Minimising Wastage and Optimising ROI in Digital Advertising: a CMO Study

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Global digital advertising is now a $117 billion industry[i], but while advertisers are spending more than ever before in digital, AudienceScience has found that many advertisers lack the transparency and control needed to make the most of their digital investments. With digital continuing to grow in importance for advertisers globally, it is essential that advertisers overcome these limitations – including many of the misconceptions they have about digital advertising.

In order to better understand the pain points of global digital advertisers and identify potential solutions to their problems, AudienceScience worked with both BSBMedia and The Vision Network to launch the first annual International Media Image Survey (I-MIS), a unique study conducted in Spring 2013. Run in conjunction with the International Advertising Association and Warc, the study provides insight into both international network media agencies and media owners. Interviews were conducted by InSites Consulting with over 300 network media agencies and advertisers with international responsibilities (240 agencies, 64 clients), and were administered via an online questionnaire.

Key Findings

Across all sectors, we found that digital is growing in importance for European advertisers; however, television still remains the largest single budgetary line item for the vast majority of advertisers spending £12M or more, with digital trailing significantly in investment.

Additionally, we found that:

- **Advertisers remain uncertain of the ROI of digital.** Only 35% of advertisers surveyed believe that digital media is proven to provide ROI. In contrast, 40% of advertisers indicated that they have not yet found a good way to determine digital media ROI. In addition, 17% outsource all digital decisions to their agency.
- **Advertisers lack detailed insight on digital media budget allocation.** Nearly two-thirds, or 63%, reported either no insight at all or only high level reports from their agencies. This leaves only a third of advertisers who get full transparency into all costs (including third-party fees) associated with digital media spend.
- **Advertisers highly underestimate costs associated with fees and media arbitrage.** For most advertisers, digital advertising today involves a complex array of partners and intermediaries, each taking a fee for their part of the process. In fact, Boston Consulting Group estimates that digital campaigns often involve over 20 intermediaries, each carrying their own cost in fees and labour[ii]. And earnings records from public intermediaries show that fees can be in excess of 40% per vendor[iii]. However, data suggests many advertisers are unaware of this: forty-two percent of advertisers believe that less than 10% of their media spend goes to fees and vendor margins from media arbitrage and only two percent of advertisers believe that more than half of their media budgets go to fees, not working media.
- **Transparency is the key to minimising waste.** Forty percent of advertisers believe that the single most effective way to manage digital media waste is to use a tool that provides transparency into their digital media spend.

An in-depth look at European advertisers

European advertisers are a busy lot. Surveyed advertisers crossed all sectors, including major advertisers in luxury goods, automotive, telecom, retail, and finance. They command large budgets – 25% manage marketing budgets greater than £70 million annually – and while 88% were based in Western Europe, they have global responsibilities that span from Europe to Asia to North America (see Figure 1). Across sectors, we found some consistent trends:

- **Digital is growing in importance for European advertisers.** It should come as no surprise that advertisers are investing more in digital. Over 50% of advertisers expect growing importance for each digital channel over the next 18 months and few advertisers expect digital channels to decline in importance (see Figure 2). Mobile, in particular, is of high interest, with 83% of advertisers concluding that this area will grow in importance over the next 18 months.
- **TV still dominates advertising budgets.** That said, TV remains the largest single budgetary line item, especially for larger advertisers (those who spend more than £12M annually). In fact, large advertisers will spend nearly 42% of their budget on TV in 2013, while spending less than 11% of digital display and video combined (see Figure 3).

FIGURE 1: WHICH OF THE FOLLOWING REGIONS DO YOU HAVE RESPONSIBILITY FOR?

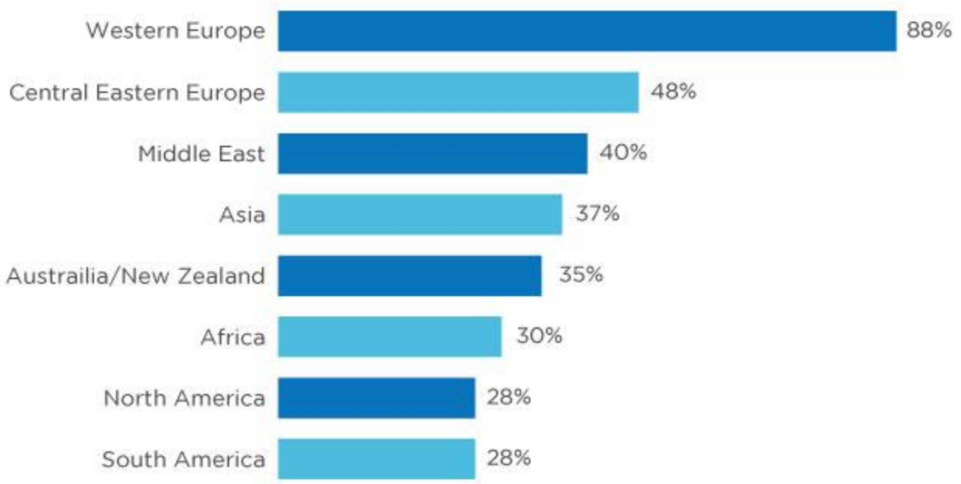


FIGURE 2: WHICH PLATFORM, IF ANY, DO YOU EXPECT TO GROW IN IMPORTANCE OVER THE NEXT 18 MONTHS?

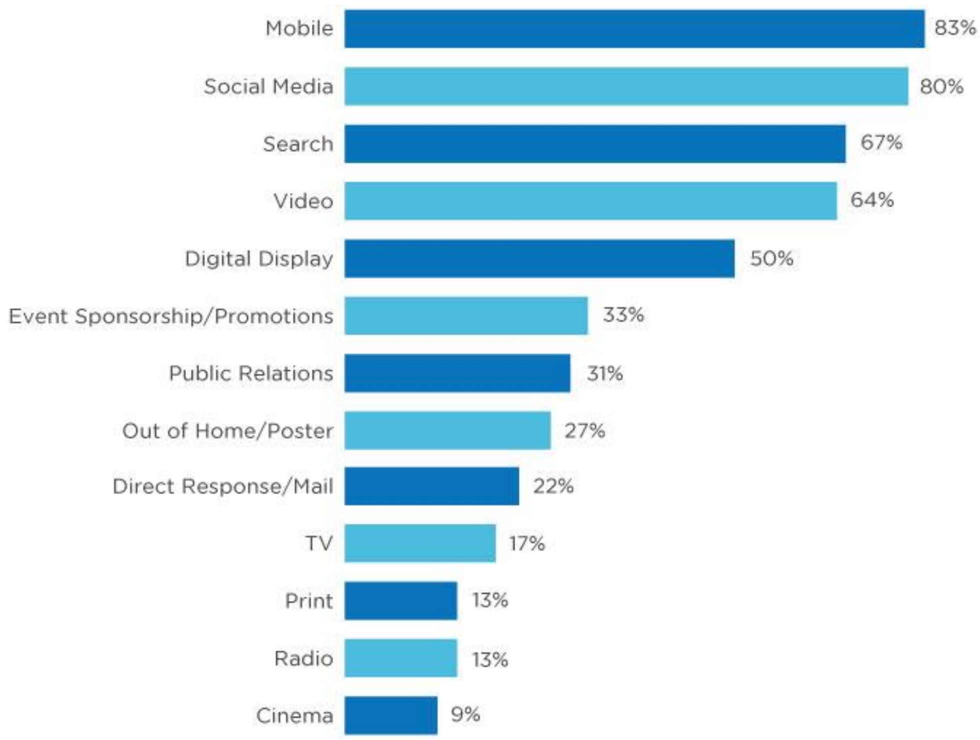
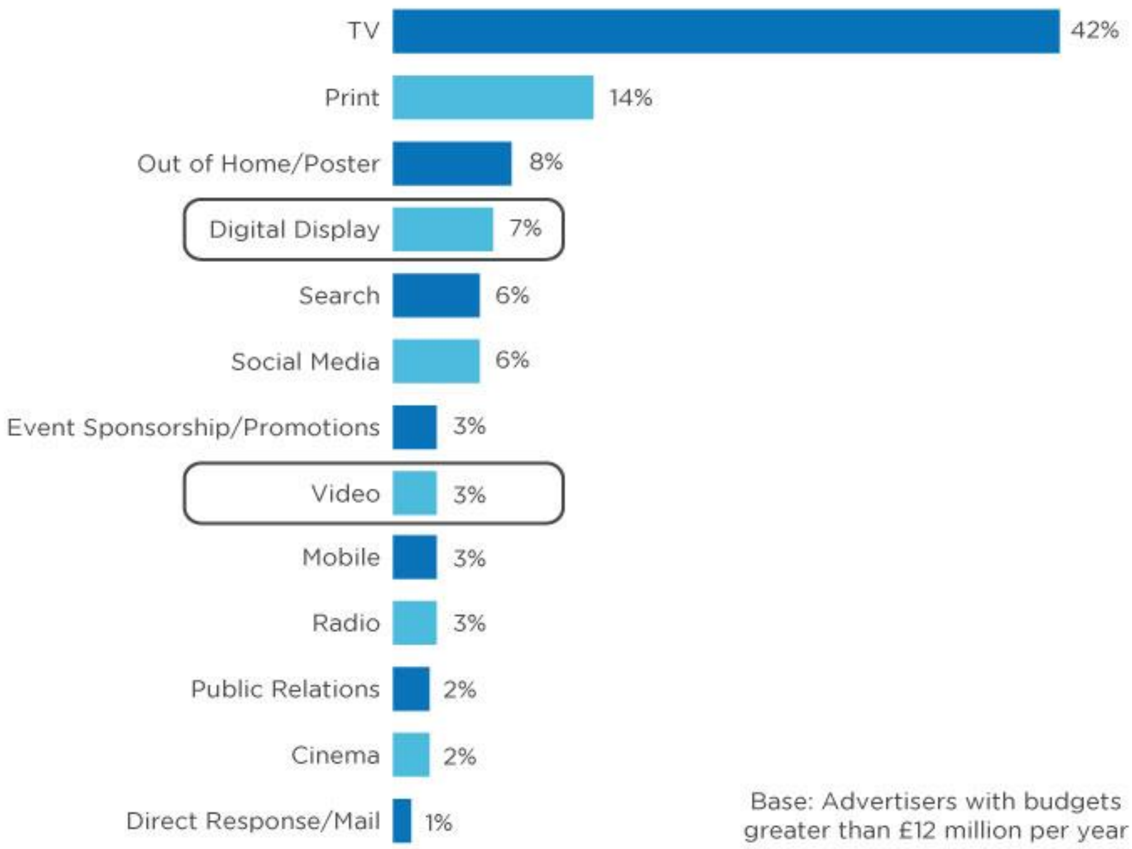


FIGURE 3: WHAT PERCENTAGE OF YOUR ADVERTISING/COMMUNICATIONS BUDGET DO YOU EXPECT TO SPEND ON THE FOLLOWING IN 2013?



Despite increasing importance, advertisers still unsure of efficacy of digital

While the vast majority of European advertisers readily attest to digital's importance, far fewer are eager to invest significant financial resources into digital channels. In fact, large European advertisers are investing the majority of their marketing budgets in TV and print. In contrast, digital display – the most well-funded digital platform – receives only 7.5% of budgets from large advertisers. We found that advertisers still face barriers to making larger digital commitments.

- **Advertisers are still uncertain of how to measure ROI.** Thirty-five percent of advertisers believe that detailed research has proven that digital media delivers a good ROI compared to only two percent who cite digital as a poor performer. Yet, even larger numbers of respondents don't feel like they can reach a conclusion at all – forty percent have yet to find a good way to determine the ROI of digital media (see Figure 4).
- **Advertisers lack the data necessary to truly assess the value of digital media.** While increasingly sophisticated measurement methodologies may help some advertisers better understand the value of digital media, the majority lack even the basic cost details needed to quantify digital's value – let alone optimise the performance. In fact, only a third of advertisers report that they receive fully transparent reporting into all costs – including those charged by their

agency and other third-parties – for their digital media campaigns. Even worse, 17% report that they receive no detail whatsoever about fees and costs associated with their digital campaigns (see Figure 5).

FIGURE 4: WHICH OF THE FOLLOWING MOST ACCURATELY DESCRIBES HOW YOU DETERMINE RETURN ON INVESTMENT (ROI) FOR YOUR CURRENT DIGITAL MEDIA ACTIVITY?

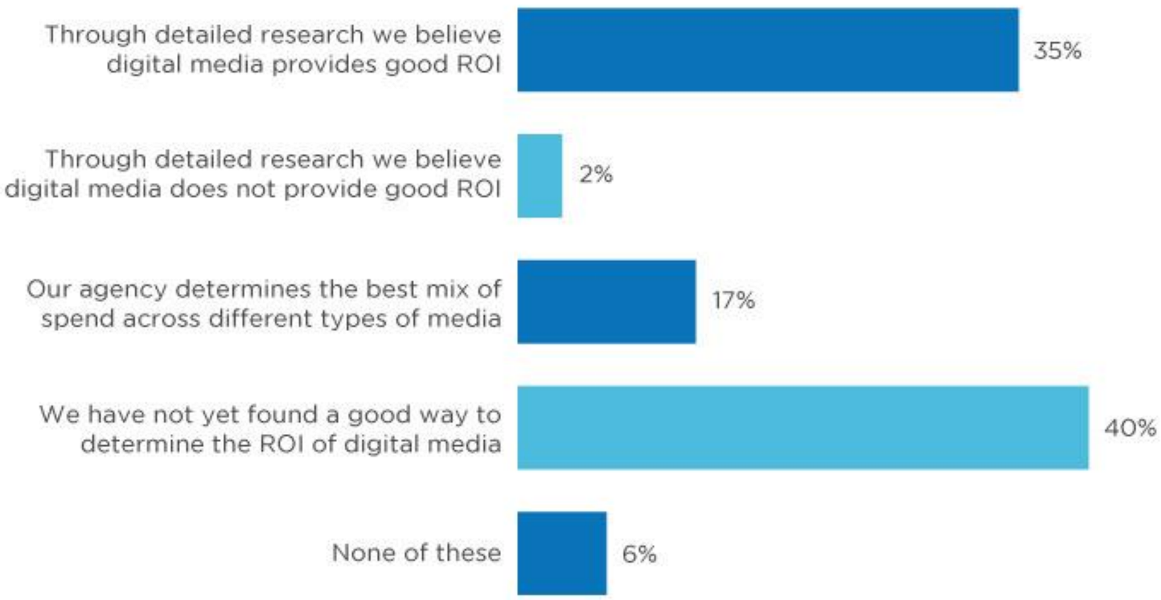
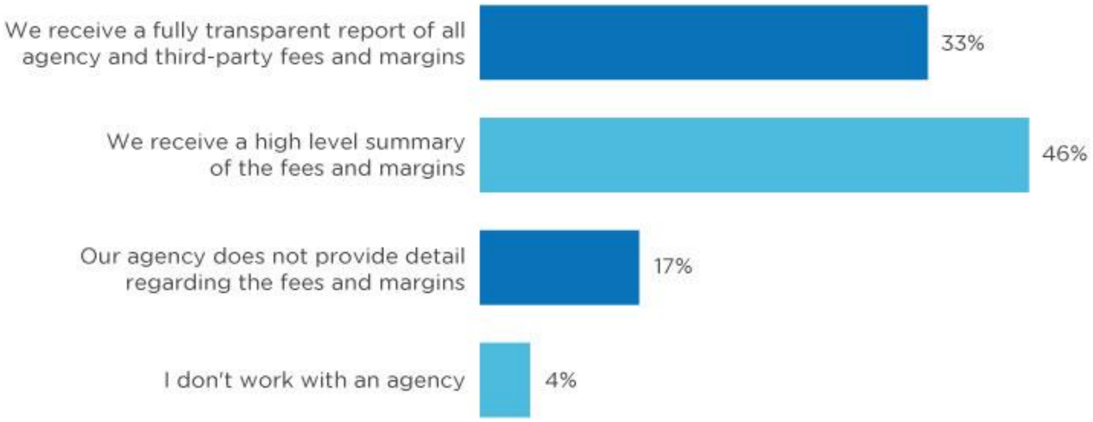


FIGURE 5: TO WHAT EXTENT DOES YOUR AGENCY EXPLAIN THE COSTS ASSOCIATED WITH DIGITAL MEDIA ACTIVITY THEY MANAGE ON YOUR BEHALF?



Advertisers underestimate the scope of non-transparent costs in digital media

Based upon public earnings data and historical experience, advertisers are vastly underestimating the percentage of their budget going to non-working media, and it is precisely these fees that undermine the ability to calculate ROI. A strong plurality (42%) of advertisers believe that fees and non-transparent media markup (margins) account for less than 10% of their digital media spend (see Figure 6). However, multiple cost centres factor into an advertiser's digital media budget, many of which are not transparent to the advertiser. These cost centres can easily add up, and can account for over 50% of an advertiser's media budget as described below:

- **Agency fees.** Agency fees are what advertisers typically associate with fees paid as part of digital media buys, and they are usually less than 10% of an advertiser's spend. The transparency of these fees allows the advertiser to properly assess the value of their agency's services, as well as negotiate when appropriate. However, agency fees are only a part of the overall cost of business for most digital advertisers.
- **Network arbitrage and trading desk fees.** Ad networks ensure healthy profits by purchasing media publicly available on ad exchanges and reselling that inventory to advertisers, often at a 40%-60% markup[iv]. Agency trading desks, used by advertisers to execute programmatic media buys, are increasingly part of many advertisers' digital media campaigns. While some trading desks opt to make their fees transparent to advertisers – charging anywhere from 10%-20% on top of standard agency fees for their services – many advertisers have little insight into the extent of these fees and exactly how their campaigns are executed. In fact, even employees of the agency of record may lack insight into how their own agency trading desk is managing campaigns[v].
- **Data and other technology fees.** In addition to service fees or marked-up media fees, advertisers may incur other costs associated with the acquisition of audience data for optimisation or the use of technologies like demand side platforms (DSPs) for campaign

execution. For instance, advertisers may pay anywhere from £0.50 to over £3 per thousand impressions for using third-party data to target advertising and may incur fees of 10%-20% of media spend for campaigns run through DSPs. For example, data exchange eXelate found that agencies use third-party data as part of 52% of digital campaigns[vi].

FIGURE 6: APPROXIMATELY WHAT PERCENT OF YOUR DIGITAL MEDIA SPEND GOES TOWARDS FEES AND MARGINS BY YOUR AGENCY AND OTHER PARTNERS?

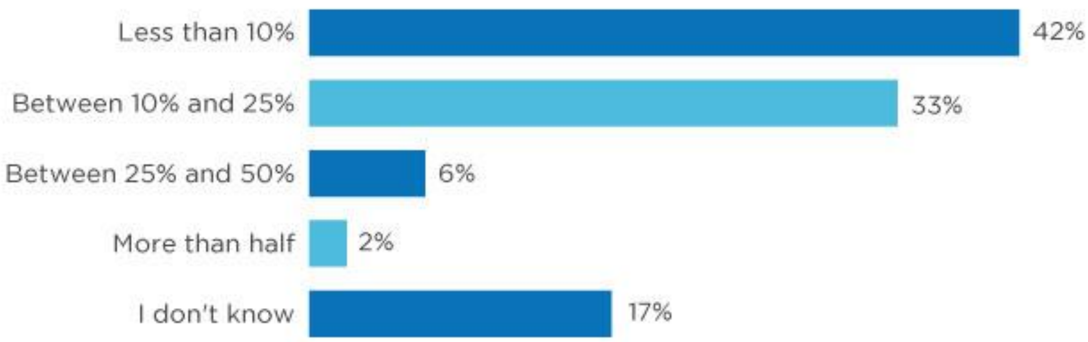
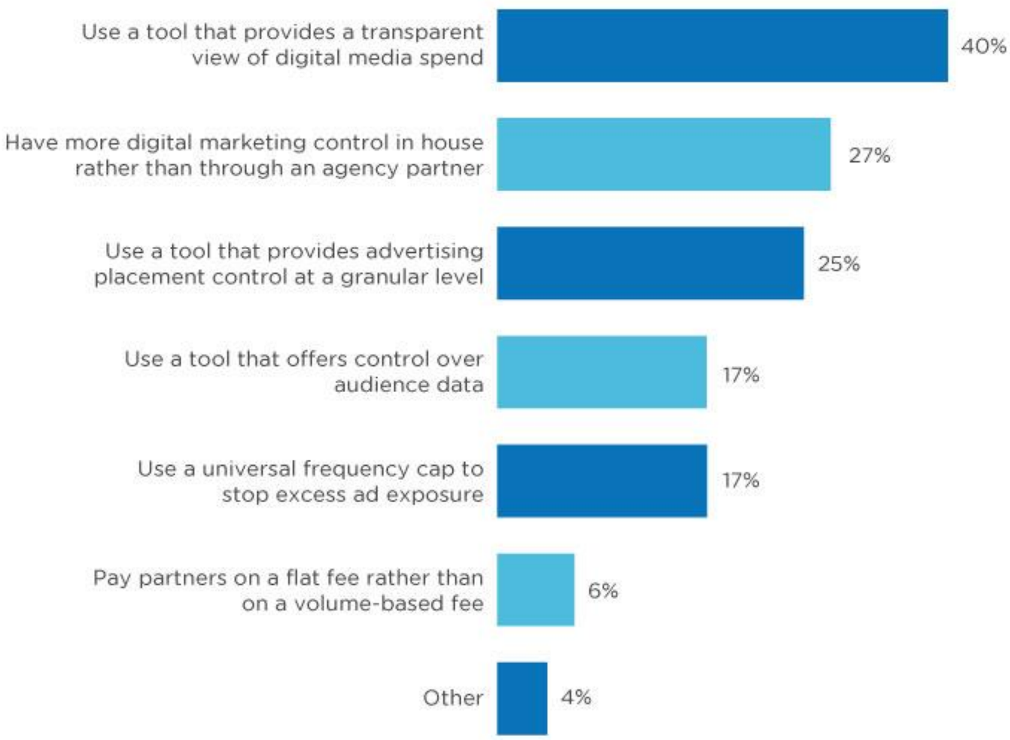


FIGURE 7: IN YOUR OPINION, WHAT IS THE SINGLE MOST EFFECTIVE WAY TO MANAGE DIGITAL MEDIA WASTE?



Conclusion: Transparency is key to better digital media ROI

It's no surprise that advertisers today are uncertain of digital's ROI: they simply lack the transparency needed to cut costs and improve performance enough to justify larger digital investments. So what can advertisers do to reduce waste and improve ROI?

- **Adopt technology to provide transparency across all digital media buys.** Forty percent of advertisers believe that a tool that provides transparency across all buys is ideal for better managing digital media spend (see Figure 7). With one tool, advertisers can track how their budget is spent across all inventory sources and get more granular control of ad placement.
- **Look to manage more technology in-house.** Twenty-seven percent of advertisers believe that bringing control in-house – as opposed to simply outsourcing all tasks to agencies and other partners – would be most effective for eliminating waste and creating transparency.

Advertisers who take control of their digital spend don't have to bring all media buying in house. Advertisers should look to bring in the technology needed to create transparency and increase control while still utilising their agency's strengths in strategic planning, buying power and creative thinking. They should look towards their IT teams – with strong histories vetting and purchasing technologies – for guidance on how to best approach working directly with marketing technology vendors who can offer the ROI and transparency that will set the growth of digital marketing spend for European advertisers in the future.

Sources

[i] Source: eMarketer, August 2013

[ii] Source: Boston Consulting Group. “Efficiency and Effectiveness in Digital Advertising: Cutting Complexity, Adding Value”. 22 May 2013.
https://www.bcgperspectives.com/content/articles/media_entertainment_marketing_cutting_complexity_adding_value_efficiency_effectiviness_digital_advertising/

[iii] Publicly-traded ad networks report on their margin – the difference between the cost of acquiring impressions and the price they charge advertisers and agencies – as part of their standard quarterly filings. According to SEC filings for Q1 2013, major networks Valueclick Media, Millienial Media and Tremor Video all operated between 41.6% and 62.3% margins.

[iv] See endnote ii.

[v] Source: Shields, Mike. “IPG Reorganizes Trading Desk Operations as Company Tries Automation.” *Digiday* 10 April 2013.

[vi] Source: eXelate. “2012 Audience Targeting State of the Industry Survey.” 10 January 2013

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