

HOW TO MAKE MEDIA AGENCY CONTRACTS DELIVER IN THE DIGITAL AGE

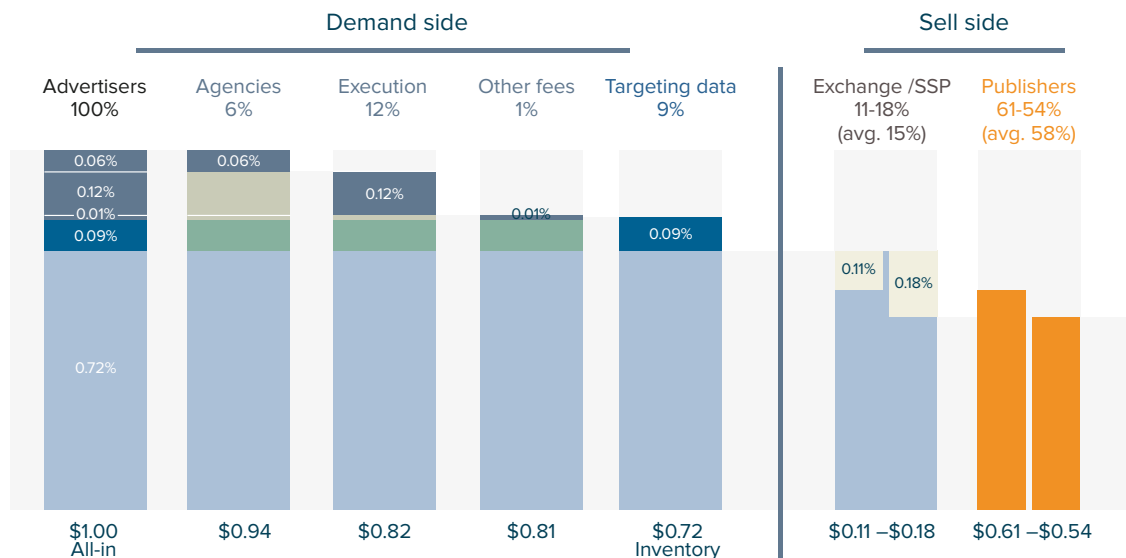
In recent years, digital advertising has become increasingly complex. The growth of programmatic media trading has made the market more complicated yet. Deals today are more varied than ever, and the growth in adtech has changed the supply chain out of all recognition.

During this period of change, media agencies have developed their digital service offerings – blurring the line between buyer and seller – and created a matrix of connections between media, data, and technology suppliers. As a result, the proportion of ad budgets invested in non-working media has increased dramatically. Our 2017 study with AD/FIN found that typically more than 40% of digital investment goes on the so-called “tech and data tax” before any money reaches publishers.

Few agencies have educated advertisers about these developments and their implications. As a result, many procurement and legal teams in advertiser businesses have little understanding of the intricacies and complexity of the digital market. Therefore, contracts are often not written in an advertiser’s favour. They leave room for misunderstanding of which services an agency should provide and what monies they should bill and pass back to advertisers.

What’s more, we often find that contracts contain clauses explicitly preventing advertisers from obtaining full access to digital data for the purposes of auditing contract compliance.

HOW EACH DOLLAR MOVES THROUGH THE SUPPLY CHAIN



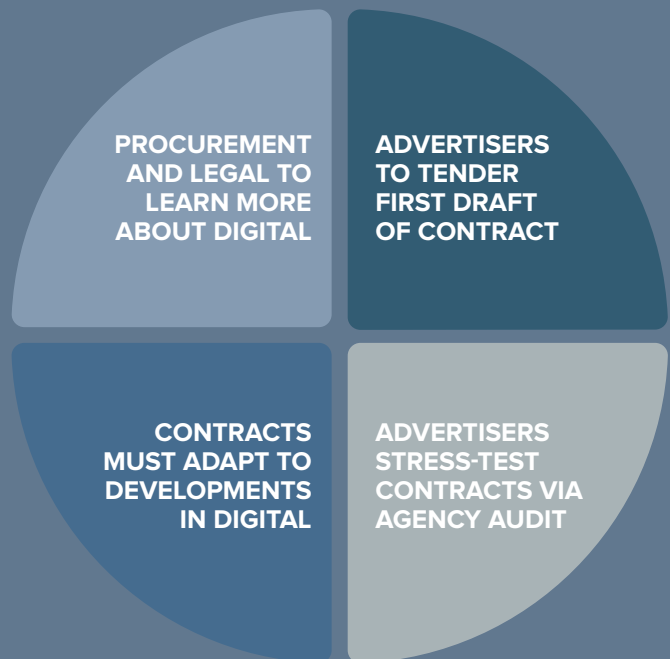
Data from *Programmatic: Seeing Through the Financial Fog* report, produced with AD/FIN



At FirmDecisions, we advise advertisers to take four steps to reduce risk and secure increased transparency over digital marketing investment.

As Federica Bowman, Managing Director, Digital at FirmDecisions, says: “Advertisers should insist on transparency of where the money goes and aim to keep the supply chain as efficient (yet effective) as possible. This allows them to keep control over the waterfall on non-media costs and all the intermediaries in the digital media trading supply chain.”

In summary, advertisers have a responsibility to keep informed of changing market dynamics. And contracts need to balance opportunities and risks and so maximise transparency in digital trading.



Procurement and legal need to learn more about digital media trading so that contract negotiations can take place on equal terms. Learning should be from an independent source.

Advertisers should tender the first draft of the contract. All needs should be spelled out in this draft, a starting point for discussions. Be clear about what is and what isn't negotiable.

Contracts should adapt with changes in digital investment and be reviewed at least annually. Updates should reflect prevailing best practice.

Advertisers should stress-test contracts by auditing agencies. This highlights risks, especially around resource fees, production costs, and financial transparency.