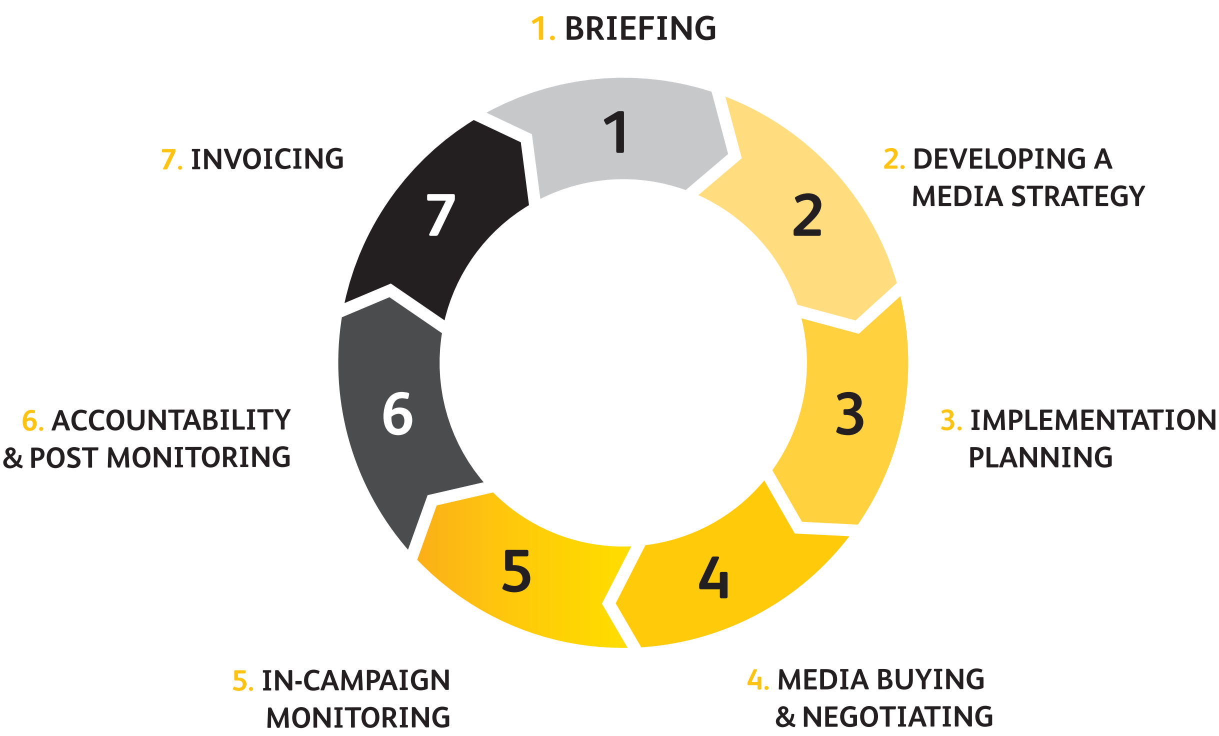
The increasingly sophisticated nature of the market also necessitates highly skilled people and ongoing training. Media agency employee salary costs have almost doubled from 2012 to 2018 (source: annual MFA Cost Benchmark Report). Our employees are mainly Australian, relatively well-paid and young (Source: annual MFA Salary Survey and Census), and work and train in good jobs demanding high-level technical, creative and marketing skills. Despite increasing competition from global digital platforms, employment in media agencies has grown by 132 % in the last 10 years (source: annual MFA census) before the drought and bushfires and now, COVID 19.

The role of media agencies in the digital advertising ecosystem

As the ACCC emphasised in its Digital Platforms Inquiry report, the digital advertising space is a complex ecosystem of technologies and services. It is a highly dynamic market characterised by rapid technological innovation that, aside from current economic and health challenges, has been transforming digital advertising and marketing. Within this ecosystem, media agencies provide highly specialised and customised services that aim to maximise the effectiveness of advertisers' marketing campaigns by:

- Advising on how advertisers should invest their marketing budgets to deliver set objectives;
- Creating and activating multi-platform media strategies;
- Providing marketplace and consumer insights;
- Advising, developing and applying the necessary tools and technology;
- Applying the agency's skills, experience, and market relationships to get the best deal for the client;
- Managing the relationship with the media owners/publishers to ensure the best outcome; and
- Applying the rigour, reporting systems and accountability to ensure that the client gets what they paid for.

MEDIA COMMUNICATION PROCESS



1. Briefing

The advertiser provides a brief that defines the Business problem that Marketing Communications is to solve.

2. Developing a media strategy

To implement an effective campaign, a high level Communications roadmap is required to deliver the right message to a Target Audience in the right context.

This involves:

a. Understanding why the client is advertising, as defined by the desired BUSINESS OBJECTIVE(s) and challenges.

b. Identifying and understanding the TARGET AUDIENCE.

c. Developing relevant INSIGHTS that connect CONSUMER & BRAND.

d. Assessing the full spectrum of Media CHANNELS available;
Paid Media, **Owned** Media, **Shared** and **Earned** Media.

e. Agreeing the Channel METRICS to be measured that layer up and allow for measurement against Business Objectives.

3. Implementation Planning

Identifies and plans the most cost effective way of using each media channel to deliver against the planned channel metrics. This could include the allocation to Direct and Programmatic trading.

4. Negotiation & Buying

Undertakes negotiation of the most competitive rate, positioning and added value for each medium and then books that negotiated activity with the selected supplier.

5. In-Campaign Monitoring

Monitors performance against Metrics while Campaign is live. Implements measures to address underperforming placements and maximising return of overperforming media.

6. Post Monitoring

Evaluating the campaign's performance against the agreed metrics and business objectives.

Post monitoring provides learnings and insights for the next campaign and its strategic planning.

7. Invoicing

Generating financial invoices for all booked media activity *(at the end of each month, for that months booked media).*

Advertiser preferences drive the predominance of programmatic technology in digital marketing

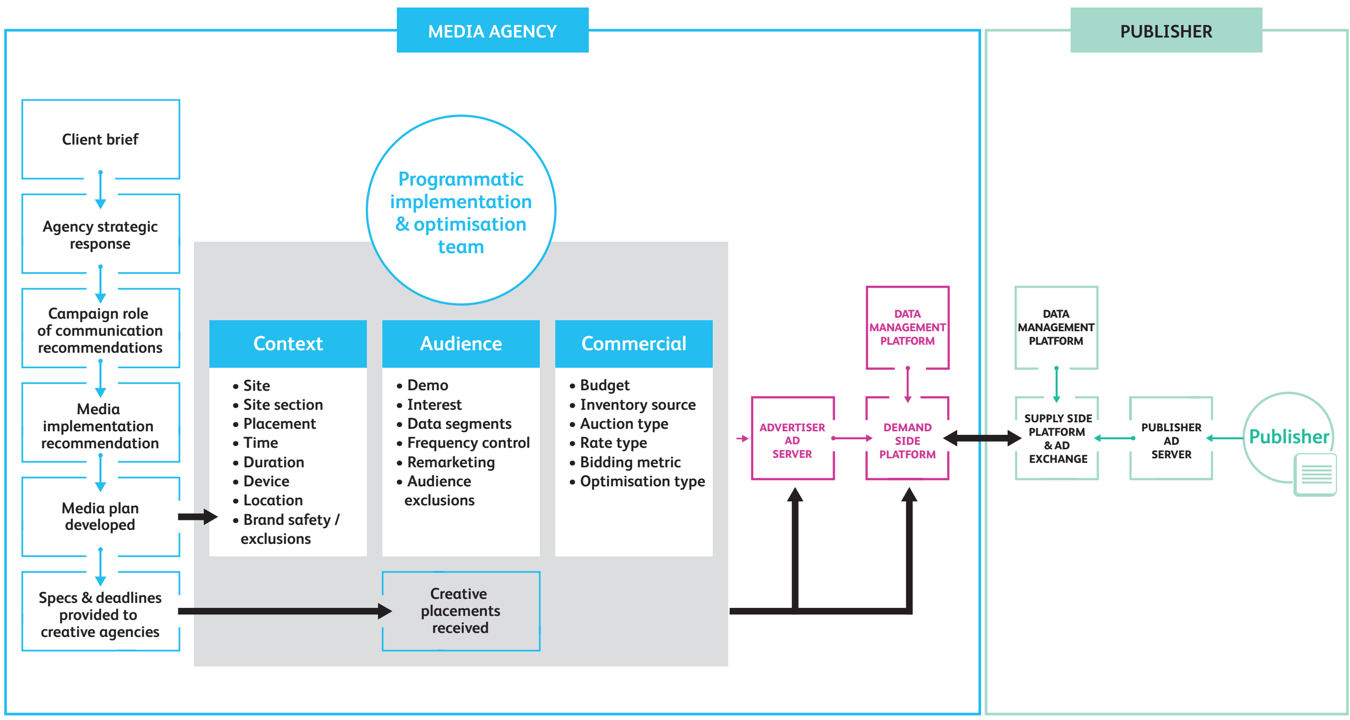
Buying and executing digital media campaigns using programmatic technology is now the preferred method for advertisers to deliver on their planned digital marketing activity, with the expectation that this will continue to grow. 60 percent of digital expenditure was placed programmatically in 2019.

The definition of programmatic buying has evolved and expanded in recent times, as it incorporates more technology and greater pools of inventory. It is best described as media bought via a platform, using some form of automation or data signals. This encompasses publisher self-serve platforms, such as Google Ads or Facebook Business Manager, Demand Side Platforms (DSPs), such as Google's DV360, The Trade Desk, Amobee and Adobe Ad Cloud as well as automated booking platforms such as AdSlot and News Concierge.

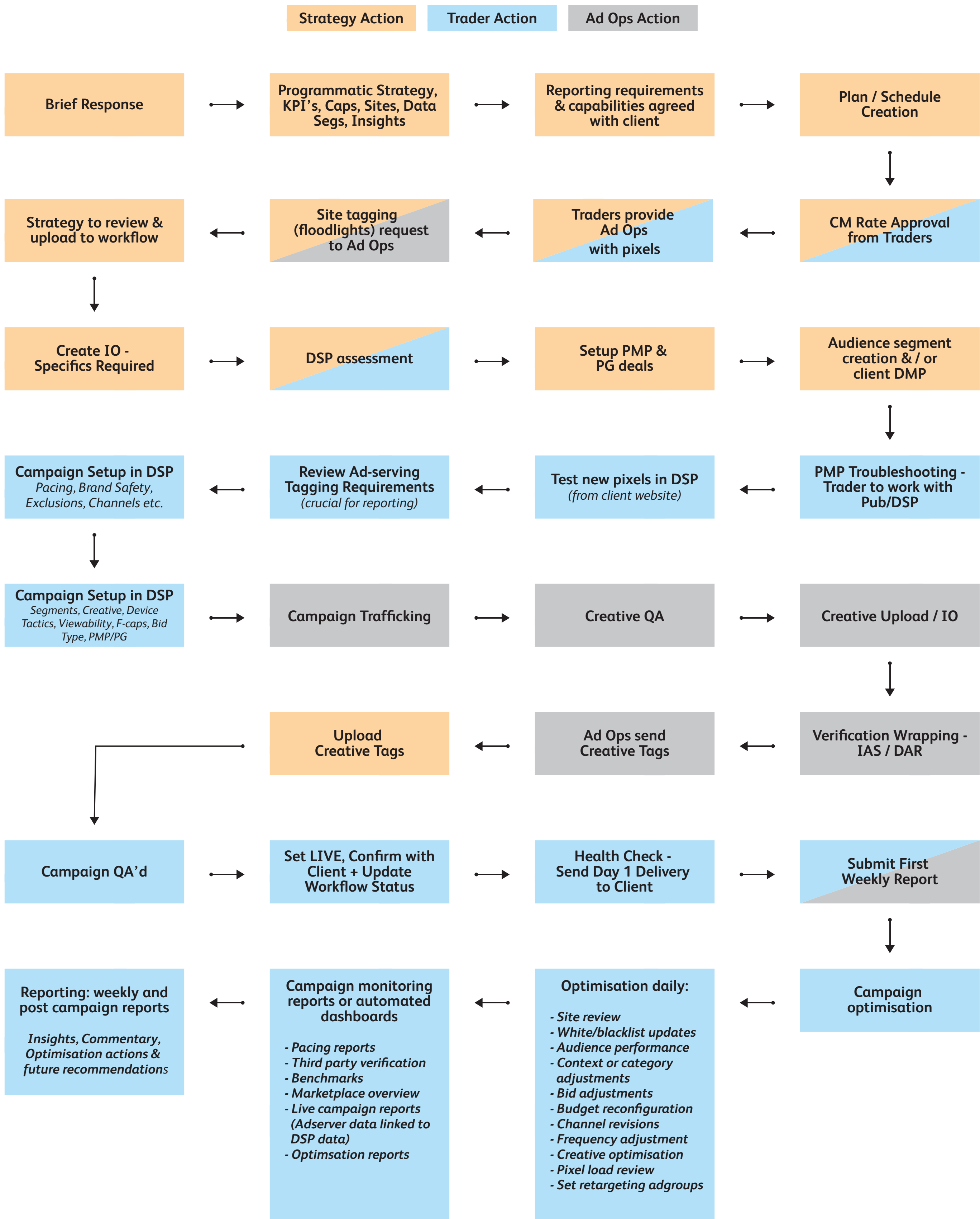
Programmatic media transactions shift the control from the seller to the buyer, giving media agencies and advertisers the ability to decide where and when an ad is shown (context), who views the ad and how many times (audience) and at what price. In other forms of media trading, many of these decisions are made by the seller, who's primary motivation is driven by business revenue and yield. As technology continues to evolve, it becomes possible to create even more granular, complex and sophisticated media plans maximising marketing campaign effectiveness even further.

Despite the use of automation and the layers of technology, Programmatic media trading is a complex process requiring highly skilled practitioners, not just in the use of the tools and technology, but in consumer and market insights, data analytics, trading, negotiation, and deployment in order to navigate the multiple decision-making steps required to execute Programmatic enabled campaigns. The below Programmatic workflow diagrams highlight the complexity and level of decision-making required.

THE MEDIA AGENCY PROGRAMMATIC WORKFLOW - SUMMARY



MEDIA AGENCY PROGRAMMATIC WORKFLOW - DETAILED

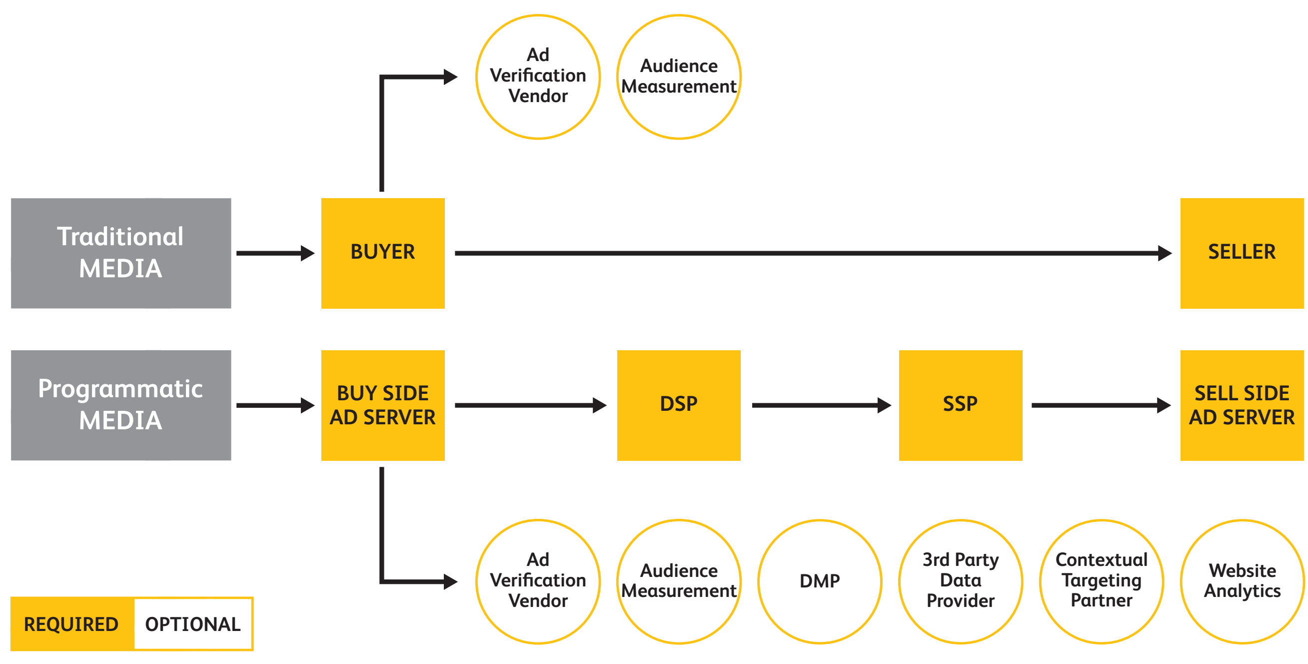


The role of Ad Tech in increasing advertising effectiveness

The purchase of digital media necessitates the use of Ad Tech services in some form. The mix of services required for each campaign differs depending on the specific requirements and objectives of the advertiser. Every stage across the Ad Tech value chain represents a service which incurs a fee. These services range from data provision, ad verification, frequency capping technology etc, which work in conjunction with each other to improve the outcomes for the advertiser. As the ACCC highlights in its Digital Platform Inquiry report, this expansion of the advertising value chain has led to a greater dispersal amongst service providers of the advertising dollar, sometimes referred to by traditional media vendors as 'non-working media'.

We believe that applying the term 'non-working media' to Ad Tech service providers is incorrect as it implies this expenditure does not add value. Whereas marketing effectiveness and efficiency is driven by the capabilities Ad Tech tools and data provide; the ability to improve targeting, audience delivery, measurement, analytics and accountability. In fact, programmatic advertising has gained popularity with advertisers because of its greater effectiveness compared to other, less technologically driven forms of media buying, resulting in improved overall return on marketing investment.

KEY TECHNOLOGY AND DATA SERVICES: TRADITIONAL AND PROGRAMMATIC MEDIA BUYING



In the main, Ad Tech and data services are provided by third party suppliers and not directly by media agencies, with agency resources used for deployment. Clients are increasingly developing their own direct agreements and relationships with Ad Tech and data suppliers and mandate the use of these suppliers to their agencies. Where an agency affiliate is used to provide services for a client's media campaign, it is common practice and part of agency and client contracting best practice to disclose this in the agency/client contracting process.

4. Key issues for this inquiry

In this section we outline the MFA's perspective on key issues under scrutiny in this inquiry and provide information and evidence to support our views. The following focuses on the:

- Intensity of competition in the market;
- Bargaining power of the advertiser;
- Nature of the legal relationship between advertiser and agency;
- Value of programmatic technology and the Ad Tech value chain in digital advertising;
- Pricing models and the advertiser's focus on a fixed price; and
- Availability of information and pricing transparency.

The MFA believes that the information we provide is important context and input for this inquiry.

(i) Competition and competitiveness

The points we make regarding market competition and power are relevant to *Question 3: How competitive do you consider the market for ad agency services to be and why?*

A. Intensifying competition in digital advertising and the competitiveness of the media agency industry

Media agencies operate in a highly competitive market, with a large volume and diverse range of agencies and service offerings, as detailed in section 3 of this submission. The increasing intensity of competition has been driven strongly by changes in advertiser behaviour, the escalating market power of the global digital platforms, the rise in direct relationships between advertisers and media publishers, in-housing of marketing functions, and new entrants including large global consulting firms.

Intensified competition has enabled advertisers in Australia to have access to a wide and varied choice of supplier and services but has also been challenging media agencies who compete fiercely with each other.

Competition for advertiser business is amplified by structural threats from new entrants, in-housing of services, and disintermediation of the media services role.

Increasing competition comes from several sources:

- The increasing presence and market share of the global digital platforms in Australian advertising, as documented in the Digital Platforms Inquiry;
- The marketing of self-serve products offerings by digital platforms, also covered in the Digital Platforms Inquiry and the current inquiry;
- Increasing disintermediation of the digital marketing role, with a reduction in the use of intermediaries between advertisers and media platforms, which has in part been driven by the global platforms and their marketing of self-serve products;
- An increase in the in-housing of ad and media services, partially or fully, particularly by larger advertisers who see digital advertising as an important function in which they should directly invest, or upon advice from technology vendors and consulting firms promoting in-housing with their servicing support;

- The extension of global IT consultancies such as Accenture into digital services and the market entry of the Big-4 global consulting firms that actively market their marketing and digital services in competition with media agencies and also advise advertisers on in-housing of digital capabilities, which they propose to help establish and operate.

  At the same time, these global consultancy firms also offer and provide services to advertisers such as tender process and contract review management, price benchmarking, and financial and media performance audits of agencies. This commercial service yields detailed insights into the offerings and pricing of individual media agencies and their suppliers. Media audit reviews and pitch review consultants collect vast amounts of data from media agencies including media agency fees, agency staffing costs, agency overhead costs, agency margins, agency media pricing, agency third party technology cost rates; and agency IP in their pitch proposals and strategies.

  Applying the market knowledge of a global consulting firm may assist the advertiser to make an informed choice. However, the dual role of the Big-4 and other large consulting firms also has the potential to enable them to compete unfairly for business against media agencies while also promoting their additional consulting work with advertisers.

B. The market and bargaining power of the advertiser

The MFA recognises the findings of the ACCC's Digital Platforms Inquiry and its emphasis on the significant bargaining power of the global digital platforms, as compared to advertisers and media businesses. This kind of power imbalance is replicated in the relationship between advertisers and media agencies where Advertisers hold the balance of bargaining power and particularly so, in the case of larger advertisers.

At the outset, it is important to recognise that advertisers appoint media agencies as independent contractors, not as agents, for the provision of media services. As independent contractors, media agencies bear the entire cost and the full financial risk for media that is purchased in preparation for the delivery of media services to advertiser clients. Agencies pay media vendors and seek future reimbursement from the advertiser, consistent with the contractual arrangements and the legal relationship between agency and advertiser. Carrying this risk becomes onerous when clients add additional pressure on payment terms.

In the highly competitive Australian market, advertisers have asserted their bargaining power by practices such as:

- Regularly reviewing the cost of agency services, seeking market tender offers to update services and reset pricing, and switching to alternative agencies before the contract term has expired;
- Enforcing malus or risk-based fee structures as requirements for media agencies that seek to win an advertiser's business, with commitments placed on agencies to meet media savings targets or incur cost penalties; and
- Pushing payment terms beyond industry norms to, in the case of some large clients, non-negotiable 90-120 days. This is lengthy by any standard and particularly onerous for media agencies, as they act as independent contractors to advertisers in buying media and must finance media spend for 45-75 days before reimbursement.

Advertisers use their buying power to ensure continuous price pressure on media agencies and demand detailed information on price and service offerings to make informed choices on media agencies and services at the best price.

(ii) Pricing transparency and availability of information

The information and perspective we offer on pricing relates to questions in the Issue Paper on *efficiency and competitiveness and market structures (Questions 4, 8 and 9)* and *availability of information and pricing transparency and Ad Tech services (Questions 18, 20 and 24)*.

A. Advertisers' tendering processes are rigorous, granular and exacting

The price pressure placed on media agencies by advertisers starts from the initial tender process, which is competitive, and the common practice of regularly seeking tender offers in market prior to contract end ensure that the advertiser continues to secure the best-fit strategy, creative ideas, capabilities and prices. Based on market intelligence gathered from industry pitch consultants, market tenders result in clients appointing new agencies to handle their Australian annual ad budgets to the value of $600 million each year, with on average 110 tenders conducted annually for clients with budgets over $1 million.

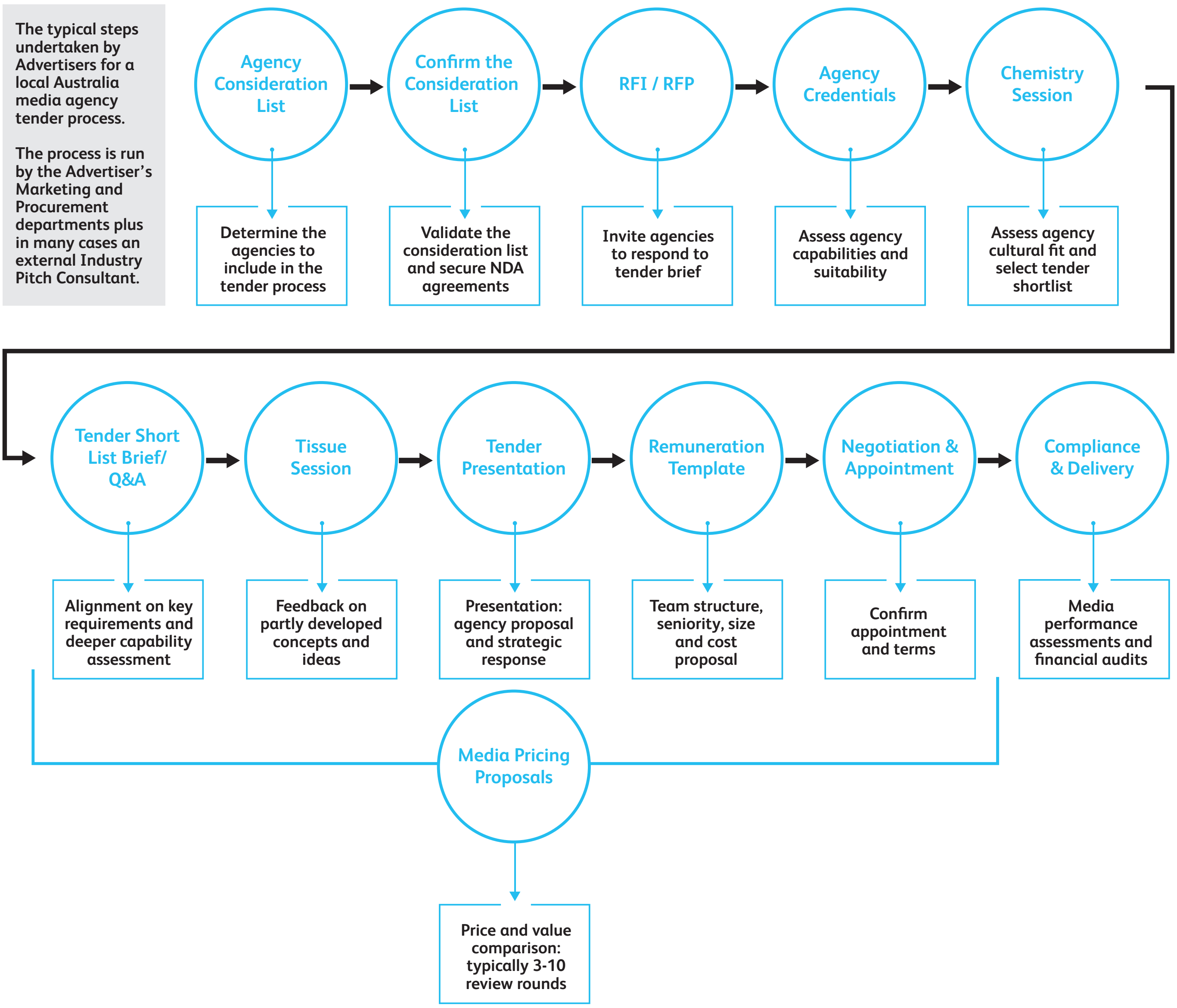
Advertisers are very sophisticated and hard bargainers. Many engage external pitch and benchmarking consultants, such as one of the Big-4 consulting firms or numerous industry specialists such as Trinity P3, Ebiquity, Media Path and R3 Worldwide, to help navigate the competitive tender process and also engage their internal procurement departments to assess the best provider at the best price. The widespread experience of media agencies is that tenders are very granular and price-driven processes, obliging agencies to commit significant time and resources in order to participate without any compensation.

Adding to this practice is the availability and use of these aforementioned consultants plus independent commercial services such as Enth Degree and Firm Decisions to benchmark and monitor costs and services and advise advertisers on obtaining the best return on media and marketing investments, the selection and management of agency and technology partners and delivery compliance.

We have mapped the typical tender process in the diagram shown on the following page. It demonstrates the rigour, discipline and multiple checks throughout the process.

GENERIC ADVERTISER TENDER PROCESS FOR MEDIA AGENCY SELECTION

Typically a 12+ Weeks Process



STEP	PROCESS
Agency Consideration List	Agencies for inclusion in the tender process will be determined, based on advertisers requirements and competitor business alignments. External consultants, media owner insights and advertiser in-house experience is used to determine the final list. This will be developed either by the client's own experience in market, through discussions with publishers or through guidance from a pitch consultant. *Note* - In a global pitch there may only be a short list of agencies that are already on the roster of approved agencies for that client.
Confirm the Consideration List	The long list of agencies will be approached to assess their interest and capacity to tender. Agencies will typically be asked to sign an NDA at this stage.
RFI/RFP	RFP includes background on client and tender process and requests for agency response on agency credentials.

STEP	PROCESS
Agency Credentials	Agencies are typically asked to respond to a list of questions which outlines the structure, philosophy, ways of working and case studies. The response from the agency will often be provided to the client by way of a document to be submitted in advance of a chemistry session.
Chemistry Session	This meeting with the client and the agency - and the pitch consultant - allows the client to provide the rationale for the tender and what they are looking for. It also provides agencies the ability to showcase their capabilities. Over and above capabilities, this session allows the client to see whether the people in the agency are a good cultural fit with their business.
Tender Short List Brief / Q&A	Agencies are generally asked to share/demonstrate: - *Agency capabilities – strategy, planning, trading, digital and programmatic* - *Client / category experience* - *Tools, processes, systems and technologies* - *Transparency and compliance* - *Personnel, team and leadership information* - *Agency culture* - *Industry point of views* - *Value add opportunities* - *Referees* - *Insurance information* - *Information on any subcontractors* - *Company finance information* - *Agency fee proposal* - *Transition process*
Tissue Session	Validation and feedback session with the client on the agency tender proposal direction.
Tender Presentation	This is usually the most important meeting in the process and the longest of all the meetings - may run 2-3 hours. Includes all relevant stakeholders on the client side. On the agency side it will include the proposed team and the senior leadership team at the agency plus any key supporting services. The focus is on the brief responses - how the agency would tackle the business/communication problems posed in the tender brief.
Media Pricing Proposals	Typically, independent auditors or pitch consultants are engaged to compare agency pricing, which they do via their sophisticated online platforms. These platforms collect data for every buying unit from each agency involved in the tender process, through Media Pricing Proposals. Agencies will be asked to provide an achievable media price for the client, on a number of media channels/publishers across a variety of different scenarios. This will normally be done at the individual buying unit for each channel. *(Example, cost of one play on an OOH site in Brisbane or CPM for a specific ad unit on news.com.au).* The Media Pricing Proposal process is a ‘blind’ process for the agencies involved. Media Pricing Proposals are assessed, and agencies asked to re-submit lower media pricing multiple times, with no visibility on how their media pricing compares or if they are simply bidding against themselves. Client procurement, pitch consultants and independent auditors in most cases set out to drive price led outcomes, which at times may be in conflict with client marketing objectives. For example, a lower media price could reduce the quality of media placement it is possible to buy, such as sponsorship of a program or a premium positioning, which better fit the clients marketing objectives. These restrictions are clearly noted by agencies and usually it is a trade-off between procurement, pitch consultant KPI’s and the marketing team KPI’s. In some cases, clients will impose malus clauses based on delivery of media pricing (CPMs). If an agency misses the agreed pricing, a proportion of the agency’s fee or even the total annual fee is at risk, this is especially the case with large global clients. In these arrangements, it is common that where media pricing is delivered that is lower than the agreed CPMs, all benefit is returned to the client, and the lower media pricing is used to reset media pricing benchmarks for the following year.

STEP	PROCESS
Remuneration Templates	Agencies will be asked to populate a team structure and provide their remuneration approach.
Negotiation & Appointment	The client will almost always provide their contract for negotiation and final signature. The agency and client will go through the contract in detail to make it the most workable agreement possible. This includes the right for the client to perform financial audits for their activity with access to the agency's contracts and invoices across all activity, to ensure every part of the contract has been achieved.
Compliance & Delivery	The agency's performance will be reviewed regularly across media quality of planning and buying strategies. Contract compliance tends to be reviewed annually. Independent third party specialist are used such as Ebiquity for media quality and Firm Decisions for contract compliance. Both are staffed by Industry experts.

B. Changes in media agency remuneration models as the digital advertising market evolves

The way in which media agencies are remunerated has changed greatly in recent years from the one size fits all commission plus service fee model, to reflect the range of diversified services on offer and the individual service requirements of each advertiser. Media agencies now employ a number of different remuneration models, the most commonly used being;

- Retainers based on scope of work, staff time + overhead + profit margins;
- Percentage service fee on advertiser spend;
- Business outcome-based models;
- Projects based on scope of work, staff time + overhead + profit martins; and
- Hybrid models incorporating elements of retainers and service fee models

It is common practice for advertisers to mandate a risk-based component into their remuneration agreements with malus clauses. Given the nature of the inquiry, this submission focusses on digital services remuneration.

C. Availability of information and pricing transparency for the advertiser – media agency fee/remuneration models for programmatic

Individual media agencies are responsible for their commercial pricing models and contractual arrangements. The MFA's role is to focus on the transparency of pricing and contracting, and industry-wide best practice measures that increase transparency and accountability to advertisers.

As mentioned above, the process whereby an advertiser engages and employs a media agency as its independent contractor is price-driven, highly competitive, granular, and information rich. We recognise that the buying process for digital display advertising can be complex and does necessitate layers of data and technology to assist the advertiser in making informed decisions. Media agencies can offer advertisers a choice of agency fee structures, based on their requirements. Advertisers often rely on advice from their internal and external procurement specialists and advisers in deciding which agency to choose and the preferred pricing structure and deliverables. Below we present details on the programmatic pricing models applied by media agencies.

Programmatic services and the way they are delivered along with the remuneration arrangements between agencies and clients have evolved over the years, based on client requirements, the highly competitive nature of the market, and frequent account reviews in an effort by advertisers to drive savings.

There are two key programmatic remuneration models which media agencies operate with their clients, the **Guaranteed Outcome-based model** and the **itemised model**, which is either FTE (Full Time Equivalent) based or remunerated as a percentage of the total campaign spend.

Both models have merits for advertisers and depend on an advertiser's requirements and preferences.

Guaranteed Outcome-based model:
The outcome-based model was the most common model implemented when agencies provided programmatic services to advertisers initially. In this model, the agency will guarantee an outcome, for example a CPM (Cost per Thousand) to reach a specific audience (for example, video gamers aged 15-24yrs), a CPC (Cost Per Click) or a CPA (Cost per Acquisition). On this basis, the agency guarantees a price to the advertiser at the time a media plan is approved, before any bidding has taken place.

- The agency takes the risk and must buy better than the guaranteed price to earn a margin. If the agency fails to do so, then the agency makes a loss.
- The CPM quoted to the client is inclusive of all costs, including the media publishers' fees, third party platform fees and any data costs.
- The advantages for an advertiser of the Guaranteed Outcome-based model, is that there is a set price (CPM) to reach an audience; all risk is carried by the agency; and the advertiser is guaranteed an outcome without risk. The advertiser also has less involvement and decision making in the process, which is preferred by some advertisers as it reduces their time and capability costs.
- This model gives the agency flexibility to change tactics mid campaign to better drive results for the advertiser. The advertiser does not have to review recommendations on which third party costs need to be incurred for a marketing campaign, as this model removes risk from the advertiser as well as the need to determine which third party costs are best to execute a campaign.

Itemised model:
The itemised model is the most common model in today's marketplace. Over time, as advertisers invested more in programmatic campaigns, they have sought more visibility over the cost components, in part to ensure they are receiving value for this increased expenditure. As a result:

- This model itemises all costs and fees to be implemented in a campaign in a media plan, so that an advertiser can see and approve the quantity of media, third party data costs and the third-party platform fees used to deliver an audience.
- In this case all risk sits with the client, as the agency is not guaranteeing a price to the advertiser to deliver that audience.
- The agency is remunerated through a service fee which is most often a percentage of the total approved campaign costs, that is an agreed percentage of all costs including media and third-party costs such as data costs and platform fees.
- The agency may alternatively be remunerated by an FTE (Full Time Equivalent) based model where the agency charges a fixed retainer based upon the number of staff required to service the client, that is the direct salary costs of those staff plus an overhead recovery and agreed profit margin on those direct salary costs and overhead. Training and ensuring capabilities are kept up to date are costs met by the agencies.
- An itemised model puts all risk on the advertiser as they must approve the cost components on the media plan and pay those costs regardless of outcome.

- The advertiser takes a more active role in agreeing the media, data sources used as well as the platform, therefore also creating more involvement and work for the advertiser. This may not suit all advertisers who would rather their media agency manage these components to deliver a guaranteed outcome.

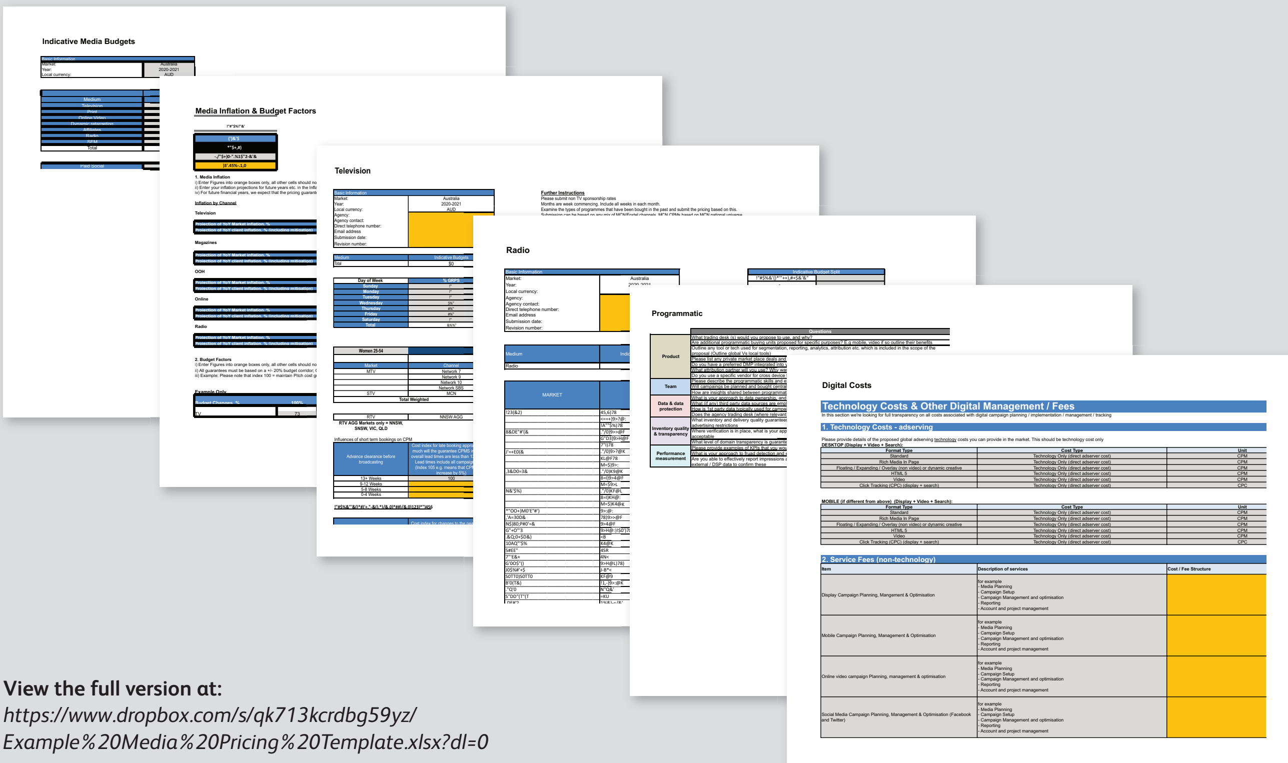
Under either model that an agency may agree to implement with an advertiser, it is always clearly defined in the contractual agreement with an advertiser as to what visibility it is agreed the advertiser has in regard to the programmatic supply chain. This principle is reinforced in the MFA Transparency Framework signed onto by all MFA members.

D. Increasing pressures on pricing and margins

Advertisers are hard bargainers and understand the strength of their market power over media agencies competing for their business. For media agencies, the pressure from advertisers on pricing and margins is ever present and has escalated in recent years due to intensified competition between media agencies and other suppliers, and changes in advertiser procurement and payment practices.

Prices and margins are openly provided to advertisers in line-by-line detail in the tender and evaluation processes through pricing templates. This level of detail is what the majority of advertisers demand and obtain. The most common programmatic pricing model, the itemised model, gives the most visibility over the cost components of programmatic campaigns. The guaranteed outcome model provides less visibility but is still preferred by some advertisers, albeit a declining proportion. Whatever model is applied, prices and margins are subject to forensic scrutiny by advertisers, their internal procurement departments and external advisors.

PRICING TEMPLATE - Example



View the full version at:
https://www.dropbox.com/s/qk713kcrdbg59yz/Example%20Media%20Pricing%20Template.xlsx?dl=0

While pricing has been squeezed, media agency costs have risen in line with greater sophistication and customisation of service offerings. Digital marketing solutions for advertisers involves costs for each element across the supply chain, including technology, data and resource costs, which are based on those services provided. Significant investments in people and technology have been vital to the industry's competitiveness and value to the advertiser but, combined with costs incurred in the digital advertising supply chain, have increased the cost of doing business for agencies in recent years (source: annual MFA Cost Benchmark Report).

Extended repayment terms for media bought for advertisers has created additional pressure on margins for media agencies. MFA's policy on Australian Media Vendor Payment Terms recommends that media agency client contracts reflect payment terms that are in line with their payment term agreements with media vendors. Australian mainstream media vendor payment term agreements range between 30 to 45 days from date of invoice. Where the media vendor provides the agency commission/discount, in order to qualify, payment to the media vendor must be made within the agreed payment term timeframe irrespective of whether the advertiser has paid the agency. There has been increasing pressure from advertisers, particularly larger global firms, to increase payment terms to 90-120 days.

The US-based Association of National Advertisers recently released Payment Terms: Current Practices for Marketing Services, which seeks to identify the extent, impact and remedies for a practice that is shifting cash flow pressure onto media agencies. Among other things, the report identifies that Agency fee payment terms are among the longest within marketing services, driven by the competitiveness of the market; '*There was the perspective that some agencies often offer up less resistance and have more willingness to extend payment terms when asked. A common perspective in our qualitative discussions was, this is a reality. Agencies are in a tough position and most don't have a choice when asked to extend terms.*'. Extended payment terms are especially problematic for smaller agencies and other smaller players in the supply chain.

E. Value for money for advertisers

Media agencies focus foremost on developing effective digital marketing solutions for advertisers. Advertisers demand value for money. As discussed, several characteristics of the contemporary market combine to put advertisers in prime position to choose agencies that provide value for money, particularly the:

- Bargaining and market power of advertisers;
- Advertisers' keen focus on price and preference for the best fixed price;
- Industry norm of rigorous and regular tenders, evaluation and audit processes;
- Increasingly stiff competition in the supply of digital services through incumbent and new entrants, and new specialised and commoditised service offerings; and
- Standard practice of non-exclusive contract appointment, 90 day termination without cause provisions and 2 year contract terms.

In addition to market pressures to deliver the best results for advertisers, the MFA has worked with its members, media partners and across the ecosystem to drive increasing transparency, measurement, brand safety, and accountability. In section 5 below, we detail our existing and future industry initiatives on transparency in the digital value chain.

5. Industry initiatives to improve transparency and accountability

The MFA recognises that many advertisers lack a good understanding of digital marketing - as compared to the traditional TV, print and radio channels. This has contributed to the growth in media agency businesses that do understand digital and can innovate in a competitive, dynamic market. However, the MFA recognises that the increasing complexity of services and the range of intermediaries in the ad tech supply chain may have made it harder for some advertisers to understand precisely where their money is spent and how each component contributes to the overall campaign delivery.

MFA's Transparency Agenda, a program of digital marketing transparency aids and activities, aims to deal with those concerns and is an ongoing high priority for us and our members. We have reached some critical milestones, but we see this as a work in progress because the market has been transforming rapidly and is relatively young. The MFA is not only focused on negotiating robust frameworks on transparency and digital advertising practices but importantly also on embedding best practice across our members, equipping them with the tools and training to fully comply, and implementing measures to ensure compliance.

We have worked cooperatively with advertiser groups over several years to develop and implement best practice industry standards that improve transparency in this complex, highly dynamic market. We support the work of the Australian Association of National Advertisers (AANA) and have worked closely with this peak body for advertisers in educating advertisers to make sure that before contracting for services they are aware of the role of any intermediaries in delivering marketing services, the value of these services and agency affiliate relationships.

Over recent years, as digital marketing has increased its role in advertising and become more complex and sophisticated, the MFA has worked on several fronts to improve transparency and accountability for advertisers. We have done this in partnership with the leading groups representing advertisers to ensure that we are addressing their core issues of interest. We have summarised the key initiatives below and would be pleased to elaborate.

- In 2015, the MFA commissioned PwC to report into media agency transparency, which identified the key issues of interest for advertisers, the drivers and suggested solutions.

  This report culminated in the MFA Transparency Framework, signed onto by all members, which set expectations for Agencies and Advertisers in the identified key issue areas for advertisers.

  The MFA have been working with members to update the MFA Transparency Framework to address the issues raised in regard to the Digital Advertising Value Chain and expect to publish version 2, an updated framework in the coming months.

- In July 2018, the MFA, AANA and the Interactive Advertising Bureau (IAB) jointly published the Australian Digital Advertising Practices as an important and unprecedented initiative to increase knowledge and understanding of the digital value chain. Whilst the practices were developed for the advertiser, they also serve to educate and inform all players within the digital ecosystem including agencies, publishers and ad tech vendors.

  A cross-industry team of advertisers, media agencies and digital publishers, assisted by a broader network of subject matter experts developed the Australian Digital Advertising Practices. The practices focus on 4 key pillars: Digital Transparency, Viewability, Ad Fraud and Brand Safety and Data Transparency and are based on 5 principles: champion the consumer experience; educate to inspire change; shared ownership and responsibility; every value chain is unique, and; fair value for outcomes delivered.

The practices are used locally by MFA members to educate their staff and clients, have been conveyed to over 40 % of MFA agency employees through the MFA Digital Foundations Certification training program and have been shared and used globally within our member agency networks.

The AANA, MFA and IAB have been reviewing and updating the Australian Digital Advertising Practices to reflect the changes in the digital ecosystem, new technology and regulatory change, and will release the updated version in May. The updated practices along with a cross-industry training and education program will be rolled out to advertisers and agencies. We are focused on training for and embedding best practice standards across the industry.

- The MFA worked with the AANA over an 18-month period in providing input and feedback on the AANA's revised media contract template released in August 2019 and assisting to create the accompanying Guidance Notes. Our aim has been to ensure a practical and workable tool that is mutually beneficial for both advertisers and agencies and advocates for transparency and identifying value in the supply chain.

  The MFA recognises that some of the issues of opacity as they pertain to media agencies, can and should be addressed in the contract between an advertiser and agency and that transparency and disclosure to advertisers should form part of an agency's contractual obligations, should this approach be what both parties intend.

The MFA and its members have responded proactively to the transparency issues raised in the ACCC's Digital Platforms Inquiry report, which identified some continuing concerns in parts of the market about understanding of the digital value chain and transparency in industry practices across the supply chain. We have accelerated the efforts we have underway.

As with measures we have already put in place, detailed above, these are not simple or quick fixes given the dynamics of technology and the market. It requires detailed discussions, open negotiation, and documentation in agreements that are effective, achievable, minimise compliance costs to the extent possible, and most importantly, will stick. The MFA believes that robust design and rigorous application of best practice standards by the industry, in collaboration with advertiser groups, has improved standards to date. But we need to go further.

Our forward program with members, will specifically focus on four fronts:

- Ensuring industry understanding and compliance with the 2020 updated best practice standards, the MFA Transparency Framework for Agencies and Advertisers;
- Ensuring industry understanding and compliance with the 2020 updated version of the Australian Digital Advertising Practices;
- Implementing a training program to assist industry awareness and compliance; and
- Measures to assure compliance with the upgraded best practice standards.

The MFA believes that the information we have laid out is important context and input for this inquiry.
We would be pleased to provide further information.

Sophie Madden
CEO, MFA