

Kinesso Australia

Submission to ACCC: Ad Tech Inquiry Issues Paper

May 5th 2020



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About Kinesso

Kinesso

Kinesso Australia is part of the Interpublic Group of Companies Inc. (IPG) a global media and marketing solutions group listed on the New York Stock Exchange. Today, IPG manages \$39 billion in marketing investment on behalf of its advertiser clients, employing over 12,000 marketing communication specialists in more than 130 countries. Kinesso is IPG's foundational data and technology layer and provides comprehensive data-driven marketing solutions to advertisers. Kinesso's offerings are structured to improve media and marketing performance with an emphasis on accuracy, agility and effectiveness. Cadreon is the programmatic activation division of Kinesso.

For more information, please visit <https://kinesso.com/> and <https://www.cadreon.com/>.

Due to the focus of the Ad Tech Inquiry Issues Paper (Inquiry) being the adtech sector it is appropriate that the submission is made by Kinesso on behalf of IPG.

Executive Summary

Kinesso welcomes the opportunity to submit a response to the Inquiry. The intention of this submission is to offer an open dialogue and informed view of the digital media and adtech marketplace. Both Kinesso and IPG Mediabrands (a sister company within IPG) worked closely with and provided input into the Media Federation of Australia's (MFA) submission into the Inquiry. To that end we support the MFA's submission dated 5 May 2020 and the views expressed by the MFA in that submission. This submission has focused on general industry practices, primarily so as not to divulge any commercially sensitive information of any advertisers or Kinesso. We have aimed not to duplicate the MFA's response, focusing only on areas where we can provide additional insight, in particular:

1. The concentration of market power;
2. Agencies' status as independent contractors and exposure as principal in media buying transactions;
3. Deal creation and choice of Ad Tech service providers in a complex marketplace;
4. The evolution of agencies' remuneration models; and
5. The potential challenges to the vertical integration of Ad Tech stacks and limitations in the Ad Tech eco-system.

Part 1: Concentration of market power and competitiveness of the marketplace

The media landscape has become more and more competitive over the years, driven by significant competition between agencies and a notable scrutiny of their operations. A concentration of market power in advertisers' favour has enabled them to continuously pressure agencies to deliver better media pricing. Demonstration of both competition factors in the marketplace but also benefits of market power for the advertisers is summarised below:

1- Ability to pitch & move frequently

Most advertiser contracts are for a period of 1-2 years, which means high potential for competitive review of a relationship on an ongoing basis. In the past, contracts were routinely renewed if agency performance was high and the agency/advertiser relationship was sound. That has changed in recent years, with advertisers 'going to market' simply to test for additional value, irrespective of agency performance or strength of relationship.

Advertisers also have the ability to move to a different agency with relative ease. This can be achieved by pitching the business as most contracts between agencies and advertisers only have 30-90 days' notice to terminate without cause and contracts between media agency and advertiser are typically non-exclusive (that is, advertisers can use alternate providers during period of contract) while at the same time advertiser terms often dictate that a media agency cannot contract with a competitor of the advertiser for the duration of their contract, and in some cases, after termination of the relationship. This results in a highly competitive pitching environment driven by aggressive advertiser procurement initiatives over the years.

Consequently, advertisers will typically receive further savings on media pricing and fees each time the account is pitched, consistently pushing down prices. Many (and increasingly more) advertisers have become procurement department led, and actively implement the strategy of repeated pitching, to extract more value from the market. This approach has risen dramatically over the last 5-year period.

2- Provision of increased data granularity during pitches

As referenced in the MFA submission, the level of data provided to advertisers during the pitch process is detailed and the process is rigorous, giving an advertiser and their consultants detailed visibility of costs across a range of competing agencies, which also drives the highly competitive processes. There are also cases of advertisers running auction type processes where the winning agency will be selected on the basis of the lowest bid across various pricing grids. Furthermore, in many cases, prices submitted in this competitive process are expected to be delivered by the agency regardless of actual media cost charged by media vendors, essentially guaranteeing fixed price media costs for the advertiser.

3- Risk-based fee structures

To win or retain business, agencies often accept performance penalties in their agreements. This is when agencies must commit media savings targets to advertisers by placing a portion of the agency fee at risk. In some arrangements, where the agency fails to achieve the media savings targets the agency is required to pay back the cost of any media charges which are in excess of the agreed media savings targets. Such cost can be way in excess of the annual fee payable to the agency. These commitments often increase in size as the advertisers' accounts move from agency to agency over time and can often be in excess of the actual fees paid to the agency for the services.

4- Payment terms beyond industry standards

As referenced in the MFA submission, in Australia a media agency generally acts as an independent contractor when it contracts with advertisers, and acts as principal when contracting with media vendors. A media agency does not act as agent for advertisers, so there is no sequential liability where a media vendor can pursue an advertiser for payment, and the agency must pay the media vendor regardless if an advertiser pays on time or at all. Generally standard payment terms are 45 days with media vendors.

Certain advertisers use payment terms as a negotiation tool, requesting terms of 90-120 days as a non-negotiable condition of participating in a pitch process for their business. This has resulted in agencies in these cases having to finance media spend for advertisers for periods of 45-75 days, which becomes a large financial burden as the agency must finance this spend for extended periods of time. This is compounded by agencies assuming the risk where advertisers do not subsequently pay or delay payments beyond the agreed contractual payment terms. Advertisers' procurement teams see the method of pushing agency payment terms as a genuine cost saving measure within their businesses.

5- New Competitors in the Marketplace

From an agency perspective the Ad Tech marketplace has become increasingly competitive in the last few years given agencies are now competing not just with each other but with technology platforms and global consulting companies which offer programmatic services and data solutions. Advertisers also are looking to in-house their solutions, often with the support of their auditors and media consultants. The challenge is further compounded by advertisers and consultants collecting vast amounts of data from media agencies during pitches and media audits such as:

- Media agency fees/remuneration structure;
- Agency staffing costs;
- Agency Overhead Costs;
- Agency margins;
- Agency media pricing;
- Agency 3rd party technology cost rates; and
- Agency IP (pitch proposals and strategies).

Part 2: Programmatic trading - deal creation and applied Ad Tech

In addition to the MFA submission regarding programmatic workflows, programmatic trading and deal creation are immensely complex and carry seemingly a myriad of variables to choose from. Initiating programmatic trading activity requires detailed application and setup time – administered by highly skilled programmatic practitioners – intended to gain *'price discovery' (the act of determining the proper price of an impression by studying market supply and demand and other factors associated with valuing the impression)* of the most favourable bid price for the inventory that achieves the most effective outcome for the advertiser.

Cadreon, the programmatic division of Kinesso, navigates these complexities to ensure advertisers receive access to optimal deal structures for price advantages and Ad Tech to achieve their marketing goals. The following aims to highlight the level of complexity in how bid price deals are derived and how Ad Tech is assessed for every programmatically-activated campaign. The two key areas that enable Cadreon to provide value and drive performance are:

- 1- Creation of marketplace deals; and
- 2- DSP selection and performance measurement

Marketplace deals

Display inventory is bought across two main markets. Information is needed depending on the market chosen to operate in:

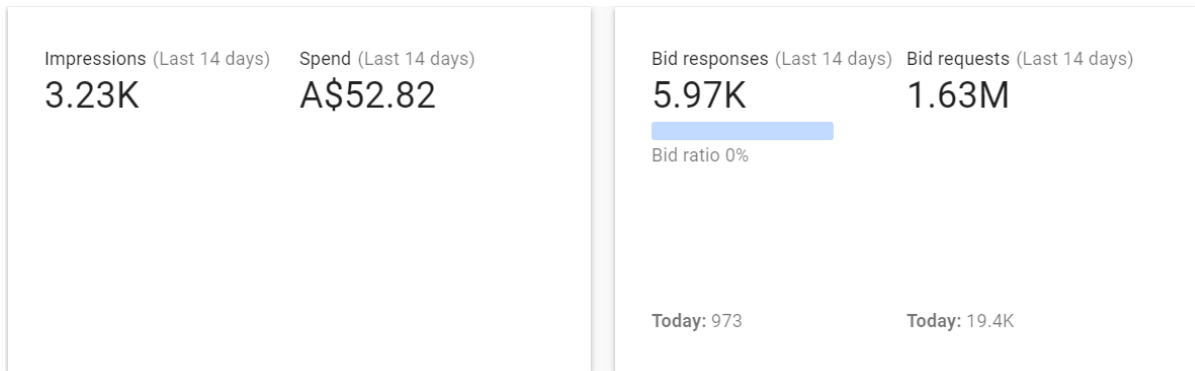
- I. **Private Market Place; or**
- II. **Open Market real time buying.**

I. **Private Marketplace Deals (PMPs)**

PMPs combine the safety and control of direct-publisher transactions with the audience-targeting efficiency of programmatic buying to deliver better viewability, engagement, contextual relevance and overall brand safety. Using campaign briefing information, one is able to select the most appropriate publisher environment based on a campaign's target audience and KPIs.

When buying via PMPs, information is required on the publisher's technology suite, which Supply Side Platforms (SSPs) the publisher uses and how are they using the SSP; this can be either on a tag-based model (also known as waterfall) or through header bidding. If the publisher leverages a tag-based model, buyers also need to be provided with information related to each of their SSP locations within the waterfall so as to understand the buyer's priority within the ad-call. This influences the buyer's chance to win bids through the buying auction.

Once the agency confirms which SSP the publisher uses, the agency shares its seat ID, relevant to the Demand Side Platform (DSP) selected for the given campaign. Through the seat ID, the SSP and DSP communicate and share data. It is important the agency tracks data it receives from the SSP relevant to bid wins and bid losses in order to determine the performance of the PMP and if any campaign/bidding? revisions are required. This is a snapshot of data passed back within SSPs and DSPs to determine a deal's health:

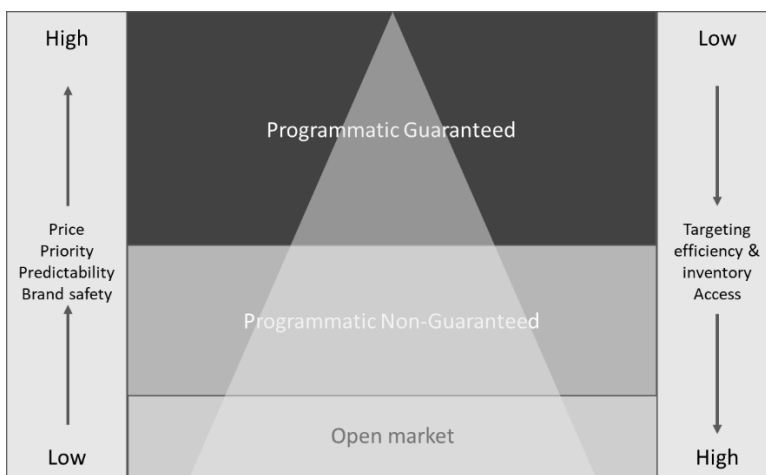


When the publisher’s selling model is established, the buyer requires the following information:

- Which deal types can one access across the selected publisher and what are the respective rates; and
- Which display creative formats does the publisher offer and what are the respective rates.

The Agency has access to 3 different buy types which respectively have 3 different levels of priority within a waterfall environment. This is where the buying position of the agency is able to negotiate upfront better market prices.

1. **Programmatic Guaranteed (PGs) – 1st level of priority**
- 2A. **Non-Guaranteed; Unreserved Fixed Rate Deals (UFR) – 2nd level of priority**
- 2B. **Non-Guaranteed; Private Auctions or Invite Only Auctions (IOAs)- 3rd level of priority**



1: Programmatic Guaranteed Deals

A guaranteed deal allows a buyer to lock in a fixed amount of spend and impressions with a publisher. That means the targeting, CPM, and start and end dates for the deal are fixed. This is done on a campaign-by-campaign basis and only used when the buyer needs to secure publisher inventory

for a campaign. All deal pacing and spend is managed on the publisher's side as DSP's have no capability to overlay any targeting on the buy side. It is the buyer's expectation it will respond to 100% of inventory coming through the deal.

Hence it is important to always brief out the below to a publisher:

- Campaign Name;
- Campaign Start & End Date;
- Type of Inventory; Video / Display;
- Spec of Inventory; Duration / Banner Size;
- Targeting Requirements;
- Frequency;
- Brand Safety vendor (IAS / Grapeshot); and
- DSP.

2: Non-Guaranteed Deals

A non-guaranteed deal is a direct-to-publisher deal where we do not guarantee any spend commitment to a publisher or vendor. This allows us to move spend across deals based off performance. There are a few ways a buyer can make non-guaranteed deals:

2A: Unreserved Fixed Rate Deals

This is a PMP that comes through with a fixed CPM, meaning regardless of what bid price we apply against the deal, we will always clear at the pre-negotiated rate with the publisher

2B: Invite Only Auction / Private Auction

This is a PMP where only a select few trading desks will be invited into a private auction to bid on publisher inventory. It's bought at a floor CPM where the clearing rate will fluctuate depending on demand.

II. Open Market

If buying display inventory through the Open Market, you need to have information on the Demand Side Platform's (DSP) choice of real time bidding model, and be aware of any whitelists and blacklist in place as well as whether the DSP will commit to utilising pre-bid brand safety measures set by the agency/advertiser. It's important to be aware of the following costs:

- Data targeting CPM load;
- Pre-bid brand safety and/or viewability solutions; and
- CPM loads.

DSP selection and performance measurement

Cadreon has a DSP capabilities grid used to analyse and determine which DSP is suitable for a particular campaign. This assesses (among other things) the DSP's ability to buy certain inventory, or access new media channels, activate data from the DSP's data library and/or forecast accurately.

Example of capabilities grid report.

CADREON		DSP/Platform						
Targeting		DBM	MediaMath	Turn	Adobe	Rocketfuel	The Trade Desk	Facebook
Inventory	Display	Y	Y	Y	Y	Y	Y	N
	Video	Y	Y	Y	Y		Y	N
	YouTube	Y	N	N	N	N	N	N
	Native	Y	Y	Y	Y	Y	Y	N
	Facebook				Y	Y		Y
	Instagram				Y	Y		Y
	Snapchat	N	N	N	Y	N	N	N

This is supported by a Global Score Card for each DSP that analyses service levels. There are 5 categories that the DSPs are rated on: Performance, Functionality/Usability, Inventory/Integrations, Operations/Support, and Business Alignment.



Please note, however, some advertisers will demand that we use only a certain DSP to trade from.

DSPs provide information such as CPM’s, viewability, brand safety, benchmark of results, size of the target audiences, performance goals (e.g., viewability), geography, win rates and bid forecasting information.

Based on information available within the campaign itself we also have internal dashboards available that contain these metrics and populates campaign data daily which includes basic metrics such as CPM’s but also viewability rates and other performance goals.

Advertisers are provided standard and customised reporting information (i.e., in response to specific data requests from agencies/buyers) concerning their campaign activation, management and measurement. After we receive a brief from the advertiser, we put together a response which includes technology anticipated to be leveraged as part of the buying strategy, buying methods, channels and devices of choice, publisher of choice and weighted budget allocation. We don’t proceed until the advertiser has approved the recommendation. Throughout the campaign length advertisers receive weekly or fortnightly reports on their campaign performance, which might include customised reporting. After each campaign advertisers also receive a post campaign report (PCR) which is usually delivered through a presentation with relevant commentary on performance. The reports include performance results across the advertiser’s campaign, required KPIs and requested metrics as well as what we consider “hygiene metrics” such as: viewability; completion rate; effective CPMs; and cost per acquisition. Other data that can be included in reporting are the

sites where the advertiser's ads appeared, contextual environments where ads were delivered (such as entertainment, sports etc.) and finally, audiences that were served the advertiser's ads.

Through this granularity of reporting in each DSP a breakdown of the media costs and DSP platform's fees is provided. Our selection ensures the DSP platforms we work with are transparent in their costs before onboarding. It is, therefore, through transparency of DSP platform fees and data fees we are able to optimise effectively. Knowing these costs influences the choice of DSP but also data providers available within each DSP.

Part 3: Ad agency remuneration and working media

The model as to how media agencies are remunerated has changed over the years, based on the evolution of the media landscape. Advertisers now have a choice of commercial models under which they can engage digital agencies. Factors like trading complexities, upfront technology investment costs made by the agencies and requirements of advertisers as to the level of visibility they require into the programmatic supply chain all impact the attractiveness of a particular financial model to an advertiser.

More specifically, the model largely has evolved from that of a performance-based structure to a service model. With a performance-based structure, the advertiser is guaranteed a CPM to target a specific audience, and the CPM includes agency remuneration and all third party costs, meaning that the agency takes all risk by guaranteeing a fixed CPM to the advertiser. With a service model, all third-party costs including technology costs are charged out separately. A service model can be priced either on an FTE (headcount based model) funded by a fee, or commission based, where the fee is levied as a % of total campaign or media spend. This model is by far the most common deployed by Kinesso today with the majority of advertisers choosing this as an option.

There are merits to both models and reasons why advertisers may desire to undertake a specific option:

1. Performance (guaranteed outcome based) model – guarantees advertisers a guaranteed price for a defined outcome (i.e, a delivered audience).
2. FTE/Commission model –advertiser bears the risk that an outcome will not be delivered as desired, but delivers the advertiser greater visibility of the components of the supply chain. Yet the advertiser must be more involved in the process, being involved in selecting and approving platforms, media and data sets used. This may not suit some advertisers who do not believe they have the capacity or knowledge to do so.

Advertisers therefore have options with regards to which model suits their needs and what is most important to them.

The notion of 'working media' and 'non-working media' has been woven into the conversations (introduced by publishers and advertiser procurement teams) around programmatic in recent times.

Its origins are based on how many of the ads bought were legitimate, viewable or seen by consumers. That has recently 'morphed' into how many cents in the dollar find their way to the actual media vendor. With programmatic media placement less cents in the dollar go to the media

vendor because there are other buyer side costs associated with improving the outcomes and applying brand safety solutions to media bought. Similar to the MFA's stance, Kinesso believe the term 'non-working' media is an incorrect term that assumes the additional technology, data and associated costs are not adding any value in the purchase of media impressions. Programmatic 'non-working media' aims to assess and improve the effectiveness of every impression bought and is a valued benefit for advertisers.

Costs required that are associated with programmatic are:

- Data applied for improved targeting and outcomes;
- Ad Tech to manage the trading and measurement; and
- Impression monitoring to ensure ads are delivered in suitable environments.

Programmatic trading also requires a level of reporting -often highly-customized to address specific advertiser needs- like no other media. This reporting can be resource intensive and therefore costly. And while programmatic is seen as 'automated' and therefore should be less costly, from an agency perspective it is very labour intensive, requiring highly skilled/trained individuals to be able to assess complex trading solutions, more so than purchasing traditional media. Refer to Section 2 of this submission which illustrates the complexity of just one aspect of a programmatic campaign setup.

Part 4: Supplier behaviour and vertical Ad Tech stacks

There has been a steady trend towards vertical integration throughout the Ad Tech supply chain with some Ad Tech companies steadily increasing their vertical capabilities to allow them to simultaneously play the role of publisher, supply partner and DSP. Some other Ad Tech companies have opted to avoid this issue and remain either solely on the "Buy Side" or the "Sell Side".

In the case of these participants, they work with third party Ad Tech providers to access the full supply chain and they maintain their independence by not owning any other aspect of the supply chain. Instead they integrate with third party partners to create the most efficient and competitive ecosystem possible for advertisers.

Outside of these examples of one player having a presence in all parts of the supply chain, there has still been a trend towards further vertical integration between members of the programmatic ecosystem. This has seen publishers change their approach to programmatic sales from having one or two supply side integrations and only making small portions of their inventory available through them, to having multiple supply side integrations through which all of their inventory is monetised.

Similarly, over time DSPs have continually increased the number of supply side integrations with all major DSPs now integrating with all major supply side platforms.

In theory, the benefits of a more vertically integrated supply chain are greater cost efficiencies for advertisers, as it would be expected that having fewer third parties involved in the supply chain would lower the amount of fees paid and thus pass more money through to publishers.

To date it has been impossible to quantify if vertical integration has saved advertisers and agencies any money by creating efficiencies, or if those who own multiple parts of the supply chain are

charging the same as unrelated parties would charge, or potentially favouring their own inventory. The result is seemingly less transparency around supply paths.

One issue that is common place in all DSPs is the appearance of low volume inventory in a programmatic site list. This is a blanket name applied to any site which a DSP serves inventory to but has not yet catalogued a name for. The issue for an advertiser who sees this on their programmatic site lists is that they are not able to understand which site it comprises and thus where their money was spent.

Part 5: Limitations of market participants

Kinesso has in place a highly efficient and effective process that allows independent verification in brand-safety, viewability and fraud for display ads. Please refer to diagram highlighting brand safety process applied through ad operations. Working with preferred 3rd party verification partners a third level of protection for our brands is implemented across pre-bid, post bid blocking and monitoring.

Level 1	BLACKLIST	HUMAN AUDIT	DSP IN-HOUSE TECHNOLOGY
	65,000+ sites maintained fortnightly	Manually vetting of suspect site behaviours	DSP maintained blacklist
Level 2	KEYWORD NEGATIVE TARGETING	CATEGORY & TOPIC EXCLUSIONS	
	Negative keyword list applied to all Youtube campaigns. Opportunity for clients to customise list with client category additions	In consultation with client's sensitive category and topic exclusion applied to all Youtube campaigns	
Level 3	3 RD Party PRE-BID	3 RD Party BLOCKING	3 RD Party MONITORING
	Where possible pre-bid technology applied to real time biddable campaigns	For all fully ad served activity, IAS analyses content semantics, image, metadata and inbound/outbound links on page to determine brand risk, if non brand safe content is detected IAS blocks the ad creative from serving	If an impression is site served (e.g. Youtube), we monitor none brand safe content in reporting. Any channels within environments like Youtube that are deemed unsafe, will be add to blacklist

There are at times limitations and cost considerations that prevents a full independent measure of ad quality; some of the key limitations are highlighted below. These limitations can add more cost to the advertiser and or make it more challenging for agencies to measure performance.

Ad Tech	Cost and process
3 rd party measurement and Ad tech limitation to measure CTV, In App and social environments.	Incremental costs in order to use 3 rd party verification
Limitation on methodologies like social measurement as data for measurement is provided direct from publishers	Incremental workload and reduction of efficiencies due to the lack of tech integration across walled gardens
Limitation on VAST viewability measurement	Lack of industry agreed standard

Conclusion

In conclusion we believe the following are the key factors which have an impact on agencies' delivery of adtech services:

1. Agencies have an important role to play in in the adtech sector given the increasing complexities between the delivery of digital media, use of data to enable delivery, and the variety of intermediaries in the adtech sector across various media (e.g., online, smart TV, social media) and [enabling performance analysis?].
2. Agencies have limited ability to raise and lower prices for their services - these are dictated by competitive dynamics driven by advertisers and consulting companies.
3. Media pricing and digital services are ultimately set by publishers and related intermediaries, but agencies are beholden to advertisers' commercial requirements.
4. Advertisers are seeking greater flexibility in terms of access to and control over the data throughout the adtech supply chain related to the delivery of their advertisements, whilst adtech service providers are looking to implement their own ecosystems to manage and safeguard the data they collect.
5. There is greater need for supply chain transparency (verification, pass back of data signals, data controls and pricing) to ensure consumer accountability and trust in the marketplace.

We would be happy to provide any further information required on any of the matters contained in this submission.