The Acceleration of Principal Media

What Marketers Need to Know

MAY 2024

EXECUTIVE SUMMARY PAGES 7–9

ana.net/principalmedia

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I. OVERVIEW

Principal media has been getting increased attention, and marketers need to be aware and knowledgeable.

For years, advertising agencies have acted as "agents" for their clients. That's where the term "agency" comes from. An agent is authorized to act on another's behalf, with their best interests in mind. Increasingly, advertising agencies are now offering services where they (or their affiliates) are acting as "principals" rather than agents. That means they acquire media (or rights to media at certain rates) for their own benefit and sell the media to their clients. In this document, when we refer to "principal media," we mean any non-transparent services[1] offered by the agency, which may include services other than media services. The use of principal media for many marketers is growing and the top benefit is reduced cost.[2] **The purpose of this paper is to increase awareness and help educate client-side marketers on principal media — the background, benefits, challenges, and guidelines — so marketers can make an informed decision about the role of principal media for them.**

Characteristics of principal media:

- The agency or its affiliate is not an agent of the client. The agency is the reseller of the media or other service.
- Clients potentially don't know where or how the agency acquired the inventory.
- The principal media is often sourced by a different agency affiliate.
- The agency is delivering media where the actual price (if any) is not disclosed, and the agency markup is not known.
- Principal media is usually positioned to clients based on cost savings and access to better or exclusive inventory.
- The model may include assets other than media, such as data or use of proprietary agency tools/platforms.
- Audit rights are limited. Notably, advertisers can't have access to vendor invoices.
- Agencies ask marketers to opt in to these transactions, unless the marketer/agency contract does not require such an opt-in.

[1]The **ANA Master Media Buying Services Agreement Template Version 3.0** defines Non-Transparent Services as Services or other goods or services offered by Agency (either directly or indirectly) whereby Advertiser is intentionally not afforded full transparency to underlying costs or markup or is otherwise required to give up certain reporting or other rights, such as audit rights, where a member of Agency Group has access to such information. Such services include Inventory Media and [insert Agency's name for its specific types of non-transparent services].
[2]Based on a quantitative survey to ANA client-side marketers fielded in February 2024 which generated 139 responses; details in section V.

I. OVERVIEW

Changes in agency compensation models from marketers have led agencies and holding companies to accelerate the use of principal media. In addition, some marketers have extended their payment terms to agencies. There has been a long-term emphasis from marketers on reducing agency fees, which has more recently been driven by pressure from marketing procurement. Furthermore, the 2016 ANA media transparency report[3] drove awareness of the practice of agencies taking undisclosed rebates from media companies; many marketers then updated their media agency contracts to preempt that practice. Agencies have turned elsewhere for revenue, especially the publicly traded holding companies, given pressure from Wall Street and obligations to shareholders. One well-known industry agency search and relationship consultant[4] told us, "The client side continues to pressure agencies to do more work for a lower fee, so the agency has to make up the shortfall with other revenue streams." Enter the acceleration of principal media.

Many marketers continue to pressure their agencies to "drive media costs down." The 2023 ANA Programmatic Media Transparency report[5] addresses that extensively. According to the report, there is clearly too much focus from marketers on reducing costs, and that can come at the expense of quality and performance. The primary incentive driving programmatic media buying behavior is often cost — getting the most impressions for every dollar. Principal media is often positioned by agencies as an opportunity for media cost savings.

Case Study #1

According to a media executive at a financial services company:

Principal media can have a beneficial role in the overall mix to get high efficiencies on commodity media, especially when faced with unexpected savings requirements. We've successfully used it, mainly with linear TV, to help achieve marketing's contribution to enterprise-wide efficiency goals, as well as to maintain optimal weight in response to ad hoc budget reductions. It's a relatively turnkey lever for savings of 10 to 15 percent on pockets of standardized, "spots and dots," non-biddable media.

You just need to do your homework and have the appropriate controls in place. That includes an agency contract stipulating it's used only on an opt-in, case-by-case basis with prior written approval every time by a designated executive, as well as full post-buy deliverables. Principal media has perfectly valid applications for advertisers that manage it tightly, and I know several client-side media stewards that wouldn't want it removed as one of the arrows in their quiver.

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[3] An Independent Study of Media Transparency in the U.S. Advertising Industry
[4] Joanne Davis, president, Joanne Davis Consulting, Inc. and partner and co-CEO, SCAN International
[5] ANA Programmatic Media Transparency Study Complete Report

I. OVERVIEW

The terms for principal media continue to evolve, and include:

- Capital buys
- Inventory media
- Non-disclosed media/services
- Non-transparent services
- Opt-in media/services
- Proprietary media/services
- Special programming
- Value-based media/services
- Value pots

Principal media has nothing whatsoever to do with the "upfront."

The perspective provided here was informed by the collective guidance of multiple sources:

- A quantitative survey to ANA client-side marketers fielded in February 2024 which generated 139 responses
- Follow-up in-depth qualitative interviews with 16 client-side marketers who took the survey
- Input and review by interested members of the **ANA Media & Measurement Leadership Council**
- Input and review by outside subject matter experts, including:
    - Legal: Reed Smith
    - Media Auditors: Cortex Media, Media Market Compliance, PwC
- Other relevant work from the ANA (including the 2016 K2 report) as well as coverage in the advertising trade press

> **"While principal media can indeed provide the benefit of cost savings, marketers need to go into such deals with their eyes wide open."**
>
> **— A MEMBER OF THE ANA BOARD OF DIRECTORS**

I. OVERVIEW

This project builds upon the work of the **Global CMO Growth Council**, which was established by the ANA and Cannes Lions to focus on driving enterprise growth. The CMO Growth Council has identified four global growth priorities and a 12-point industry growth agenda.

Media and Supply Chain Transparency is a key area of focus for the ANA Growth Agenda, under the Brand, Creativity, and Media growth priority. Marketing Organization and Agency Management is also an area of focus, under the Talent and Marketing Organization growth priority.

II. EXECUTIVE SUMMARY

Principal media has been getting increased attention, and marketers need to be aware and knowledgeable. The purpose of this paper is to increase awareness and help educate marketers on principal media — the background, benefits, challenges, and guidelines — so they can make an informed decision about the role of principal media for them.

Increasingly, advertising agencies are now acting as principals rather than agents. That means they acquire media — therefore becoming the owner, or "principal," of that media — and resell the media to their clients.

Changes in agency compensation models from marketers as well as pressure from marketers to extend payment terms and "drive media costs down" have led agencies and holding companies to accelerate the use of principal media.

Although principal media has been getting increased attention, it has been around for at least 10 years. The 2016 ANA-commissioned report **"An Independent Study of Media Transparency in the U.S Advertising Industry"** from K2 Intelligence notes it extensively. According to an auditor, in the past 18 months, "it has been seen everywhere."

A fourth quarter 2023 article in Digiday[6] credits "a robust media buying business" for holding-company growth. The article goes on to say, "The key takeaway here is that media often acts as the primary driver of growth for agency holding companies, perhaps because they derive margins from arbitrage around media buying."

According to ANA research among client-side marketers:

- Only about half (48 percent) of survey respondents are "very familiar" with principal media. Meanwhile, 39 percent are somewhat familiar, and 13 percent are not familiar. This overall lack of knowledge is concerning.
- "Principal media is ubiquitous," according to one survey respondent. Television and the open web are the most common media types. But other media and non-media are also used: digital walled gardens, audio, search marketing, print, influencer marketing, and research.
- About half (47 percent) of respondents have used principal media in the past year. Just over a third (35 percent) have not, and 18 percent — almost one-fifth — don't know if principal media has been part of their company's media activity in the past year. It is concerning that 18 percent of respondents don't know.
- Forty-one percent of respondents expect to use principal media over the next year.
- It's more likely that larger advertisers, companies with a 2023 total annual U.S. media budget of $200 million or more, have used principal media in the past year (62 percent) than smaller advertisers have (47 percent). It's also more likely that larger advertisers expect to use principal media in the next year (55 percent) than do smaller advertisers (34 percent).

[6] **Why media agencies remain the cornerstone of hold group profitability: Digiday, October 31, 2023**

II. EXECUTIVE SUMMARY

- The use of principal media is increasing for 24 percent of respondents and staying about the same for 55 percent. The key reasons that the use of principal media is increasing:
    - Marketers are increasingly looking for greater efficiencies in their media buys.
    - Agencies are more aggressively recommending principal media solutions, often as a result of reductions in traditional agency compensation.
- The top benefit of principal media for marketers is reduced cost, followed by the benefits of better inventory and access to exclusive inventory not otherwise available. There was mixed feedback in our one-on-ones regarding the benefits of better inventory and access to exclusive inventory.
- There are challenges for marketers with principal media.
    - The top challenge is uncertainty if the recommended media is in the client's best interest. Multiple qualitative interviewees had concerns about conflict of interest, and one specifically told us, "I don't know if my agency is recommending principal media because it's the best media for me, or the best media for them."
    - Other challenges include loss of audit rights, lack of visibility on agency profit, and loss of quality in media placement.
- Principal media was part of an agency pitch for about one-quarter (27 percent) of those that have done an RFP before engaging their current agency.

It is imperative that marketers have guidelines for the use of principal media. Those guidelines should include:

- It is of the most importance to ensure that the contract with your agency is up to date with clear language to address principal media. Refer to section 9 of the **ANA Master Media Buying Services Agreement Template Version 3.0** for suggestions on how to address principal media (referred to as "Non-Transparent Services") in your agency contract.[7]
- The agency should be required to provide a clear business case detailing why principal media is recommended and is consistent with the marketer's media strategy, objectives, and buying guidelines, and is in the best interest of the marketer. There should always be options presented that do not consist of principal media.
- Have a clear internal approval process for the use of principal media. Have your own media department (or alternatively, a media auditor should there not be an internal media team) evaluate the proposal for reasonableness and to see how it compares to historical and/or market pricing and any agreed-upon agency goals and KPIs.
- Final approval should be centralized with a single, senior-level person to coordinate the company's total ongoing investments in principal media. Approvals should be done for each purchase in advance via a separate document or approval process.
- Require that principal media be clearly identified on media flowcharts. Do not accept vague language such as, "Principal media may be included." Require specifics.

[7]All advertisers should ensure that they bespoke their agency contracts and work with qualified counsel to best protect their interests.

II. EXECUTIVE SUMMARY

- If principal media will be part of your media strategy, consider a cap for principal media — that is, it will be no more than X percent of the total budget for a specific period of time.
- Auditing of principal media transactions should be allowed in the same way as for regular agent-based transactions. The only difference is that the agency would only provide access to the costs charged by the agency (or its affiliate as applicable) to the advertiser instead of the costs paid to third-party vendors.
    - Proof of performance metrics and access to transaction data should be made available for principal media with the same level of detail expected for agent-based buys. Those could include (but are not limited to) impressions, CPMs, outcomes, viewability, and IVT.
- Understand the impact that principal media would have on rebates that otherwise would have been earned under a non-principal media buy.
- Consider whether commissions or fees that would normally be paid to the agency for the management of agent-based transactions should or should not apply to principal media buys. Keep in mind that the agency will be making a profit through markups on these purchases.

See **section VII** for the guidelines in their entirety.

III. PRINCIPAL MEDIA IS NOT NEW

Although principal media has been getting increased attention, the concept is not new. In April 2016, *Ad Age* published the article **"Risky Business: Why Media Agencies Are Betting on Principal-Based Buying."** That article quoted GroupM Chairman Irwin Gotlieb publicly acknowledging at the 2015 ANA Advertising Financial Management Conference that the relationship between media agencies and clients had gotten to the point that the term "agent" no longer fits. "You cease to be an agent the moment someone puts a gun to your head and says 'These are the CPMs you need to deliver,'" he said.

June 2016 saw the release of the ANA-commissioned report **"An Independent Study of Media Transparency in the U.S Advertising Industry"** from K2 Intelligence. Section 4.3 from that report is titled "K2 Found Substantial Evidence of Potentially Problematic Agency Conduct Concealed By Principal Transactions." Relevant highlights from that section:

- As described by multiple sources, one of the most common types of principal arrangements is one in which an affiliated entity within an agency holding company structure (e.g., an ATD) acquires the media. The AOR then purchases the media from the ATD at a significant markup and sells the media to the advertiser at the AOR's cost and with a waiver of the typical agency fee.
- According to information provided to K2, markups on media sold through principal transactions can range from approximately 30 to 90 percent. Sources also indicated that, as a result of these higher margins, media buyers are sometimes pressured and/or incentivized by their agency holding companies to direct client spending to this media, regardless of whether such purchases are in the clients' best interest. In addition, sources have stated that the agency may not disclose to the advertiser that premium media is unavailable through certain principal transactions.
- Multiple sources told K2 that agencies engage in "advance buys" of digital media — i.e., purchases in advance of an advertiser's need for such media — in order to obtain discounts. Following an advance purchase, there is a window of time during which the purchased media must be used. Therefore, an agency theoretically runs the risk that it will realize a loss if it fails to resell the media within the specified time period. Sources reported, however, that agencies take specific steps to greatly minimize that risk.
- During the course of this study, K2 found substantial evidence that the lack of transparency inherent in principal transactions enables agencies to engage in potentially problematic conduct — i.e., conduct that may not be in the advertiser's best interest.
- Sources told K2 that principal deals were attractive to advertisers for two main reasons: (1) the cost of the media appears to be lower, and (2) there is no agency fee for principal deals.

Despite the fact that the K2 study is now eight years old, the subject matter experts who provided guidance for this report (see the **Acknowledgements** section) confirmed that they still see structures and practices like those noted above today.

Principal media has been around for some time — at least 10 years, according to both Cortex Media and Media Marketing Compliance. Per Cortex and MMC, principal media has historically been "heavily used" in Australia, Canada, Germany, and the U.K., and in the past 18 months, "it has been seen everywhere."

IV. PRINCIPAL MEDIA IS NOW DRIVING HOLDING COMPANY PROFITS

According to Brian Wieser, a noted strategic financial analyst of global advertising, technology, and marketing services businesses and the founder of Madison and Wall, "Publicis and Omnicom have been the most aggressive in this field [i.e., principal media] in the past year, while IPG and WPP have been the least aggressive, and each company's organic growth trends mirror these orientations."[8]

The primary principal media offering for Publicis is **APEX Exchange**, or simply APEX, which describes itself as follows:

- A distinct next-generation trading entity within Publicis Media that identifies and invests in emerging market trends to benefit Publicis clients
- Develops innovative offerings through direct partnerships and principal investments that allow clients of all sizes to benefit from custom solutions that best fit their business challenges in an increasingly complex media environment
- Clients opt in to solutions outside the agency's core services that offer tangible benefits, including guaranteed outcomes, increased flexibility, and advantageous pricing

According to Publicis's February 8, 2024 release of results for 2023[9]:

- Full-year 2023 net revenue organic growth was 6.3 percent, with stronger than expected Q4 growth at 5.7 percent.
- Media, one-third of revenue, grew by double digits on top of double digits in 2022, benefiting from both market share gains and organic growth at existing clients.

OMnet is Omnicom's principal-based buying group. Yet information on OMnet is difficult to find on the Omnicom Media Group website.

According to Omnicom's February 6, 2024 release of results for 2023[10]:

- Advertising & Media represented 53.7 percent of total Omnicom revenue in 2023. Organic growth for Advertising & Media was 6.5 percent, compared to 4.1 percent for the company overall, and was bigger than any of the other disciplines identified in the report.
- The report specifically said the growth for the Advertising & Media discipline was "led by the performance of our global media businesses."

Media is therefore driving revenue growth at both Publicis and Omnicom.

[8] Madison and Wall, February 8, 2024
[9] **Publicis Groupe Full Year 2023 Results, February 8, 2024**
[10] **Omnicom 2023 Fourth Quarter & Full Year, February 6, 2024**

IV. PRINCIPAL MEDIA IS NOW DRIVING HOLDING COMPANY PROFITS

According to a report in MediaPost[11] in July 2023, for years, Interpublic Group has resisted — unlike competitors — buying and reselling media to advertisers out of concern that the practice would compromise, or at least appear to be a conflict with its obligation to serve as agent to its clients. But in a July 2023 earnings call, CEO Philippe Krakowsky commented that the company was reconsidering its position on principal media. "We're definitely looking at that," Krakowsky said, responding to a question from Michael Nathanson of MoffettNathanson. In February 2024, Campaign[12] reported, "IPG is looking to ramp up its principal-based media buying activities."

A fourth quarter 2023 article in Digiday[13] credits "a robust media buying business" for holding company growth. It notes, sourcing Brian Wieser, that media accounts for nearly 40 percent of WPP's revenues, a third of Publicis's, and roughly 20 percent each of Omnicom and IPG. (Data here refers to media agencies as a total of all holding company revenue, and not just principal-based trading.) The article goes on to say, "The key takeaway here is that media often acts as the primary driver of growth for agency holding companies, perhaps because they derive margins from arbitrage around media buying."

It's also relevant to note that when agencies are acting as principal, they are allowed to count that media as topline revenue. Media is no longer a pass-through transaction. While the cost of goods sold goes up (i.e., the media obtained by the agency from the media company, which may or may not have had a monetary cost), revenue also increases (i.e., the cost the agency charges its client for the principal media). A member of the ANA Media & Marketing Leadership Council remarked:

- "Think about the impact that has on earnings calls, when holding companies can tap into the volume that working media dollars bring into revenue numbers. The agency is benefiting significantly as a result of the revenue reporting. That is grounds for marketers to ask for more in return."

Respective principal trading divisions for the various holding companies:

Holding Co.	Principal Trading Division
dentsu	Agyle Advantage, Amnet (part of Amplifi)
Havas	Havas Inventory
IPG	Orion
Omnicom	OMnet
Publicis	APEX
WPP	Nexus (includes Finecast and Xaxis), GroupM Flex, plista

The names of these principal trading divisions are subject to change.

[11] IPG's Krakowsky Confirms Company Reconsiders Becoming Principal Media Seller: MediaPost, July 21, 2023
[12] IPG declines in 2023, targets flat 2024 as last year's challenges continue: Campaign, February 8, 2024
[13] Why media agencies remain the cornerstone of holding group profitability: Digiday, October 31, 2023

V. THE MARKETER PERSPECTIVE ON PRINCIPAL MEDIA

A quantitative survey to ANA client-side marketers was fielded in February 2024, generating 139 responses. About the respondents:

- 75 percent are at job levels of director and higher.
- 64 percent are with companies which are primarily B-to-C, 8 percent are with companies which are primarily B-to-B, and the remainder are with companies that are both B-to-C and B-to-B.
- 47 percent are with companies with a 2023 total annual U.S. media budget under $200 million.

Details are in the appendix.

The full survey is **here**.

That quantitative research was supplemented by in-depth qualitative interviews with 16 client-side marketers who took the survey.

Results of this research follow.

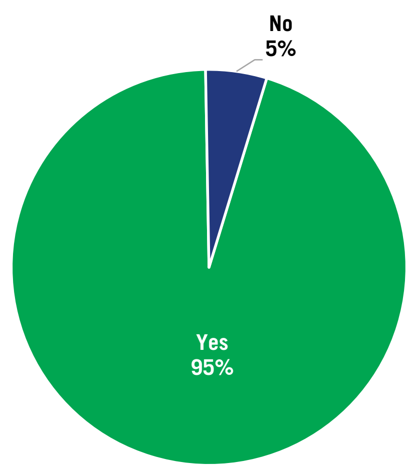
V. THE MARKETER PERSPECTIVE ON PRINCIPAL MEDIA

Screener: At Least a Working Knowledge of Media Investment Strategies Required

Ninety-five percent of the survey respondents passed the screener indicating "at least a working knowledge of my company's media investment strategies."

Knowledge: Media Investment Strategies (Screener)

Base: 139



Q. I have at least a working knowledge of my company's media investment strategies.

Then 128 respondents moved on to the primary survey.

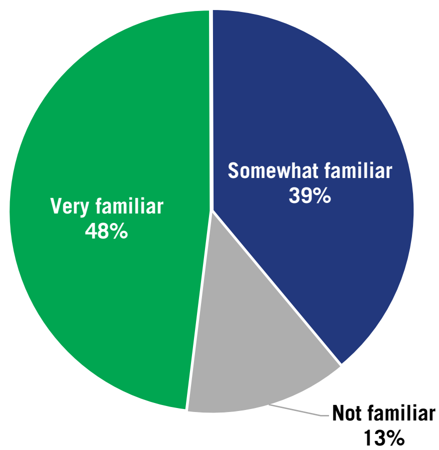
V. THE MARKETER PERSPECTIVE ON PRINCIPAL MEDIA

Overall Knowledge About Principal Media

Only about half (48 percent) of survey respondents are "very familiar" with principal media[14]. Meanwhile, 39 percent are somewhat familiar, and 13 percent are not familiar.

Knowledge: Principal Media

Base: 128



Q. What is your overall level of knowledge about principal media (sometimes called inventory media, proprietary media, and/or value-based solutions) and other non-transparent media?

This overall lack of knowledge is concerning. Again, the screener for respondents was, "I have at least a working knowledge of my company's media investment strategies." Yet 39 percent are only somewhat familiar with principal media, and 13 percent are not familiar with it at all.

[14] The survey invitation said the following: We would appreciate your participation in a short survey about principal media (sometimes called inventory media, proprietary media, or value-based solutions) and other forms of non-transparent media. For years, advertising agencies acted as "agents" for their clients. An agent is authorized to act on another's behalf, with their best interests in mind. Increasingly, agencies are oftentimes acting as "principal," meaning, they acquire media (therefore becoming the owner of that media) and resell that to their clients.

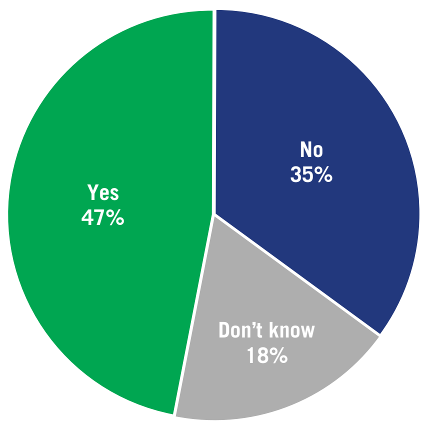
V. THE MARKETER PERSPECTIVE ON PRINCIPAL MEDIA

Use of Principal Media: Past Year

About half (47 percent) of respondents have used principal media in the past year. Meanwhile, 35 percent have not, and 18 percent don't know if principal media has been part of their company's media activity in the past year.

Use of Principal Media: Past Year

Base: 121



Q. In the past year, has principal media (sometimes called inventory media, proprietary media, and/or value-based solutions) or other forms of non-transparent media been part of your company's media activity?

It is concerning that 18 percent of respondents don't know if principal media has been part of their company's media activity in the past year.

It's more likely that larger advertisers, companies with a 2023 total annual U.S. media budget of $200 million or more, have used principal media in the past year (62 percent) than smaller advertisers have (47 percent).

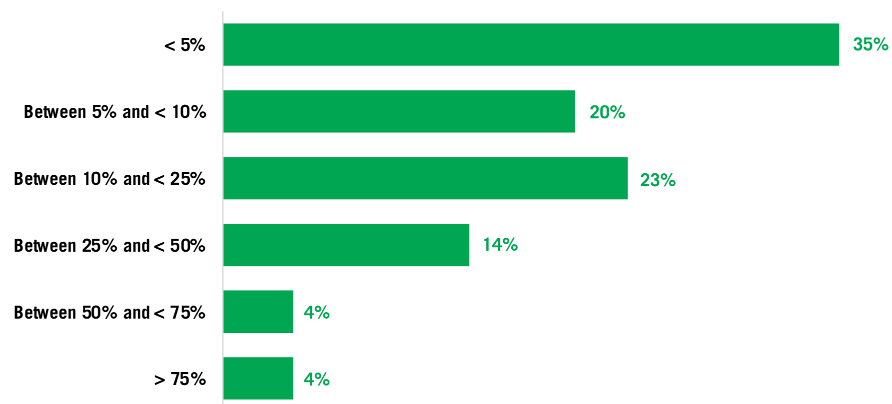
V. THE MARKETER PERSPECTIVE ON PRINCIPAL MEDIA

Principal Media: Percentage of Total Media Budget

Principal media represents a fairly low percentage of a company's total media budget for most respondents — under 10 percent of the total media budget for 55 percent of respondents. Yet 8 percent allocate 50 percent or more of their total media budget to principal media.

Principal Media as a Percentage of Total Media Budget

*Base: 54**



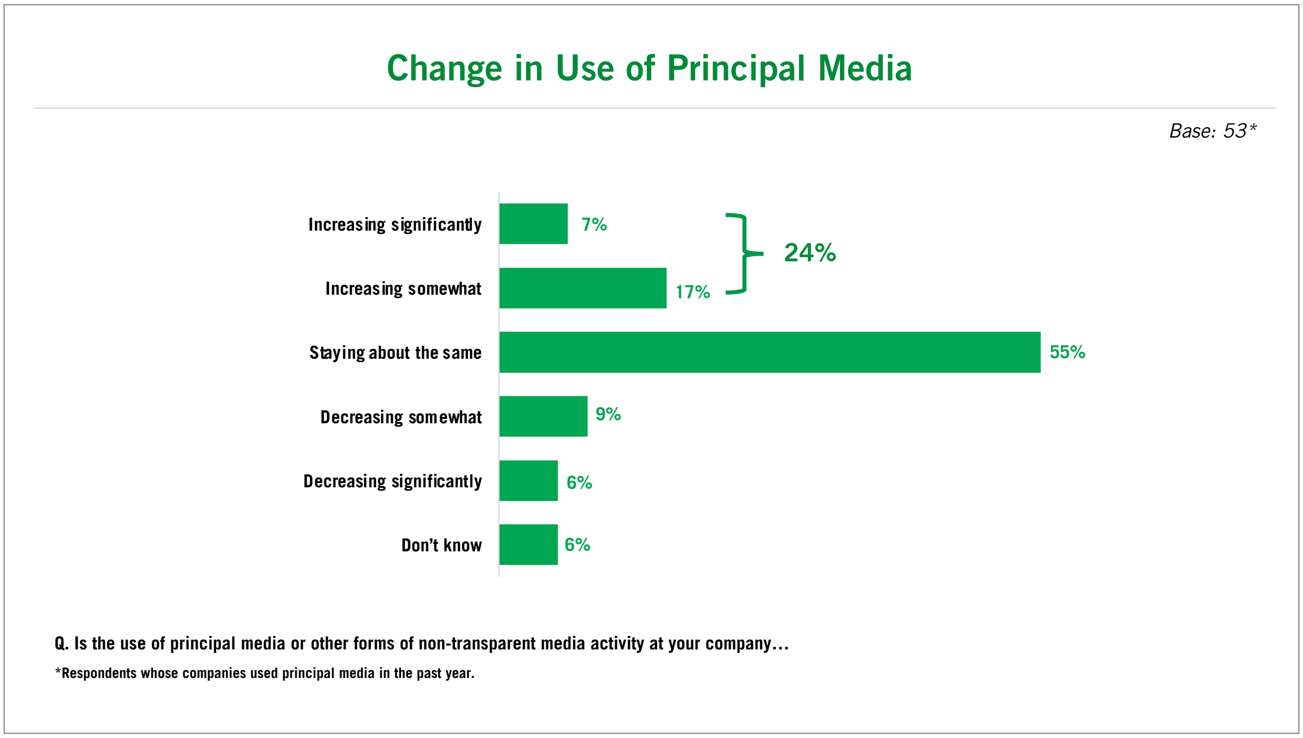
Q. Over the past year, roughly what percentage of your company's total media budget do you estimate to be comprised of principal media or other forms of non-transparent media activity?

*Respondents whose companies used principal media in the past year.

V. THE MARKETER PERSPECTIVE ON PRINCIPAL MEDIA

Change in Use of Principal Media

The use of principal media is increasing for 24 percent of respondents and staying about the same for 55 percent.



The key reasons that the use of principal media is increasing for some respondents:

- Marketers are increasingly looking for greater efficiencies in their media buys.
- Agencies are more aggressively recommending principal media solutions, often the result of financial pressures from marketers leading to reductions in agency compensation and extended payment terms.

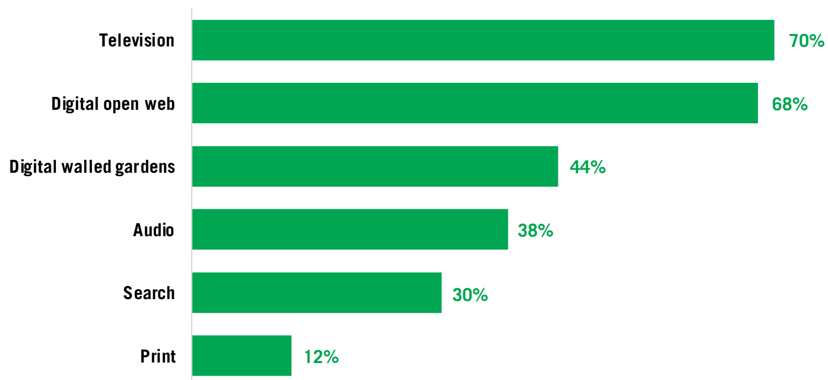
V. THE MARKETER PERSPECTIVE ON PRINCIPAL MEDIA

All Media Types Active with Principal Media

Television and the digital open web are the media types most often used. But other media — digital walled gardens, audio, search, and print — are also used.

Media Types

*Base: 50**



Q. What media types are part of your company's activity in principal media or other forms of non-transparent media activity?

*Respondents whose companies used principal media in the past year.

There was a comment from the qualitative interviews: "Principal media is ubiquitous — TV, digital, audio, print, OOH, influencer, production, and content."

Influencer marketing was specifically mentioned by several qualitative respondents as an area where their agencies were increasingly acting as principals.

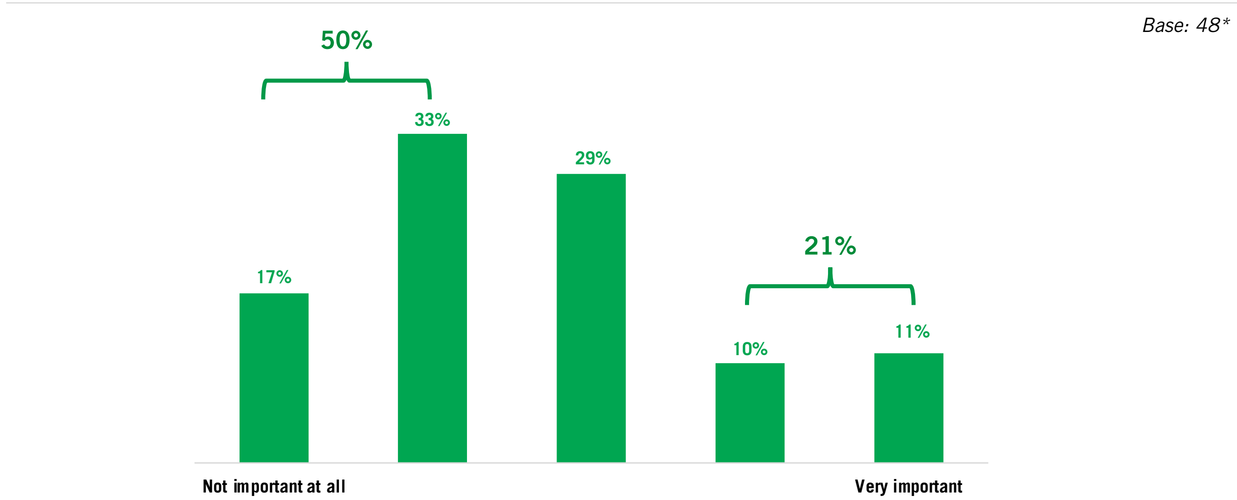
Research was also noted as sometimes being part of principal agreements.

V. THE MARKETER PERSPECTIVE ON PRINCIPAL MEDIA

Importance of Principal Media

Respondents were asked, "How important is the use of principal media and/or other forms of non-transparent media to your company to help it achieve objectives?" Fifty percent deem principal media not to be important vs. 21 percent who do.

Importance of Principal Media



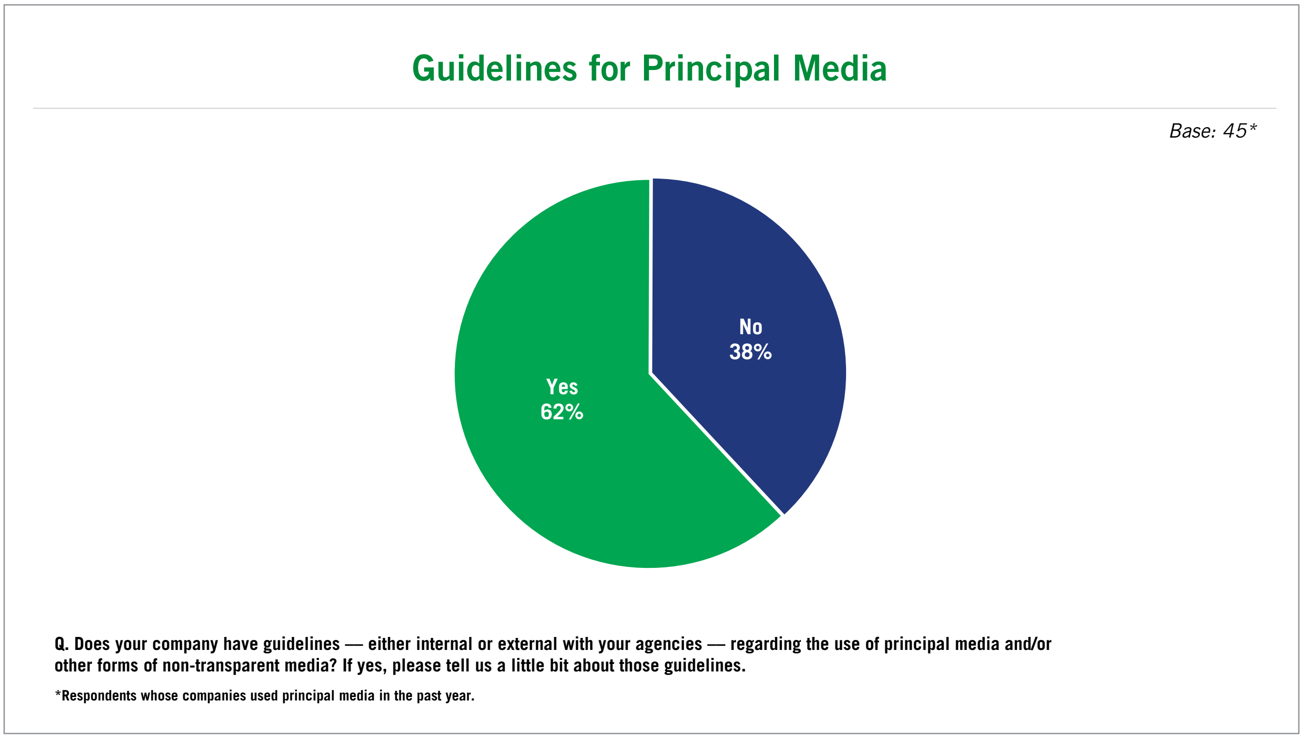
Q. How important is the use of principal media and/or other forms of non-transparent media to your company to help it achieve objectives? Rate on a scale of 1 to 5 where 1 = Not at all important and 5 = Very important.

*Respondents whose companies used principal media in the past year.

V. THE MARKETER PERSPECTIVE ON PRINCIPAL MEDIA

Guidelines for Principal Media

Sixty-two percent have guidelines for the use of principal media.



It is important to note that respondents to this question are with organizations which used principal media in the past year. It's concerning that nearly 40 percent do not have guidelines.

Guidelines for the use of principal media are critically important. A later **section** in this report provides recommended guidelines.

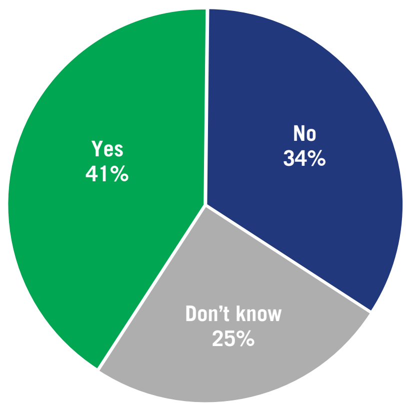
V. THE MARKETER PERSPECTIVE ON PRINCIPAL MEDIA

Expected Use of Principal Media: Next Year

Forty-one percent of respondents expect to use principal media over the next year.

Expected Use of Principal Media: Next Year

Base: 107



Q. Over the next year, do you expect principal media (sometimes called inventory media, proprietary media, and/or value-based solutions) or other forms of non-transparent media to be part of your company's media activity?

This is directionally consistent with past year use of principal media, where 47 percent have used it, 35 percent have not, and 18 percent don't know.

It's more likely that larger advertisers (total annual U.S. media budget of $200 million or more) expect to use principal media in the next year (55 percent) than do smaller advertisers (34 percent).

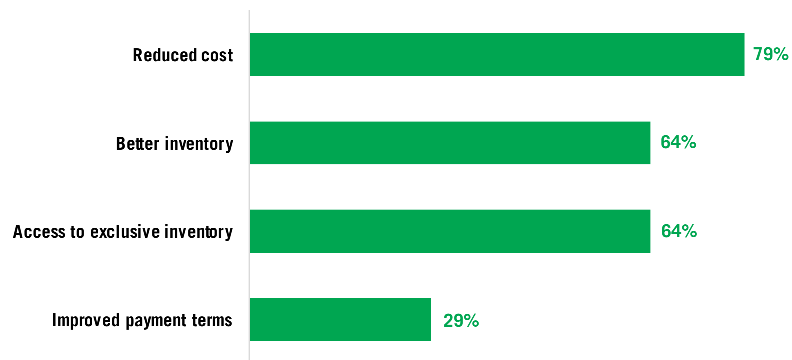
V. THE MARKETER PERSPECTIVE ON PRINCIPAL MEDIA

Benefits of Principal Media

The top benefit of principal media for marketers is reduced cost. That is followed by the benefits of better inventory and access to exclusive inventory not otherwise available.

Benefits of Principal Media (Top-2 Box)

Base: 89



Q. In your opinion, how important are the following benefits of principal media and/or other forms of non-transparent media activity? Rate on a scale of 1 to 5 where 1 = Not an important benefit and 5 = Very important benefit.

There was mixed feedback in our one-on-ones regarding the benefits of better inventory and access to exclusive inventory.

- One interviewee noted that their company was able to get into the Grammys via principal media (i.e., access to exclusive inventory not otherwise available).
- Another felt strongly that there is a loss of quality with principal media, particularly in digital: "You don't aways know what's in it."
- Multiple interviewees felt that the benefits of better and exclusive inventory were "perceived" and not really the case.
    - One said, "I don't understand how or why it's better." Another said, "I have a hard time believing that."
    - Another commented on the perceived benefit of exclusive inventory, saying, "That is where the shady underbelly of principal media is on display."

V. THE MARKETER PERSPECTIVE ON PRINCIPAL MEDIA

Benefits of Principal Media

An auditor felt strongly that principal media, most times, is not "better" or "exclusive," telling us, "Principal media often includes free space, as part of volume deals between the agency and a media company. And it's free for a reason."

Improved payment terms were noted as a benefit (top-2 box) by 29 percent of respondents. Improved terms (that is, longer terms) are sometimes possible in principal media deals, as the agency owns the media outright and often doesn't have the pressure to pay a media vendor. Therefore, the agency can extend the payment terms, if that is important to the marketer.

V. THE MARKETER PERSPECTIVE ON PRINCIPAL MEDIA

Principal Media Case Studies

Case Study #2

Company Y is a marketer of alcoholic beverages. It uses some television in its media plan, acquired via the traditional upfront. But it is not a major TV buyer. Given the need to support a new product, more television was required. The scatter market was tight at the time, so that inventory would carry a CPM premium. Company Y's agency suggested principal media as a solution.

Case Study #3

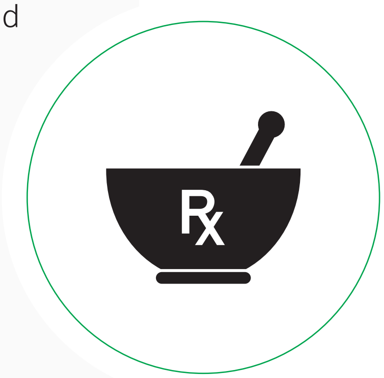
The product portfolio for Company X is heavily dependent on a commodity whose price has increased significantly in the past two years. Price increases for the company's core product have already been implemented, but margins continue to be squeezed. Company X is cutting back on overall advertising spending and is now using principal media for the first time in recent memory, given the cost savings. The agency guaranteed a cost savings of approximately 15 percent. Company X is viewing this situation opportunistically. If principal media is able to meet the performance KPIs of its traditional, agent-based media buys, it could become a bigger part of the company's overall spending going forward.

V. THE MARKETER PERSPECTIVE ON PRINCIPAL MEDIA

Principal Media Case Studies

Case Study #4

A pharmaceutical company uses principal media specifically for a division that has been challenged with declining sales and therefore also declining marketing budgets. Those declining budgets have meant that no funds are available for much-needed research support that could help optimize media investments. This company turned to principal media as a solution. The use of principal media has resulted in cost savings of approximately 15 percent, which has been reinvested in research focused on media effectiveness and marketing mix modeling. About 10 percent of the budget has been placed via principal media.



For all principal media deals, the client requires that the agency provide a detailed cost/benefit analysis to support the recommendation, which includes an option without principal media. The marketer maintains that the principal media must be auditable for quality/performance and placement — including IVT, viewability, brand safety, and adherence to inclusion/exclusion lists. The client understands that costs cannot be audited but insists that quality/performance and placement are indeed auditable.

The client does not allow the savings generated by principal media to be automatically reinvested into buying more media. The agency is directed to buy to GRP goals and then advise the client on any unspent funds. The client then makes the decision regarding that money: whether to reinvest in more media, allocate the funds to research, or return it to the bottom line.

Overall, principal media has been a good solution, given this company's situation.

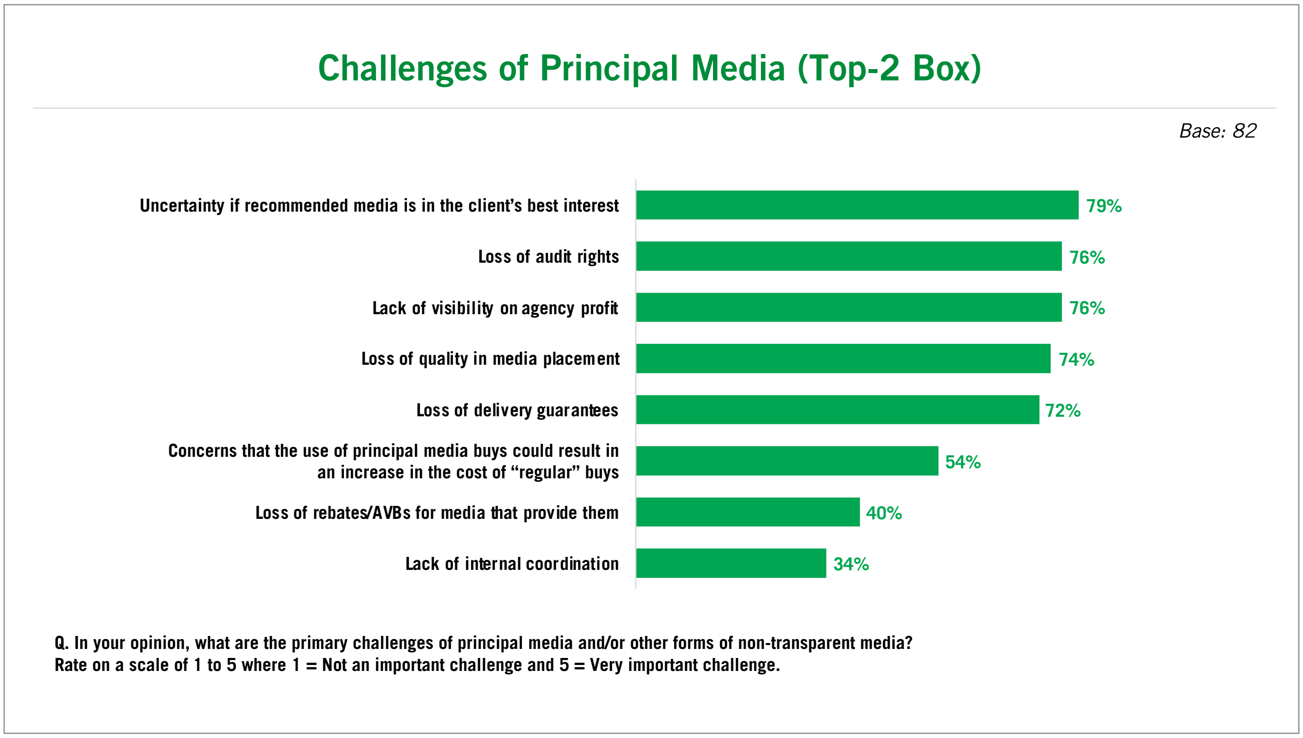
The ANA welcomes additional case studies on principal media.
Please email those to **principalmedia@ana.net**.

V. THE MARKETER PERSPECTIVE ON PRINCIPAL MEDIA

Challenges of Principal Media

There are multiple challenges for marketers with principal media. The top ones:

- Uncertainty if recommended media is in the client's best interest
- Loss of audit rights
- Lack of visibility on agency profit
- Loss of quality in media placement



Regarding the top challenge, multiple qualitative interviewees had concerns about conflict of interest, and one specifically told us, "I don't know if my agency is recommending principal media because it's the best media for me, or the best media for them." In addition, Manuel Reyes of Cortex Media feels there is another potential conflict: media companies may accept higher prices from agencies for their traditional agent buys in exchange for lower prices on principal buys.

That latter point was noted in the 2016 K2 report.

- Another method for securing media for principal deals involves the negotiation and use of dual rate cards for the same media. Essentially, an entity within the agency holding

V. THE MARKETER PERSPECTIVE ON PRINCIPAL MEDIA

Challenges of Principal Media

company, but not the AOR, will negotiate with the media supplier for two rate cards: (1) an AOR rate and (2) a lower ATD rate. In this scenario, the lower rate negotiated by the agency holding company is utilized for its principal entities, including the ATD. In contrast, the higher rate card is utilized by AORs to sell the media directly to advertisers in the capacity of an agent (as opposed to a principal).

Audit rights are also more limited. Notably, marketers can't have access to vendor invoices, so they don't know the price the agency paid (if any) to acquire the media. In most cases, marketers are able to audit performance — impressions, viewability, IVT, etc. However, marketers should clearly understand up front before commitments are made if there are specific restrictions regarding auditing, and should never give up the right to understand performance. An auditor told us, "Performance and price are linked, so audits in principal media deals are not as comprehensive. Clients need to go in with their eyes wide open."

With principal media, there is a lack of visibility on agency profit. Marketers don't know how much the media originally cost the agency (or if some media was acquired at no cost) and therefore don't know the agency mark-up/profit. And agencies generally do not agree to a cap on the mark-up. Marketers should consider the impact that principal media has on their overall compensation arrangements with agencies, including implications for any performance-based or incentive-based arrangements.

Loss of quality in media placement was another challenge noted by respondents. That point was raised in the 2016 K2 report.

- … generally, with these types of deals, the discounted media would typically not include the media supplier's best available inventory, as media suppliers attempt to include certain barriers in the contract designed to exclude their premium high-value inventory from the discount deal. Therefore, if an advertiser purchases media that stems from this type of deal, premium media may not be available, a fact which may not be disclosed to the advertiser.

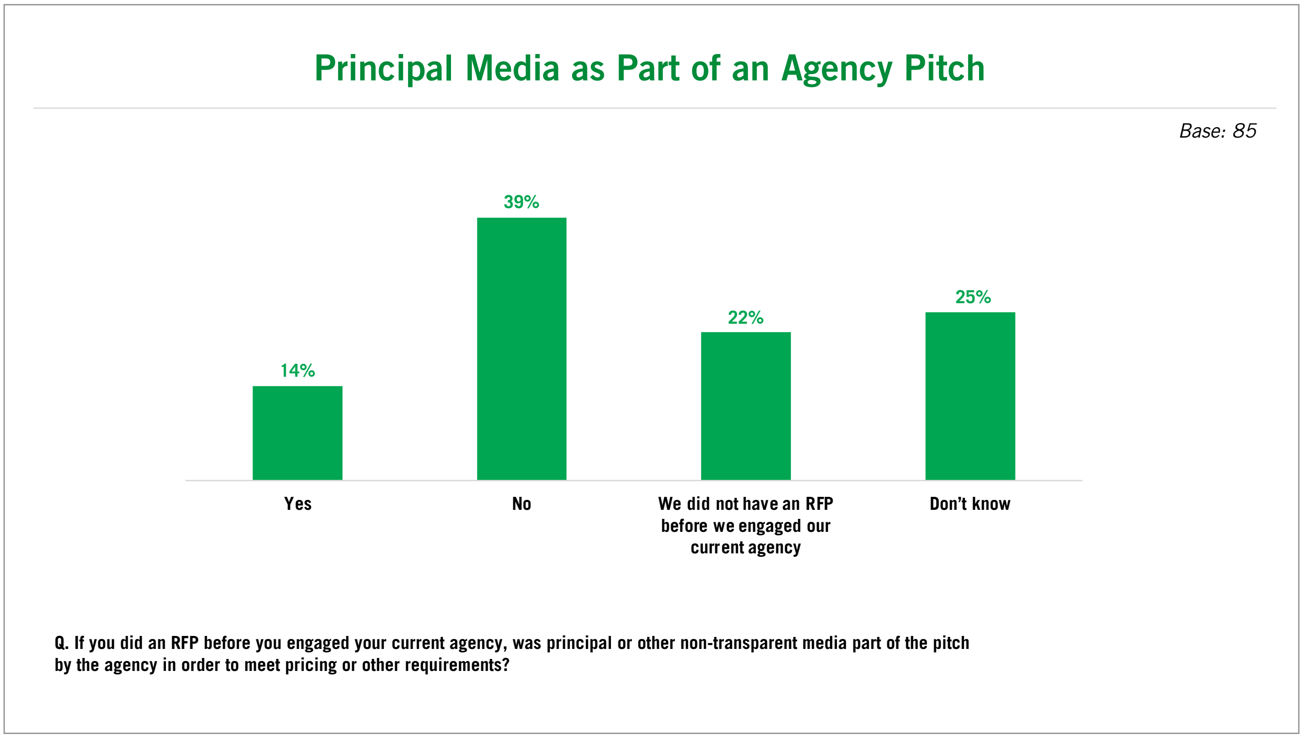
In our qualitative discussions, there were additional challenges brought up:

- Loss of access to first-party data: with the deprecation of cookies, first-party data is becoming increasingly important for targeting. But in most cases, marketers give up access rights to first-party data in principal media deals.
- Brand safety watchouts: the challenge of loss of quality in media placement has also led to brand safety concerns for some.
- Pricing for principal buys may be provided in aggregate, rather than by the various individual components of the media package. That has implications for business intelligence and marketing mix modelling, as this aggregated data makes it difficult to understand what specifically worked and what didn't.

V. THE MARKETER PERSPECTIVE ON PRINCIPAL MEDIA

Principal Media as Part of an Agency Pitch

Among all respondents to this question, 14 percent have done an RFP before engaging their current agency where principal media was part of the pitch.



But removing those who "Don't know" and who "did not have an RFP before we engaged our current agency" tells a different story. Principal media was part of the pitch for some one-quarter (27 percent) of those that have done an RFP before engaging their current agency.

One of our qualitative interviewees told us about firsthand knowledge of a new business pitch where a media agency offered to waive its fee completely as long as the marketer agreed that all media would consist of principal media.

VI. WORKING VERSUS NON-WORKING COSTS

The traditional allocation of working (media) and non-working (includes production and agency compensation) cost has become somewhat antiquated.[15] The emergence of earned and owned media has blurred the lines with paid media. An increasingly complex and fragmented media environment has led to an increase in production, and additional agency fees may be required to produce more content. Furthermore, the use of data for targeting is also on the rise, and there are costs associated with that.

Nonetheless, we have heard on more than one occasion that some marketers are intrigued with principal media, as they see it as an opportunity to reduce non-working expenses (i.e., agency compensation) in favor of working media investments. According to Joanne Davis, president, Joanne Davis Consulting, Inc. and partner and co-CEO, SCAN International:

- "Some marketers and procurement managers could not care less that the agency has extra revenue streams as long as they can tell their management that they lowered the agency fee (versus looking at the total cost of transparent and non-transparent)."

Digiday[16] reported on Brian Wieser's perspective:

- As Omnicom introduced OMnet and Publicis PMX, he said it became apparent that an increasing number of clients cut down on their so-called "non-working" expenses. This often led to reduced spending on agency services, even though they still required more services, he continued. Shifting a portion of that spending into "working" media, where the agency can generate what it needs to sustain its ability to provide the client with the comprehensive offering they desire, is a relatively graceful solution.

The ANA strongly cautions marketers from employing principal media primarily for the perceived benefit of reducing agency compensation fees. Consider principal media only if other benefits — most notably lower media costs — make sense for your business.

[15] **Improve Brand Decisions: Replace Working/Non-Working Ratios with Deploy and Develop Allocations.** Bruno Gralpois/Agency Mania Solutions, November 2023.

[16] **Digiday, Why media agencies remain the cornerstone of holding group profitability, October 31, 2023**

VII. GUIDELINES FOR THE USE OF PRINCIPAL MEDIA

1. Marketers should consider having a formal and detailed process for approving or not approving principal media (and other non-transparent services). Marketers should have a cross-functional understanding of the benefits and potential challenges of principal media. Such cross-functional team members could include media, finance, procurement, legal, and brand management, depending on how the company is set up. If the marketer has an internal media expert, that person should lead the cross-functional team. The team should establish clear policies on the company's position on and processes around principal media.

2. Ensure that the contract with your agency is up to date with clear language to address principal media.

   - If principal media purchase authorizations include any additional terms and conditions (such as loss of audit rights or loss of or change in data rights) which are not set forth in the contract, such terms and conditions must be provided to the marketer and their legal team for review and approval prior to the marketer's agreement to the service.
   - Make sure your contract prevails over any other authorization or PO language that is approved in the course of business. Any change in conditions should only be allowed at the contract level and explicitly forbidden to be implemented through other documents.
   - Ensure that your agency contract explicitly forbids the agency from co-mingling principal buys with agent buys, and require the agency to confirm that no value was transferred between your agent-based and principal media buys. Consider a clause which states that budgets from different buys can't be changed by the agency without marketer authorization.
   - Consider adding language to your contract that makes any principal buy that was not properly approved fully transparent, auditable, and with no markup, and that the marketer will only pay for the amount the agency actually paid for the media/service. Alternatively, expressly set forth another remedy.
   - Any terms deviating from the contract or rights given up with respect to a particular principal media buy (rebates and incentives, data rights, audit rights, etc.) should be identified in each instance.

   Refer to section 9 of the **ANA Master Media Buying Services Agreement Template Version 3.0**. That section is provided in its entirety in the appendix here.

3. The agency should be required to provide a clear business case detailing why principal media is recommended overall and is consistent with the marketer's media strategy, objectives, and buying guidelines, and why it is in the best interest of the marketer. For the specific principal media offering being recommended by the agency, the business case should provide cost and audience delivery comparisons with KPIs between principal media and agent-based buys for the same media. There should always be options presented that do not consist of principal media.

   - Before approving, have your internal media department (or alternatively, a media auditor should there not be an internal media team) evaluate the proposal for reasonableness to see how it compares to historical and/or market pricing and any agreed-upon agency goals and KPIs.

VII. GUIDELINES FOR THE USE OF PRINCIPAL MEDIA

4. There should be clear visibility into the media outlets being used in principal media deals. Marketers should know who their business partners are.

5. Determine if your company is comfortable not having transparency on the cost of media to the agency, not understanding how much the agency is marking up these purchases, and the potential conflicts of interest that may arise from this model. Since most principal buys for digital media also require advertisers to accept that all tech, platform, and data costs will be bundled in the total non-transparent cost, decide if your company is also comfortable with that.

6. Have a clear internal approval process for the use of principal media.

- Final approval should be centralized with a single, senior-level person to coordinate the company's total ongoing investments in principal media. That could be the head of media (if senior enough) or the CMO.
- Approvals should be done for each purchase in advance via a separate document or process. Blanket approvals or approvals of an overall media plan, PO, or flowchart should not serve as legitimate approval for principal media, even if they contain a footnote or other language stating that principal or inventory media may be included.

7. Require that principal media be clearly identified on media flowcharts. Do not accept vague language such as, "Principal media may be included." Require specifics. In addition to visibility on media flowcharts, principal media (amounts and vendors) should be clearly outlined in monthly media estimate/authorization forms.

8. If your company is open to principal media, consider having a cap — that is, it will be no more than X percent of the total budget for a specific period of time.

9. Keep track of your company's allocation to principal media, both the dollar amount and percentage of overall media spending. At least quarterly, require the agency to report how much principal media is being purchased. Every new deal should include the percentage of the overall advertiser spending for the current year that has been committed to principal media.

10. Except for not disclosing the price the agency paid to acquire the principal media, reporting by the agency should be provided with the same level of granularity as would be expected for agent-based transactions.

- Proof of performance metrics and access to transaction data should be made available for principal media with the same level of detail expected for agent-based buys. Those could include (but are not limited to) impressions, CPMs, specific outcomes, viewability, and IVT.

VII. GUIDELINES FOR THE USE OF PRINCIPAL MEDIA

11. Auditing of principal media transactions should be allowed in the same way as for regular agent-based transactions. The only difference is that the agency would only provide access to the costs charged by the agency (or its affiliate as applicable) to the advertiser instead of the costs paid to third-party vendors.

- Agencies should provide audit data in the same format and with the same resolution as they currently do for agent-based transactions. Pricing of principal media should be provided on a detailed basis, not just as an overall total. When acting as a vendor, the agency should be required to have the same level of disclosure and oversight as any other vendor involved in the media buying process.

12. Consider whether commissions or fees that would normally be paid to the agency for the management of agent-based transactions should or should not apply to principal media buys. Keep in mind that the agency will be making a profit through markups on these purchases.

13. Understand the impact that principal media would have on rebates that otherwise would have been earned under a non-principal media buy.

- Ask the agency to disclose if this inventory comes from rebates or bonuses that you or other advertisers should have received as part of agent-based buys.
- With a principal media buy, return of rebates (assuming they were not earned via a previous agency-based buy) by the agency to the advertiser would typically be forfeited.

14. Don't allow the savings generated by principal media to be automatically reinvested into buying more media. Ask to buy to goals and set a reserve account with your savings. Have the agency propose how to reinvest any savings. Alternatively, return cash savings to the bottom line, if needed to meet business goals.

15. When running media agency pitches, any pricing guarantees provided by the agency should be based only on agent-based transactions. If this is not required explicitly at the time of the pitch, advertisers may later find out that the agency selected will only deliver against guarantees if principal buying is allowed at the agency's discretion, essentially requiring a blanket opt-in from the advertiser.

VIII. THE MEDIA AUDITOR PERSPECTIVE

For many ANA members, media is the largest line item in the marketing budget. Media auditing has become a regular practice because media has become increasing complex. Media audits help marketers improve efficiencies and effectiveness through increased governance and implementation of best practices. This section provides the opportunity for two media auditors to provide their respective independent perspectives on principal media.

VIII. THE MEDIA AUDITOR PERSPECTIVE

Perspective from Cortex Media: Reality Check on Inventory Media

So, how do we really feel about inventory buys (also known as principal media buys)?

Let me get it off my chest: we are not fans of the inventory media model. It's fraught with conflicts of interest, the model is not transparent nor fully auditable, and the potential savings may not be there in the long term.

So, what should you do if your company decides to engage in inventory buys?

Learn how these transactions actually work. Talk to a reputable media auditor and have them explain what happens behind the curtain. Ask your agency where the inventory came from and how it's really procured and paid for — or not. Follow best practices from approvals through auditing.

While these transactions may appear to offer short-term savings, no rational media vendor is going to lose money overall so that agencies can make more. For this to work, it must be a win-win for vendors and agencies. If both make more money, who pays? Also, what is the effect of inventory buying on overall market pricing? Is this model partly responsible for some of the media inflation we have experienced recently? I'm unsure about this last point, but it makes me pause.

There may be opportunities where a vendor sacrifices pricing for higher volumes or can offer a good deal if the media is prepaid. The reality is that agencies don't have the working capital to prepay more than a small percentage of these buys, and the inventory is mostly purchased and paid for only when it's sold to a client. There are some opportunities worth considering in the short term, but advertisers also need to consider the long-term impact (i.e., possibility of increased pricing).

The horse is out of the barn now. Most of our clients engage in inventory buys, even if only on a limited basis. If you go down this path, do it right, and go in with your eyes wide open!

Manuel Reyes, Founder, **Cortex Media**

CORTEX
MEDIA

VIII. THE MEDIA AUDITOR PERSPECTIVE

Perspective from Media Marketing Compliance: A Point of View on Principal Media

At Media Marketing Compliance, we believe that it is up to advertisers to decide whether to allow their media agencies to resell media to them at an undisclosed markup.

We strongly advocate that advertisers be fully aware of the reality of what they are buying. Too often this is not the case. Our audits routinely show that the client was not completely informed of the terms of the proposed principal-based deal or the agency did not follow the terms of the MSA, leading to ineffective advertising and a reduction in trust.

How did we get here? There has been a significant rise in the non-transparent revenues — often undisclosed and routinely hidden — that media agencies receive as a result of their work for advertisers. Despite much improvement in client/agency MSAs, our data shows that increased obligations do not necessarily result in improved transparency.

Non-transparent revenues have changed following studies such as the ANA's Media Transparency report in 2016, as the media agency buying groups identified new ways of generating revenue.

Principal-based trading is one of these non-transparent practices, but it is positioned as being transparent because it is declared openly that agencies make a bigger margin by trading on their own accounts. Agencies negotiating better pricing for their own deals is a conflict with their client fiduciary obligations under their client MSA.

Agencies buy media at a wholesale price and re-sell it to their clients at a markup (which is undisclosed and not fully auditable).

To some advertisers, this may seem attractive. If we can get the media we would have bought anyway at a lower price, why not? And if the agency makes a better margin, we're all better off, aren't we? And if you don't like the idea of it, that's your choice, but you will lose out on getting the media you want at a better price. It's potentially a compelling argument, but the reality is another matter.

Principal-based media is potentially an unlimited source of conflicts of interest. If media agencies truly commit to buy media inventory up front, this media cannot be right for all their clients. Media vendors do not sell premium inventory at a highly discounted rate on this basis.

The media inventory involved in bulk buying is likely to be long-tail, lower-value time and space that the media vendors choose to sell in bulk because it is easier to offload. It is unlikely to be media that an advertiser would normally choose to buy, whatever the price. But if the media agencies really have committed to it, they have to resell it to their clients.

VIII. THE MEDIA AUDITOR PERSPECTIVE

Perspective from Media Marketing Compliance: A Point of View on Principal Media

Agencies are also achieving pitch-price guarantees through delivering principal-based media. They either don't declare this through the pitch process, or if they do disclose the use of principal-based trading, it is often missed by clients in the turmoil of converting the pitch promises into a contractually binding agreement. Sometimes, post-pitch, the agencies will also state a change in strategy is required to deliver the pitch-price guarantees and therefore use principal-based media to hit the price. This also helps the agency achieve the contractual bonus paid by the client.

Over the last few years, traditional cash rebates have been replaced by free space given by the vendors to the agency buying groups. This inevitably ends up within the "pot" that is used to deliver proprietary media. Of course, this cannot be confirmed, because the agency requires clients to waive their negotiated MSA audit rights.

We regularly find that this lack of transparency is compounded by situations where principal-based media has been used without the appropriate authority and usually without robust justification. It is imperative that clients have clear remedial actions in their contracts if principal-based media has been sold without appropriate authorization.

Media agencies are adept at positioning principal media as a benefit, so we strongly recommend you ask the tough questions beforehand and require the agency to verify the benefits immediately after a campaign ends. It is only an advantage if the media in question is precisely the same as you would have bought anyway, but at lower cost. That is rarely the case.

Stephen Broderick, Managing Partner, **Media Marketing Compliance**

Media Marketing Compliance

APPENDIX

APPENDIX

ANA Master Media Buying Services Template — Non-Transparent Services

9. Non-Transparent Services.

9.1 Non-Transparent Services are not permitted without (i) meeting the requirements of this Section and (ii) obtaining prior written approval from Advertiser's [Chief Marketing Officer and Head of Marketing Procurement] for each specific Non-Transparent Service in each instance. Approval (if any) shall be documented [in a mutually agreed format][on the applicable MAF] or other method as the Parties may agree to ensure that Advertiser fully understands when, where and how the NonTransparent Services being offered and delivered.

9.2 The following proof of performance and other metrics shall be available for all Non-Transparent Services [IVT, Viewability Standards, Brand Suitability Standards, other quality metrics, clicks, impressions, Outcomes, etc.].

9.3 If Non-Transparent Services include any additional terms and conditions (e.g., license terms, loss of audit rights, loss of or change in data rights, etc.) which are not set forth in this Agreement, other than cost or cancellation rights, such terms and conditions must also be provided to Advertiser's [Legal Department and Head of Marketing Procurement] for review and approval prior to Advertiser agreeing to the Non-Transparent Service.

9.4 Without limiting any other provision of this Section, the approval request for Non-Transparent Services must meet the following requirements:

9.4.1 specifically and clearly identify the Non-Transparent Services as "Non-Transparent Services" or [Insert Other Terminology which Agency uses to identify NTS]. Use of the names of Agency or its Affiliate or Related Party branded Media suppliers or their products or services alone shall not be permitted;

9.4.2 include a description of the nature of the Non-Transparent Service and what it entails (e.g. is it Inventory Media, data, etc.), including whether it operates through an Agency Affiliate or Related Party;

9.4.3 include a description of what benefit(s) shall be delivered to Advertiser as a result of the Non-Transparent Services and whether there are Rebates and Incentives that the Advertiser that it would have otherwise earned but would be giving up if it chooses to purchase the Non-Transparent Service;

9.4.4 include timing for the authorized Non-Transparent Service spend, aggregate cost, Media type, impressions and other measurements and details and KPIs used for other Media purchases and services or otherwise requested by Advertiser;

9.4.5 include a clear indication, in each case, of the maximum aggregate cost of the NonTransparent Service to Advertiser as a proportion of each Non-Transparent Services Media type in the aggregate;

9.4.6 include a description of what transparent Media Placement options were explored by Agency and whether such purchases would entitle Advertiser to Rebates and Incentives and the rationale for why the Non-Transparent Service is the better option;

9.4.7 include the percentage of overall Advertiser spend for the current Year that is currently committed to Non-Transparent Services, if the current proposal is approved by Advertiser; and

9.4.8 include any applicable cancellation charges, data, record access, or other limitations associated with the Non-Transparent Services which might differ from the rights Advertiser has under the Agreement with respect to transparently purchased products or services.

9.5 Agency shall deliver a written [monthly] report no later than [fourteen (14) days] from the end of the relevant month setting out the total amounts paid by or invoiced to Advertiser for Non-Transparent Services, by Media channel, delivered to or on behalf of Advertiser during the relevant reporting period.

9.6 The payment terms for invoices for Non-Transparent Services shall be the same as those set out in Section 17 for Third Party Costs, unless agreed in writing by Advertiser's [Head of Marketing Procurement].

9.7 In the event Non-Transparent Services are purchased without authorization in accordance with this Section, Advertiser (i) shall not be required to pay for such Non-Transparent Services or (ii) such services/purchases shall be treated as all other fully transparent services/purchases are treated under this Agreement and any limitations, including on audit rights, data access, Record limitations, and Rebates and Incentives shall be void and Advertiser shall only pay the lesser of the (a) Net Media Cost for such Non-Transparent Service (as may be confirmed by Advertiser's Auditor if it so chooses) or (b) the amount approved by the applicable Non-Transparent Service.

9.8 [Unless otherwise agreed upon by Advertiser in writing, Non-Transparent Services shall not count towards any Agency KPIs, buying commitment or performance based remuneration.]

9.9 Agency represents and warrants to Advertiser: (i) its recommendations for Non-Transparent Services, if any, are consistent with Advertiser's Media strategy, objectives, Goals and Media buying guidelines and is in the best interest of Advertiser; (ii) any Non-Transparent Services purchases made by any Agency Group member are made in such a manner that there is material risk to Agency or the applicable Agency Group member associated with the transaction and such risk is not materially limited or effectively eliminated by a transaction or series of transactions by Agency Group members that rely upon subsequent payments by Advertiser or its Affiliates in excess of the compensation to which Agency or its Affiliate is entitled to receive; and (iii) purchasing Non-Transparent Services shall not cost Advertiser more than Advertiser would have had to incur under a traditional buying or service purchasing scenario that was disclosed, unless the price differential is expressly disclosed and agreed upon by Advertiser.

This section is entirely new and replaces concepts from Version 2.0 relating to Principal or Inventory Sale and Principal or Inventory Mark-Up. One complaint that ANA has heard from members about Non-Transparent Services is that they agreed to Non-Transparent Services without realizing what they were agreeing to or that the true nature of the Non-Transparent Service was not understood. The use of Non-Transparent Services are a commercial item which Advertisers may choose to allow or prohibit. Regardless, Advertisers should consider having a detailed process for approving or not approving Non-Transparent Services. While many Advertisers take the position that they do not want the Agency to offer Non-Transparent Services, if the topic is not addressed in the General Terms at all, then it is likely to end up as a line item on a SOW or Media Plan or as part of a separate "opt-in" agreement without those knowledgeable of the practices knowing about it.

The full contract template is **here**.

APPENDIX

ANA Master Media Buying Services Template — Non-Transparent Services

Perspective from Reed Smith: Client/Agency Contracts

Client/agency contracts are the first place to start to ensure that the parties to the contract are on the same page about relationship expectations. When it comes to principal media (non-transparent services), it is important to understand the type of principal media offered by the agency and address the operational and approval practices in your agency contract, even if your company does not intend to use principal media. Failure to directly address principal media in the contract can lead to clients "opting in" to principal media without really knowing or understanding what they opted in to or the potential business ramifications of doing so. For instance, the client could sign a media authorization form with small print that says that the media may contain principal media, thereby giving the agency the ability to decide on its own when principal media would be best to purchase — which is likely when it also benefits the agency the most — without consulting the client.

While the ANA Master Media Buying Services Agreement Template Version 3.0 provides some sample language to address principal media, this section should be bespoked to fit your organizational needs, risk tolerances, type of contract (i.e., territory-specific or global), and ways of operating, as should be the approach when using any contract template. Once the contract terms are agreed upon, the approval process needs to be operationalized on both sides and audited for compliance (either internally or with an outside auditor) on an annual basis. Failure to comply with the process should have express pre-identified contractual remedies.

It is important to note that one size does not fit all for principal media. Every agency holding company offers different principal media services and markets them with a different name and different benefits, and the offering are constantly evolving. Don't let yourself get confused by the different offerings. Clients should have someone at their company who is knowledgeable about principal media services (or consult with an outside resource, whether legal, auditing, or an industry consultant) and who knows the types of questions to ask to ensure the business really understands the risks and rewards of using principal media and how the agency was able to secure such an offering.

Finally, all too often principal media comes into play as part of agency pitches, especially when clients are asking for pricing guarantees. Although the MSA being negotiated at the time of the pitch may clearly provide for an approval process for authorizing principal media, the commercial aspects of the pitch are not always tied closely to the contract terms. It is not unusual to have commercial teams choose an agency that included a principal media requirement in their pitch proposal to meet pricing commitments without realizing what that requirement meant, and by the time the team realizes it, it is too late. Clients should ask to understand the agency's principal media offerings as part of the pitch process and ensure that principal media is not included as part of pricing proposals and commitments.

Keri Bruce, Partner, **Reed Smith, LLP**

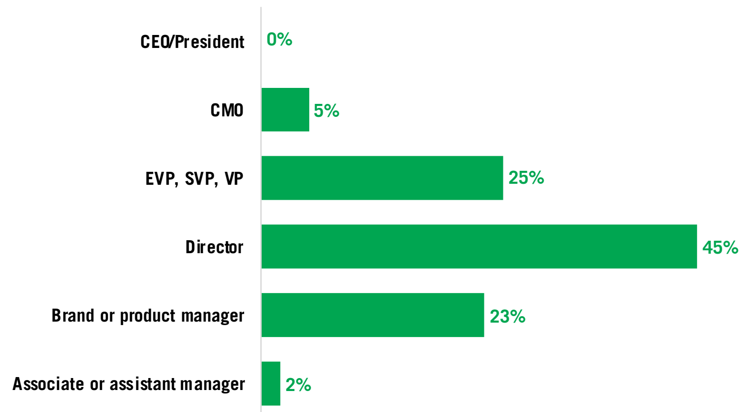
ReedSmith

APPENDIX

About the Survey Respondents

Job Level

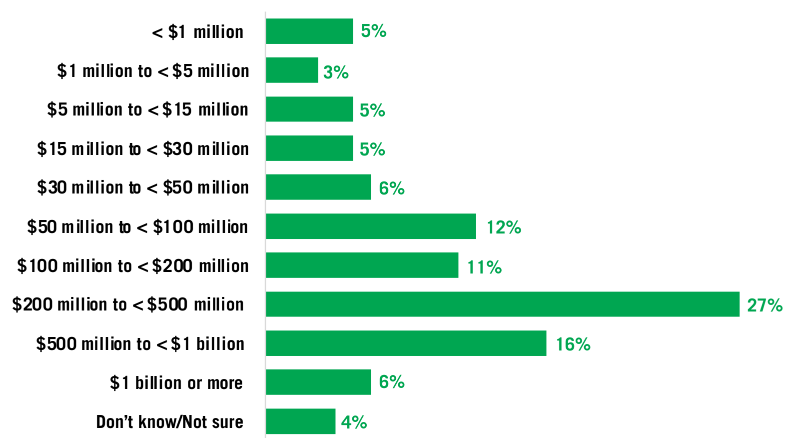
Base: 83



Q. What is your job level? (Please select the best fit.)

U.S. Media Budget

Base: 81



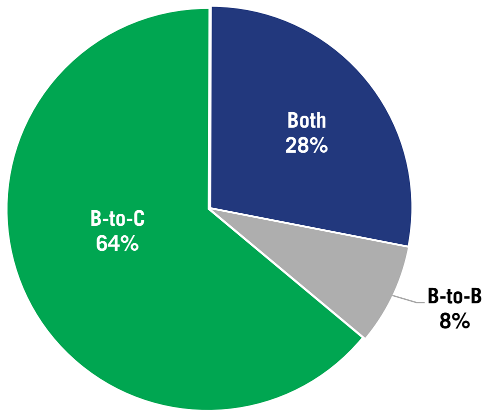
Q. Which of the following best describes your organization's 2023 total annual U.S. media budget?

APPENDIX

About the Survey Respondents

Type of Business

Base: 84



Q. Is your primary business B-to-B or B-to-C?

APPENDIX

Acknowledgements

The ANA would like to acknowledge the following contributors to this report.

ANA Media & Measurement Leadership Council Members

We appreciate the input from members of the **ANA Media & Measurement Leadership Council (MMLC)**. The MMLC is an activist group of brand advertisers' chief media and research officers, who are ultimately responsible for the effective deployment of media expenditures as well as the measurement and analytics to support those investments. The MMLC is grounded in the advancement of outcomes, bringing together the collective voice, muscle, and will of the advertiser's media and measurement communities to address industry barriers and shared issues that inhibit business and brand growth. The mission of the MMLC is to set the industry media agenda by identifying and solving pressing and important initiatives that unlock increased value for advertisers to accelerate business and brand growth.

Legal

- Keri Bruce, Partner, Reed Smith, LLP

Auditing

- Stephen Broderick, Managing Partner, Media Marketing Compliance
- Rick Gonzalez, Media and Advertising Assurance Services Leader, PwC US
- Manuel Reyes, Founder, Cortex Media

ANA

- Bill Duggan, Group EVP
- Jason Trubowicz, SVP
- Amy Zeng, Manager, Creative Services

ABOUT THE ANA

The mission of the ANA (Association of National Advertisers) is to drive growth for marketing professionals, brands and businesses, the industry, and humanity. The ANA serves the marketing needs of 20,000 brands by leveraging the 12-point ANA Growth Agenda, which has been endorsed by the Global CMO Growth Council. The ANA's membership consists of U.S. and international companies, including client-side marketers, nonprofits, fundraisers, and marketing solutions providers (data science and technology companies, ad agencies, publishers, media companies, suppliers, and vendors). The ANA creates Marketing Growth Champions by serving, educating, and advocating for more than 50,000 industry members that collectively invest more than $400 billion in marketing and advertising annually.

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