DigiChat with Andrea: Digital media services remuneration

By Andrea Mitchell

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In an industry faced with increasing competition, an explosion of media options, a shortage of skills and clients demanding more for their buck; how do media agencies stay afloat?

When it comes to digital media, it becomes even more complex. Due to its measurability and various other factors, digital media requires more specialist skills and head-count to manage a myriad of various disciplines beyond strategy, planning and buying; such as implementation, reporting, optimisation etc. Should brands pay more for digital media services, and if so, is this a deterrent to digital media revenue growth? Does it really require specialists to manage digital media, and where else are media agencies making up for the shortfall in revenue?

I chatted to a few agencies on the matter.

It's no secret that digital media is far more time intensive to implement and manage (thanks to all the measurement technology available) than traditional media. Do you think brands understand this and if so, are they willing to pay more for it?

Melissa van Zyl, connection analyst, M&C Saatchi Connect: Brands are becoming more aware and willing to pay for it. There is however a disproportionate amount of budget being allocated to digital. When ecommerce becomes more mainstream in South Africa, budgets will increase. The size of the digital audience needs to increase before we'll see an increase in digital media budgets. The larger the audience, the cheaper it becomes. For more niche audiences, expect to pay more. The potential is there, but until behaviour catches up, digital remains a niche media buy. Advertisers are prepared to pay a premium for niche inventory, as long as they can measure the impact on their investment; but to load extra cost onto the planning and management process would make it too expensive for now.

Richard Lord, associate media director (head of digital), The MediaShop: In my experience most advertisers and their agencies do not fully understand the time involved not only in formulating digital media strategies and developing plans, but also the time it takes to manage a campaign after it goes live. There is a whole lot of tracking and reporting that happens in digital (that is not possible in the traditional media space). These reports are essential in ensuring that advertisers get the most out of their campaigns and the best return on their investment. The tracking, optimising and reporting of campaigns is probably the most time consuming part of the process and also the most important. This absolutely should be charged for and it is certainly in a client's best interest to pay for it, but many clients do not yet fully understand digital as a medium and what it can do for a brand, and so they view it in the same light as traditional media in terms of how it should be paid for.

Debbie Ihlenfeldt, media consultant, TAG8Media: There certainly are clients who are prepared to pay - clients who understand the back-end support (staff) and time required to deliver quality thinking, insights and planning. However, there are also many clients who are still dragging the 'broken' traditional media model into the digital world who aren't prepared to pay. For me, it's a simple answer to what is becoming a complex issue: Inform your clients of the resources required to service their account, at fair market related prices and be transparent about margins and discounts.

Matthew Arnold, head of media, Native VML: I don't think that the majority of SA brands understand the level of implementation required as the most of this work sits behind the scenes. In addition to this is the misconception that digital

media is quick and that you can make a campaign live in minutes. In order to gather the valuable data that makes digital such a strong channel, everything has to be set up and tagged strategically, and the process for doing so takes time. Brands understand lead times for traditional media (regardless of campaign size) but often don't grasp the difference between a small and a large digital media campaign and the resulting implementation times. At the end of the day the brand wants to see value for their money and the output of the digital media implementation needs to provide that. If they are able to see the increased cost translate into more optimisations, better results and stronger insights, then yes, I believe brands are willing to pay more for it.

Tanja Schreuder, director, Vizeum South Africa: Due to the fact that digital is decentralised in many cases, where your traditional agency is not necessarily planning off-line and digital media, clients are familiar with paying separate retainers. However, not all clients understand that digital requires more resources due to the required optimisation and reporting available. In addition, with the smaller volumes of digital media, this also requires higher retainers to cover resources. In our experience however, clients are willing to pay to cover the resources required to ensure adequate implementation, optimisation and reporting, which results in customised resource models.

Joanne Scholtz, founder, Digital Warrior: We're 15 years into digital media strategy, planning, buying, optimisation and reporting thus I think most respectable brands understand this. There is evidence to illustrate:

a) Many brands have moved away from straight commission for digital services, to resource allocation and performance incentives. With such an array of new roles and requirements, such as PPC specialists, Community Managers, etc. many clients pay for services rendered rather than commission.

b) Many brands pay between 10% and 16,5% for digital services (on average 5-8 times more than their traditional media costs). Although, as we're moving away from Paid, to more Owned and Earned media, we'll see fewer companies paying straight commission for digital media services.

Unfortunately, there are still companies that force the digital agency's hand, with globally agreed rates that are very difficult to manage in the local market. And then, there are some unscrupulous marketers who demand lowest rates and encourage dodgy kickback and undeclared-discount behaviour from agencies. As more agencies and brands become SOX compliant, complete transparency is growing and digital practices are more ethical.

Is digital media a specialist area that requires a different type of Strategist, Planner, Buyer and/or Trafficker to traditional media?

Van Zyl: Actually, traditional media planners bring a considerable amount of perspective into the digital planning mix and in theory would make for strong digital strategists. Whilst planning complexities exist across all channels, it's the management of online campaigns that calls for special attention and causes apartheid between disciplines. The strategic principles are the same. They may play out differently, as consumer behaviour continues to evolve across platforms, but once again, traditional media perspective places these dynamics in context. It is my belief that traditional strategists should work at becoming digital experts and digital strategists should work to become media experts. In this way, advertisers' expectations from each channel can be benchmarked and touch-point objectives can be realistically allocated.

Lord: Absolutely. Most traditional strategists are just as guilty as clients of not understanding digital media, what its role is within the media mix, and what it is able to do for a brand. On the flip side however, I also believe that not many digital strategists also fully understand traditional media, its role and what it can do for a brand. I do believe that going forward, it will be imperative for successful strategists to understand both the traditional and digital media landscapes and what the relationship is between the two. But it most certainly does require a certain level of expertise to get the most out of digital currently - particularly on the trafficking and campaign management side of things.

Ihlenfeldt: Not a simple answer: All great media strategists need to have an understanding and perspective and opinion of the digital landscape to help provide strategic direction. However, digital covers so many sectors: Search, Display, Social, Mobile etc. and it can become quite technical. Collaborating with specialists at certain levels may therefore be required. The language that digital planners use is also different to the language that traditional planners use, so when it comes to the technical planning and implementation of digital, up-skill the staff who come from a traditional background so that they have the confidence to embrace digital. However, depending on the complexity of the brief, the target market and the budget, you may have to use a combination of both digital specialists and traditional staff.

Talk to some of the top digital thinkers and you'll discover there is a shortage of strong digital strategists and planners, certainly the great all-rounders who 'get it all'. So, because the great ones are too busy, one may have to collaborate with a few specialists when it comes to strategy, planning, optimising and buying on your digital strategy.

Arnold: I don't believe that digital media requires a special type of strategist, planner or buyer. Someone experienced in traditional media will have the basic skills required to shift across to digital. However, the most important factor is the familiarity with digital channels. The best digital strategists are those who consume a lot of digital media and actively engage online. Understanding the various channels will come quickly to someone passionate about digital, but as always, there is still no shortcut to experience. When it comes to traffickers/campaign managers, I do feel that you need someone with a specific skill set that has experience with various ad-serving technologies, tagging and basic Flash understanding. Anyone can (and many do) plan and implement digital media, but not many people do it well. That combination of passion and experience is the key ingredient to excellent digital media work.

Schreuder: Consumers don't live in media silos, they move very fluidly through different platforms to access content. On a strategic level, great Channel Planners will be able to access the role of communication across all bought media platforms. Where a specialist becomes relevant is in the implementation, optimisation and reporting phase of digital.

Scholtz: The simple answer is YES, specifically when it comes to implementation and optimisation. Media strategists should be versed in all communication channels and an integrated approach should be presented to clients. However, strategic digital insights can be gleaned from the implementation and therefore input should be sought from all the various resources.

Digital planning and implementation requires understanding of a range of channels: Search, Social, Mobile, Online, Networks vs Premium, etc. In order for planners to be on top of their game, specialisation is definitely required, but not always possible for smaller agencies.

There are also very specific roles unique to digital platforms, i.e. PPC specialist, Performance Manager, Community Managers, etc. An agency worth their salt would have depth in all of the various channels.

The best Communication and Media strategists, are those who bring all communication channels together, allowing the most suitable/relevant/effective channel to lead; while digital strategists ensure the best approach to digital.

Do you feel digital media services should be charged out at a higher rate than traditional media?

Van Zyl: Traditional media players have prostituted themselves out to the extent that it is difficult to make revenue providing the most basic of services to marketers. The opportunity for digital specialists to collaborate and agree a base line fee is eminent, before the competitive arena becomes too aggressive. That being said, it is my view that if done properly, traditional media planning brings diverse and high level skills into play. Understanding of trending population demographics, geographic and psychographics over and above multiple channel and message management would place traditional planners on equal, if not higher footing that their digital counterparts.

Lord: Yes - simply because of the additional time and effort that goes into the planning, negotiating, implementing and managing a digital campaign.

Ihlenfeldt: Yes, digital media services should be charged at a higher rate than traditional. Firstly, the traditional model is outdated and not profitable unless you have massive economies of scale in terms of media billing and staff / infrastructure to service this billing that in turn enables you to reduce your margins. But, without getting into an industry old debate, let's face the facts; until digital media ad spend (not at an industry level but at an agency level), becomes an income stream that enables us to reduce our profit margins, the cost of overheads relative to income is not at that level yet. And there is a shortage of qualified staff which means your overheads just keep climbing, especially if you want to retain good staff. Not your client's problem? Well, it's a 'problem' that should be shared if the client wants quality thinkers, ideas, reporting, optimising etc. on their business.

Arnold: Yes, I believe that the additional work involved when it comes to the implementation of digital campaigns warrants a higher rate. This is clearly the case when it comes to large performance based campaigns that require extended sets of creative to be uploaded, uniquely tagged and then reported on. These campaigns generate a large amount of data that has the potential to both empower and overwhelm. In contrast to traditional media, digital media provides the opportunity to optimise a campaign, which is a very labour intensive process as even though everything is getting more automated, it still requires daily or even hourly monitoring and adjusting to get the best results. This snowballs into reporting as brands require more frequent and specific reports for digital media due to the dynamic nature of the medium. All of this relates into more time spent on each campaign and therefore agencies should be remunerated accordingly.

Schreuder: All fees are based on resources required and should be structured accordingly. There are also economies of scale when looking at volume of investment. In many cases, bought digital media budgets are still smaller than on traditional platforms, so they would require a resource fee based on the output required, which would mean a higher percentage extraction rate to cover resource.

Scholtz: Yes I do - if on commission. If based on resources / head-count, then in-line with market standards.

Are media owner "kickbacks" a viable option to remain profitable on digital media services, and is this ethical?

Van Zyl: It's happening whether we agree with it or not! A very personal opinion, is creativity in the way space is procured is entrepreneurial and will be a core differential between agency offerings in the future. There will be many who feel that media owner kickbacks are unethical, but as long as it's a transparent relationship with the advertiser, I don't see why not.

Lord: The MediaShop does not enter into such deals, nor do we believe that it is ethical. The money that is used to negotiate these deals does not belong to the agency. It belongs to the client and for an agency to benefit financially by making deals with a client's money (particularly if the client is not made aware of this, or given a share of the cut) is simply not right. If I can negotiate a deal with my client's money, then my client should benefit from that deal. In addition, if I know that media owner A is giving me a bigger kickback than media owner B, I am naturally going to be more inclined to spend more money with media owner A regardless of whether it is in my client's best interests or not.

Ihlenfeldt: The simple answer is no. Kickbacks are not ethical but a lot of agencies are 'doing it' because they start off offering a lower price to clients just to pick-up the business, knowing they will make up the lost margin through 'kickbacks'. Never a good idea and it's not sustainable as a business model.

Arnold: There is no doubt that digital media agencies are finding it difficult to remain profitable given the increased pressure from brands to shrink agency fees. Any agreement or action that may unduly influence the media mix (deviating from the ideal strategy for a client) would be a problem in my view. Similarly, going against any client/agency contractual relationship would be a major breach of trust. I would encourage clients to engage in discussions with their agencies around the agency's billable rates, overhead rates, required profit levels and commission structures so that both parties can openly discuss the financial aspects of their relationship. If media agency and client work together in a transparent manner it will result in a better working relationship for both.

Schreuder: The focus should rather be on ensuring that services are properly reimbursed and resourced to ensure impartiality and best of breed capability on a client's business.

Scholtz: Personally, I believe transparency is key and it's all dependent on the client agreement whether you get to keep the volume-based kickback or give it back to the client. If you're hiding anything, my assumption would be that it's unethical.

Conclusion:

It's clear that digital media requires more resource allocation and specialisation than traditional media. Brands need to understand this if they hope to achieve the desired results from their digital media initiatives and investments.

For those media agencies struggling to turn a profit, it's difficult to avoid the lure of Media Owner kickbacks. It's happening, at an alarming rate (with or without clients' knowledge). It's crucial that brands set clear performance goals and ensure that the media agency is held accountable for delivering on these objectives. Digital Media performance assessment needs to reach beyond reach and frequency goals to include leads, sales and brand exposure. In this way the agency is being paid and rewarded for the value they create. When accountability is a factor, and results are delivered, it matters not how or what the agency is remunerated, but rather that the brand receives results that impact the bottom line positively - for both brand and agency.

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