

# ON TRANSPARENCY: PAST PRESENT & FUTURE

## *PART 1: HOW DID WE GET HERE?*



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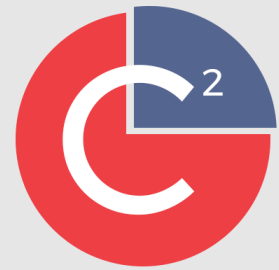
## PART 1: HOW DID WE GET HERE?

Over the past year, transparency in advertising has become the “big topic” of discussion. But is it really new and why is it such a front-burner issue now? Some say it really isn’t transparency that advertisers are looking for, as much as ensuring they are not being taken advantage of by their agencies and suppliers. Literally in any other supply chain functioning in corporate America today, transparency is expected. Indeed, it is a defacto standard.

Yet, the Advertising industry has been slow, if not reticent, to embrace the kinds of technology communications that drive more cost effective and (by their very nature) transparent supply chains.

To better understand why this is the case and how the dynamic can shift toward greater management control by all advertisers and their respective brands, we need to look at what transparency in advertising means. This entails a review of its history in the industry, the historic and current advertiser - agency relationship, today’s concerns and the implications of regulatory investigation.

Through such a review in this 3 part series, we will gain not only a clearer insight on what transparency has, does and will mean to the advertising industry, but also why a fundamental shift in the advertiser - agency relationship is essential for this industry to align with all other major industries and their respective supply chains.



## ANALYSIS

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To put it succinctly: with today's transparency oriented technology, where users have immediately accessible access to aggregated media and data. Customers in every walk of life - including advertisers - do not need suppliers and agencies like they used to.

## VIEWES ON THE MEANING OF TRANSPARENCY

You would think a simple concept would have a straightforward answer but, depending on the segment of the advertising business you're working in it is the proverbial 3 blind men trying to describe an elephant.

So let's review several categories: digital, creative production and traditional media for similarities and differences by the questions that arise in each segment.

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### FROM AN ONLINE - DIGITAL - MOBILE MARKETING PERSPECTIVE:

#### Publisher/Brand Safe Transparency:

- Where do my ads appear on the web?

#### "View-ability"/Placement Transparency:

- Where do my ads appear on a viewable page?

#### Audience/Target Transparency:

- Who is seeing my ad? Is it my targeted audience?

#### Fee/Cost Transparency:

- How much of what I'm paying is agency and/or supplier mark-up?

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### FROM A CREATIVE PRODUCTION PERSPECTIVE:

#### Supplier/Choice/Relationship Transparency:

- Who is working on my advertising from my agency?
- Are they the best match for my needs?

- Are my choices limited by the agency holding company?

#### Process/Workflow Transparency:

- Who is really handling my materials? How many sets of hands?

#### Fee/Cost Transparency:

- How much of what I'm paying is agency and/or supplier mark-up?

#### Ideation Transparency:

- Do I have access to the creative director/directors ideating for my brand?

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### FROM A TRADITIONAL MEDIA PERSPECTIVE:

#### Media Planning Transparency:

- Are my ads going to the best place or is there a preference based on rebates?
- What data is being used to plan my media?
- Will I get the same for less?

#### Process/Workflow Transparency:

- Who is really handling my planning and traffic?

#### Fee/Cost Transparency:

- How much of what I'm paying is agency and/or supplier mark-up?
- How much is the agency taking for rebates?

#### Performance/Reporting Transparency:

- Am I really seeing the full picture or is it slanted for a better impression?

To sum it up: when we look at the requirements from the above segments it comes down to one key aspect –

*Transparency in Information.* Or in today's parlance, Transparency in DATA ACCESS.

## THE DEFINITION OF ADVERTISING TRANSPARENCY

At the simplest it is Transparency in DATA ACCESS. This isn't an oversimplification. It's access to the data that is sought - pertaining to costs, margins, supplier relationships, media outlet destinations, publishers and in the end, performance.

Freely accessible, unbiased, standardized & digestible data - on demand - allows advertisers to make decisions, trust and verify their partners involvement by having direct access into the workings of their respective advertising supply chains.

This data is available, but there are neither industry standards for sharing it, nor clarity on how to aggregate it - other than via proprietary solutions.

*"The digitizing of media has created a trail, a digital signal for everything," "That means we can do things to analyze and solve problems with fraud. ... It's just a matter of connecting the dots, and we're in a good position and we understand the issues better than we did before."*

Oct 5, 2015

-Andrew Altersohn, CEO at AD/FIN Ad Age

For more on this subject [CHECK OUT](#) our blog post series, "**Technology Brings Transparency**"

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## TRANSPARENCY IN THE ADVERTISING SUPPLY CHAIN IS NOT A NEW IDEA

"To some degree, there's always been some uneasiness; there's a higher level of concern over bookkeeping than in other industries," said Rick Kurnit, partner at New York law firm Frankfurt, Kurnit, Klein & Selz, noting that the very first ad execs were print reps who were paid commissions by the media to secure ads.

"The model of the industry goes back to the 1890s, and it's based on a kickback scam. Advertising has always operated in a kind of fantasy land outside the norms of business. Historically, clients hung onto it because no one knew how to value what agencies do, so they just took 15 percent." **Ad Age – Jan 12, 2004**

We could start with "In the beginning..." but it's probably better to start with...

On the day, the 30sec spot replaced the 60sec due to growing costs, the agency holding company was born with the launch of IPG in 1960 by Marion Harper Jr. giving birth to the Advertiser - Agency structure we see still prevalent today.

Recognized as the golden age of advertising, and immortalized via the show "Mad Men", 1960's was the heyday of huge retainers, unlimited expense accounts and three martini lunches.

It was the medium where an agency executive could show the client's CEO a direct correlation between increased television spend and increased product sales. Hence, if the creative brief and subsequent campaign broke new ground in the television world of

three channels, then sales climbed and so did agency billings.

## THE 1ST WAVE OF TRANSPARENCY DEMANDS

Product focus evolved into image and brand perception and with the recession of the 70's, advertisers demanded for the first time that agencies start justifying their costs.

*"A 1976 Gallup Poll asked Americans to rate the honesty and ethical standards of those engaged in 11 fields of work. The professional at the bottom of the list—dead last—was the advertising executive."*

Adage- History:1970's Sept 15, 2003

This was the first wave of transparency to hit the industry with the birth of the Media Audit. Budgets were trimmed and advertisers were sated that they had clarity on their spend. Time marched on. As the 80's took hold, computers were providing more and more analytical data. While new markets were emerging around the world, spurring growth and advertiser emphasis on the agency model.

As agency holding companies grew in size, big budgets were back. Video began to take hold as the new technical norm, the 15sec spot was born and Ronald Reagan was President.

## THE 2ND WAVE OF TRANSPARENCY DEMANDS

The agency holding companies started behaving more like the advertisers they serviced, demanding new revenue streams and growth internally from

their various agency acquisitions. This led to the next wave of demands for Transparency related to costs and relationships, but transparency pressure wasn't just from advertisers.

The Federal government, Department of Justice, got actively involved with investigations that uncovered disreputable actions stretching to the early 80's such as the Grey/Color Wheel prosecution.

In addition to the above there were several notable prosecutions with fines and jail time handed out to executives for actions such as: overbilling, fraud, misreporting of deliveries, and bid rigging on services.

Then along came the 90's and the internet with the first dot.com boom and bust, Van Halen made a comeback and the probes continued where there were up to 12 active investigations by the US government.

Lycos and Yahoo were internet royalty, festooned in flashing paid ads. Then, Google was born, a veritable latecomer to the search engine scene and derided for only having a single search field on their home page.

Lycos and Yahoo didn't see the importance of collecting all of the search data of the users. This understanding that 'data is king' by Larry & Sergey was used later to sell premium targeting data after the purchase of DoubleClick making Google the powerhouse of internet advertising that it is today.

Over the next decade Digital and Mobile advertising grew up and started commanding media and creative budgets that made the agency holding companies take notice and they jumped in via acquisitions in order not to miss out.

Initially these acquisitions were on the media side with companies such as True North and Starcomm subbing out the digital creative to the experienced digital agencies and handling the media planning themselves.

Ad desks then were brought in house as an added service and put under the traditional margin rules (50%-60% in some cases according to MarketingLand.com.)

Data driven marketing became paramount with ad exchanges and programmatic buying focusing on the targeting of consumers with various suppliers, exchanges, publishers maintaining little verification on reported results.

That is unless an advertiser was savvy enough to run separate verification by applying separate tracking tags to verify what the publishers were actually reporting.

### **THE MOST RECENT WAVE OF ADVERTISER DEMANDS FOR TRANSPARENCY - WELL BEYOND JUST DIGITAL PROGRAMMATIC**

The ANA K2 Report released in 2015 cited evidence of non-transparent practices across a wide range of media, including digital, print, out-of-home, and television. Specifically noting that senior executives across the agency ecosystem were aware of, and mandated, non-transparent business practices.

The ANA K2 report launched the next wave of currently ongoing DOJ investigations into fraud, overbilling, and bid rigging.

It goes to note that the AICE made claims in Oct 2014 of a very similar nature covering the post-production processes. Stating that agency holding groups were as a normal course of business:

- Making requests for “dummy” bids against agency in-house editorial companies to satisfy client procurement policy guidelines with no intention of awarding the work to independent companies.
- Establishing preferred vendor lists designed to extract additional price concessions in exchange for the possibility of a certain, but not guaranteed, volume of work.
- Offering Sequential Liability clauses which extended payment terms an additional 30 to 60 days or longer
- Making requests for confidential business information about post production suppliers - presented as the need to “understand their service providers better” - yet seen as a way to replicate those business practices in-house.

Through the lens of history, transparency is not a new demand but an evolving one that has come in ebbs and flows throughout various aspects of the advertising supply chain.

Rachelle Madden from AICE speaking at ANA's 2017 Transparency Day, outlined the sentiments listed above from the post production industry.



Rachelle Madden, Executive Director, Association of Independent Creative Editors (AICE)

Why are patterns of opacity, predatory pricing, and anti-competitive behavior tolerated by advertisers? The agency - advertiser structure has not changed since the 60 second commercial.

### **ISN'T IT TIME FOR REAL CHANGE?!**

In this age where data can be organized quickly and digitally without agency intervention, it's more appropriate to demand data standards and data access as a defacto component of the relationship - rather than fines and prosecution.

## **STAY TUNED...**

For the 2<sup>nd</sup> Part  
of This Series:

On Transparency:  
Past Present & Future  
Part 2

In this upcoming installment we will continue the discussion covering the present situation in the market and what is being said by Advertisers, Agencies and Industry Organizations.

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