

## Opening Statement

I would like to point out that I am not an expert on advertising. I am an association manager. Running an industry association is nothing like running an ad agency or the marketing department of a major national advertiser.

In fact one year into this job I am only beginning to know what I don't know about this industry.

So I apologise in advance if I'm unable to answer some of your questions. But I am in the fortunate position of having access to the people who are very likely to have those answers.

So if you will permit me to take some of your questions on notice, I am happy to follow up this appearance today by getting you the answers you need and providing them to you in a written form.

### Background

I would like to first give you a bit background about AANA. I won't give you the whole story. I will just focus on 2 areas of what we do that have a bearing on government advertising. The first is AANA's role in setting industry standards of decency and ethics in advertising and for dealing with complaints. It might surprise you to know that complaints about government advertising are dealt with by the same system that looks at private sector complaints.

The second is our role in establishing best practice guidelines for the client agency relationship. These guidelines may offer some pointers as to how government advertising can be made more effective.

AANA is the peak advertising industry body representing Australia's major advertisers, most of whom are category leaders in services, food and beverages, motor vehicles, financial services, household products and personal products and so on. The Association was founded in 1928 and a lot has changed in 81 years but some things have not, for example the concern of responsible advertisers with 'truth, accuracy and decency in advertising.'

I would endorse what an earlier witness at these hearings - Sally Webster of the University of Canberra - said about how the scope of advertising has broadened to include new areas like web sites and direct to consumer activities, and also media activities like product placement that have become more prominent. In fact, AANA amended the definition in our Code of Ethics recently to encompass "Advertising or Marketing Communication" in recognition of that.

### Ethics in Advertising

One of AANA's objectives is to ensure ethical standards are upheld through the management of the industry's self-regulation system.

The central features of this system are the Advertiser Code of Ethics, the Food & Beverages Advertising & Marketing Communications Code, the Advertising and Marketing to Children Code, and the Environmental Claims in Advertising Code.

Its operational arm is the Advertising Standards Bureau (ASB) which administers a complaints handling service, following principles laid down by AANA in consultation with the advertising industry and other stakeholders. Complaints are heard by a Board made up of members of the community with no affiliation to the advertising industry. They look at complaints in all media including the internet and new media such as mobile devices.

This service is paid for by industry and is available to anyone, free of charge. It deals with over 3000 complaints a year on average.

It is indicative of the independence, transparency and professionalism of industry self-regulation that the Australian Government has submitted itself to the jurisdiction of the ASB. Since 1998 the ASB has considered complaints about 30 Australian Government Advertisements. Complaints have been dismissed against all of these advertisements.

Examples of complained-about ads were:

The 2008 Dept of Health and Ageing tv ad as part of the National Binge Drinking Campaign depicting an intoxicated young woman having sex. The ad attracted 9 written complaints under the section of the Code of Ethics dealing with depiction of sex/sexuality/nudity, health and safety.

Other examples are the Dept of Health's skin cancer ad from 2006 and the "Australia says no" ad prepared for the Office for (the status of) Women.

It is obviously to the benefit of the Government to be able to assure the community that it does not place itself above the advertising industry and is willing to submit to the independent judgement of the community Advertising Standards Board about decency in advertising.

#### **Best practice guidelines for client agency relationship**

The second relevant role of AANA I mentioned was establishing best practice guidelines to improve the client agency relationship. We have guidelines on how to undertake a pitch, how to brief your agency, how to formulate a client agency agreement, and so on. I won't go into these in detail, as I have provided them to your Committee Secretary.

I would however make a few comments based on some current industry trends that could be relevant to this inquiry.

I mentioned our members are mostly large national advertisers. Our day to day contacts are with the Marketing Directors and Chief Marketing Officers who are responsible for the marketing budget of the company, often hundreds of millions of dollars. So these comments are based on the feedback I get from them.

The first point I would make is the very high level of importance these people attach to their agency relationship. I can't emphasise this enough. After all, the "ideas" come from the agency. And also the execution of the plan.

I would point to 5 key characteristics of this relationship:

1. Strong emphasis on trust and respect (the word 'partnership' is often used to describe this aspect of the relationship). The marketer needs the agency's ideas and their skills in execution. The agency needs the marketer's courage and ability to articulate a vision for the brand.
2. Clarity in the communication of goals and expectations. This speaks to the importance of getting the brief right.
3. Regular performance review and feedback (and again in the best relationships this is 2 way, not just the client giving feedback to the agency),
4. Understanding each others' business. One of the things advertisers complain about most is the failure of their agencies to understand their business objectives. But it's equally important for the advertiser to know as much as they can about their agency. You might ask why? The issue is do they have the expertise, the capability, (I'll say more about this in a minute).
5. Finally, openness to new ideas and willingness to challenge the status quo (one aspect of attracting complaints to the ASB is that it is a signal you are pushing the envelope of what the community considers reasonable - although I would never counsel any advertiser to wilfully breach our codes, there is no doubt that some government ads have achieved cut through because they have been willing to be "edgy").

I might just make a few observations about Agency Selection

- Media fragmentation with increasing digital options has led to an increase in specialist suppliers
- Advertisers need to choose between one-stop shops offering all services or more often select best-of-breed and manage multiple suppliers on any project or brand. The trend is favouring this multiple supplier model. Agency land is in constant motion and it is a constant source of fascination to Advertisers. That is quite an important point: The best marketing directors spend a lot of time monitoring what's going on out there and who is getting the best results.
- Supplier selection is most commonly made through the pitch process, which for smaller projects can be shortened, but generally follows this pattern:
  - Do an Industry review for potential suppliers
  - Request and review Credential documents (Max 8 - 12 selected)
  - Meetings and credentials presentation (Max 8 seen)
  - Ask no more than 3 or 4 for a Creative or strategic brief (Max 3 - 4 suppliers)
  - Request and review remuneration proposals (Max 2 - 3 suppliers)
  - Negotiation with shortlisted suppliers (Max 2 - 3 suppliers)
  - Appointment and contract signed with successful supplier)
- Open tendering is almost unheard of except in the case of some statutory authorities where the open tender process is mandatory. And I would question this practice. This is because there are a large number of potential suppliers, not suitably qualified and so the open tender process can become

unmanageable and frankly waste a lot of peoples' time. Having a large roster of unqualified suppliers and including them all in a tender in the interest of transparency is not productive. It just wastes people's time and is likely to discourage the best talent from going after the work. It is to be avoided. I suspect there are many talented suppliers who don't consider going after government work because there is a "perception" (and I hasten to add this may not be the reality) that the selection process is too cumbersome. Government needs to address that perception, if not the reality.

- This is an important point, in the private sector, marketing directors invest their time in making sure they have the most qualified suppliers to choose from. There may be only a few suppliers who understand all 3 of: Social media, and banking, and p.r.

## I'll conclude with some comments about Relationship and Performance Management

A cottage industry has grown up around relationship management to ensure the suppliers are providing the correct level of service and more importantly that the relationship between the advertiser and the agencies is as healthy and productive as possible.

The increasing fragmentation of media and the associated increase in the number of specialist suppliers, along with a greater demand for accountability and transparency, has driven an increase in the need to manage the increasingly complex relationships and manage the performance of these relationships. This has led to two major trends:

1. An increase in performance based remuneration or payment by results (PBR)
2. An increase in advertisers and procurement measuring and managing the various supplier relationships to maximise outputs

PBR is taking an increasing presence in agency remuneration because it provides accountability to agency remuneration. Correctly applied it helps align the various suppliers to the advertisers objectives

## **Additional Comments**

### Agency Remuneration

Media commissions and service fees are virtually unheard of today, however there are occasionally those still using this system.

Most advertisers are primarily using either:

- Retainer for an agreed level of resources x direct salary cost x overhead and profit multiples

- Retainers where the resource level is based on a pre-agreed scope of work
- Project fees fixed and agreed for certain outcomes
- Project fees based on agreed head hour rates
- Head hour rates
- A combination of two or more of the above

Increasingly, though still in the minority, advertisers are including a payment or bonus based on the pre-agreed key performance indicators for the success of the activity

The latest trend is linked to the other trend I mentioned towards having multiple agencies or specialists collaborate on a single campaign. There is a component of performance that is linked to how effectively they work with other suppliers. While this can be complex to measure and administer, it is showing some outstanding results.

There is still much debate on which remuneration model is the most effective in delivering value, with many advertisers experimenting in many different variations of those outlined here, although the retainer model is seen as the most common and easiest to administer.

## Production Costs

For the sake of simplicity, I will focus on traditional advertising production including:

- Television, cinema and video
- Print media (newspapers, OOH, magazines etc)
- Print (POS, brochures, flyers, direct mail etc)
- Radio
- Digital advertising
- Digital websites

Production costs are usually based on:

- All external third party costs are supplied to the advertisers at net
- Agency costs are either by head hour rate or fixed pre-agreed cost

Technology is having a two fold effect:

- Propagation of technology is leading to workflow efficiency, and lower costs, through automation of process
- Technological innovation is driving up costs by providing breakthrough creative opportunities, especially in the video space

Many advertisers are looking at unbundling aspects of the production process to deliver economy of scale efficiencies to the bottom line

## Media Costs

There are primarily two costs associated with media planning and buying:

- The negotiated cost of the media (Usually 90 – 95% of the media budget)
- The fee paid to the agency to plan and buy the media (Usually 3 – 10% of the media budget)

Most media agency remuneration is based on:

- Retainers of pre-agreed resources required to plan and buy the media
- A percentage of the value of the media spend paid to the media agency
- Head hour rates for specific resources and services

The increase use of digital media (Both display search and social) has seen an increase in the ratio between cost of resources and spend with digital spend being generally lower per campaign and more resource intensive in planning, tracking and optimisation

In traditional media, advertisers are increasingly paying bonuses to the media agencies for achieving higher than industry standard media value for the spend size to incentive the negotiation process.

Media agencies are also increasingly offering non-media or diversified services such as content creation, often in association with the media proprietors, more cost effectively than their creative agency counterparts.

## Auditors

The final comments I would make are about the role of auditors in the Private Sector

Advertisers use a number of auditors and cost consultants on either a regular or ad-hoc basis.

Almost all agency contracts have the provision for a contract compliance audit to be undertaken during the contract period. This is undertaken where there is a belief that there is the possibility of non-compliance. Some advertisers undertake compliance audits annually as a matter of routine, especially for the media agency.

Agency remuneration is often negotiated and benchmarked using industry benchmarks either by procurement or specialist cost consultants at the time of the contract or at the contract review.

Production cost consultants provide cost assessments and post-campaign audits to ensure the correct costs are applied to the production and all savings are passed to the advertiser.

Media rate benchmarking is often performed annually, increasingly by an external third party, especially where the agency bonus is linked to the media value delivered by the agency.

Eg billing rate, frequency,

In preparing for today, I came across a very good illustration of the core principles in AANA's Guidelines. This is from Chris Herd of the UK Institute of Practitioners in Advertising

**"FORGET, JUST FOR A MINUTE, THAT YOU ARE BRIEFING AN AGENCY. INSTEAD, PRETEND YOU ARE STANDING ON THE BANK OF A RIVER ABOUT TO BUILD A BRIDGE."**

Around you are architects, builders, all sorts of different experts that you have hired to help you. They might all come from different specialist companies, or they might all come from a single one-stop-bridge-shop. It really doesn't matter. All that matters is that you build the best and most effective bridge you can.

So what brief should you give them in order to get that perfect bridge?

How about **where it should start from**? Where are you standing right now? Where is 'point A'? They need to know that. That's not up for debate.

And what about **where it should finish**? Where's 'point B'? The destination. If I were the architect, that's the bit of information I'd want made pretty clear.

Finally, what about **how to build the bridge itself**? Probably not.

Maybe you'd give them some ideas on what the bridge might look like, what vehicles will need to cross it, what size boats will need to go underneath it, how high the hand-rails should be, etc, etc. But you're not going to tell them how to build the bridge. That's their job. You're going to sit back and wait to see the drawings.

It's the same with briefing agencies. They need to know where you are now. And they need to know where you want to get to. What will success look like? And how will it be measured?

If every agency involved in your campaign shares that same information, aren't they likely to work better together to achieve the desired result?

So when you're writing an agency brief, think "**Where am I now?**" and "**Where do I need to get to?**" Make it crystal clear. And you'll find that most agencies will be pretty good at getting you there.