

BIDDING. UNDER THE RADAR?

An AICE White Paper
June 1, 2009

There's a growing trend among agencies that marketers should be aware of. Across the country, more and more advertising agencies are bringing post-production in-house as a new profit center. As agencies scramble for footing in today's rapidly changing environment, it's easy to see why it would be in their best interest to develop new revenue streams. The big question is, "is it in the best interest of advertisers, too?" AICE would argue that it is not. In fact, this increasingly common practice may ultimately cost advertisers more – both in additional costs and decreased quality.

While we clearly have a strong interest in maintaining the stability of our industry, our concern is larger. At the heart of this issue is the right, indeed the obligation, of the advertiser to ensure that their dollars are being spent to create the very best product at the very best value. The fact is, in today's environment, the concept of the best product at the best value may be at risk.

Agencies with in-house editorial have little motive to put post-production jobs out for bid. While this may be hard to believe in these days of greater budget scrutiny, the reason it happens is that post-production has historically been an "under the radar" service. Advertisers generally leave the selection of an editorial company to their agency. As an advertiser, if your agency makes the argument that their in-house editorial services will be both cheaper and faster, it's hard not to view it as a win/win. The problem with this model is that it lacks transparency and neutrality, while limiting competition. All of which puts the advertiser at risk of a less than satisfactory outcome – financially and creatively.

Let's look at the financial side first. Simply put, the in-house editorial trend is at odds with three fundamental principles of fair business.

1. **Transparency:** When bidding is done in full daylight, all participants are encouraged to be forthright and competitive. Transparency leads to greater integrity. Openness leads to confidence.
2. **Neutrality:** It is the responsibility of the advertising agency to act as representative for their client's interests. This is challenging if an agency is also responsible for the P&L of their in-house post-production group. Competing agendas make it difficult to exercise impartiality.
3. **Competition:** When companies compete, the "consumer" gets what they want. Competition encourages companies to deliver better products and better service at better prices.

The common line from agencies is that they can do what the independent creative editors do – for less. In fact, the independents have greater leverage in negotiating fees that are competitive with, or in some cases, even better than in-house rates.

What about the creative product? Again, it's important for advertisers to understand the facts. Independent post-production companies are singularly focused on delivering a brilliant product – whether it's for TV, the web, cinema or a mobile phone. In order to stay ahead of the curve, independent shops make continuous capital investments in exceptional creative talent and state-of-the-art technology.

On the other hand, post-production is not an agency's core business. It's an additional revenue stream. As a result, it's unlikely they feel the competitive pressure to invest in the latest technology or staff their group with the most talented editors, graphic designers, or colorists.

We believe this is an issue that shouldn't be under the radar. It needs to be above board and out in the open.

Here are a few questions every advertiser needs to ask their agency.

From a financial perspective:

1. Is my agency providing full transparency in the post-production competitive bid process?
2. Isn't it a conflict of interest if you function as both our "agent" and "supplier"?
3. How can I be sure that any editorial cost overages will be negotiated in my best interest?
4. How can you be neutral in monitoring commercial post-production costs if you stand to gain by adding more costs?

From a creative perspective:

1. Who is editing my commercial?
2. Can your in-house editor compete creatively with the vast talent pool that exists among the independents?
3. Have you asked your creative team with whom they'd rather edit?
4. We've always understood the importance of choosing the right director and right editor. Has this changed? Have editorial services become a commodity?

For more information or to discuss this premise, please contact Burke Moody, Executive Director, AICE, Inc.