

IS MY RATE TOO HIGH?

We've been consulting to marketers on media effectiveness and efficiency for seven years now – yet despite the increasing role of contact management, the need for greater engagement, the development of online and the increasing of content creation, the one question we keep getting is simple – “Is my rate too high?”

Unfortunately, answering that question is not at all simple. Every marketer has their own objectives, their own target audience, their own media buying cycle, periods for advertising, etc – all factors which have a significant impact on the media cost. Recently in one analysis in China for two brands in the same company, the brand with half the adspend has a Cost Per Rating Point (CPRP) of roughly half that of the larger brand. Go figure. Likewise another sports company's rates were quite high versus others – until we learnt there was a specific request to only advertise in sports shows, thereby significantly reducing inventory on offer

In theory (in a perfect market), rates paid should be determined by matching supply and demand. For example, the supply of media airtime or media space (e.g number of prime time spots available on a particular station, or ad pages in a magazine) verses the demand from advertisers:

- Limited number of ad units vs high demand = higher rates
- Wide choice of ad units vs low demand = lower rates

In practice media is bought and sold in an imperfect market where accurate information of space available and real demand from advertisers is not usually freely available.

Few individual advertisers or media agencies have sufficient buying power to truly influence demand – partly explaining why agency holding companies have combined their buying power to try and exert more pressure.

Supply and demand is important but there are numerous other factors that also influence rates paid for example human factors such as the actual skill and experience of the person doing the negotiations.

MACRO FACTORS

Client ad spend	Bigger clients should expect to pay less for their rates than smaller clients.
Client involvement	Big clients actively involved in top level media negotiations will inevitably get better rates.
Agency ad spend	Agencies will argue that the biggest agency will get the best rates – but this is not always correct. Big agencies certainly have the best resources and can usually employ some of the best people.
Agency team	Experience of the team and the involvement of senior agency management will strongly influence costs.
Targets and benchmarking	Setting upfront negotiation targets and setting negotiation strategies will reduce costs. Benchmarking vs year on year and vs market costs will force down rates.
Seasonality of spending	Rates at peak demand periods, such as CNY, will be higher than low demand months.

MICRO FACTORS

TV Channel mix	Some channels are more expensive than others. Some try to charge a ‘quality premium’ or exploit their position in the market.
Share of spend by channel/media	Usually a higher % share budget committed to one media / TV station and a lower share spent with a competitor should result in lower rates.
Year on year spending	Media owners will usually reward increases in year on year spending and penalise budget drops.
Quality metrics	The type and quality of ad units bought will influence rates, e.g. peak time spots cost a premium to off peak spots.

Here are four things we recommend every marketer does.....

1. Set – and reward benchmarks

Too few marketers have a rigorous system of benchmarks in place to track year on year performance. Even a number of the ones that do, don't link that back to tangible incentives for the agencies. That said, when you change target audience or budgets, you need to factor this into the coming year's calculation.

2. Use an independent analysis company

60% of the UK's media is independently analyzed, and this trend is increasing in other regions. Independent analysts work with a number of clients across different media holding companies, giving us insights into different approaches and practices. Every year, every public company invites an independent financial analyst in to review their balance sheet and revenue statement. They should be doing the same with their media investment.

3. Look beyond the rate

A simple rate comparison will never give you the right answer on your media performance. Just as TV buying is only a small part of what your media agency does, so it should be only a part of the total assessment. There are so many macro and micro factors from the brief to the insights to the strategy to the negotiation approach that should be analyzed and considered.

4. Get involved

Taking a collaborative approach with client, agency and media owner together can only result in a more competitive offer. You need to do this without undermining the important role of the agency in the process, but it will give you greater confidence and transparency on rates, as well as give you greater leverage with a collective effort.

With the economic downturn, there's going to be more disparity than ever on media value. Unless you put the tools in place to measure yours, you will get left behind

Greg Paull is Principal of R3 (www.rthree.com), a consultancy focused on improving marketing efficiency and effectiveness