Dentsu Aegis Network Australia Pty Ltd

ACCC Digital Advertising Services Inquiry

Submission in response to ACCC's Issues Paper dated 10 March 2020

Dentsu Aegis Network Australia Pty Ltd welcomes the opportunity to make a submission on the Ad Tech Inquiry Issues Paper.

The key messages that Dentsu Aegis Network Australia Pty Ltd seeks to convey in this submission are:

- Agencies operate in a highly competitive, low margin market.
- Media agencies provide valuable advice and expertise to advertisers to help them navigate a complex environment.
- Advertisers are generally highly fluent with programmatic advertising [redacted].
- Agencies operate as legal principal (not as their client's agent) in their relationships with publishers, technology and data providers. The agencies therefore bear the associated financial risk until they are paid by their clients.
- Notwithstanding their continued status as legal principal, agencies have been responsive to market demand by offering greater cost transparency to advertisers as programmatic advertising has evolved.
- [redacted]

We appreciate the ACCC's consideration of this submission and would be happy to clarify any aspect of it in further correspondence.

1. Dentsu Aegis Network Australia

Dentsu Aegis Network Australia Pty Ltd is a leading media and digital communications company in Australia. It is part of the Dentsu Aegis Network ("DAN"), one of the largest media and communications groups in the world. DAN's business operations in Australia are primarily carried out though wholly owned subsidiaries within its group. Its media planning and buying agencies include Carat, Vizeum, dentsuX, iProspect and Columbus which offer a range of media solutions across different media channels and audiences, including digital.

These media agencies are supported by specialist agencies, including Amnet which operates as Dentsu Aegis Network's programmatic trading desk. Within Australia, Amnet Australia Pty Ltd is a wholly owned subsidiary of Dentsu Aegis Network Australia Pty Ltd. It provides specialised programmatic media buying, campaign management, ad serving, brand safety and media quality verification services to advertiser clients in Australia, usually as a sub-contractor of the advertiser's principal media agency.

2. Dentsu Group Structure

The Dentsu Group encompasses two operational networks: Dentsu Japan Network, which oversees Dentsu's agency operations in Japan, and Dentsu Aegis Network, headquartered in London, which oversees Dentsu's global agency operations outside of Japan. As part of Dentsu's international business, Dentsu Aegis Network Australia Pty Ltd is ultimately owned by Dentsu Aegis Network Limited in London.

3. Advertising Agency Market

The advertising agency market in Australia is highly competitive.

There are numerous agencies that compete for clients' business. These include agency holding groups as well as independent agencies. The agency holding groups have an approximate market share of 65% of overall media spend:

- Group M (WPP): 20.20%
- Omnicom: 16.6%
- Dentsu Aegis Network: 10%
- IPG Mediabrands: 8.80 %
- Publicis Media: 8.30 %
- Havas Media Group: 1.40 %

[*COMvergence, Billings, Rankings and Market Shares, Jan – Dec 2019*]

Most large clients appoint their agencies following a lengthy procurement-led tender process and are often advised by specialist consultants.

Within digital advertising, media agencies also compete with the Big 4 consultancies (who often also act as pitch consultants) and the platforms themselves who now offer direct advertising capabilities to advertisers. Furthermore, larger advertisers are increasingly replicating agency programmatic capability within their own marketing departments through direct relationships with data management platforms (DMPs), demand side platforms (DSPs), supply side platforms (SSPs) and other parties in the digital supply chain.

We therefore do not believe any agency (or their holding group) has the ability to raise fees or reduce the quality of their services without incurring a significant risk of losing clients to competitors or developed in-house capability.

4. Digital Advertising Market Trends

As the ACCC is aware, there has been a significant shift in advertising spend away from traditional media channels such as TV and press towards digital, which is now largely transacted using programmatic (i.e. automated) technology.

The first ad exchanges appeared in 2006 and agency holding groups set up their own specialist programmatic business units shortly thereafter in order to place and manage advertiser media bookings programmatically. These “trading desks” such as Xaxis (WPP), Cadreon (IPG Mediabrands), Vivaki (Publicis Groupe) and Amnet (Dentsu Aegis Network) typically acted as an extension of the principal agency’s planning and buying teams. In common with bookings made by agencies on other media channels, trading desks continued to book and buy inventory as legal principal i.e. with their own money, in their own name and at their own risk.

In the last decade, the advertising industry has faced growing advertiser demand for greater transparency over its business models and, in particular, agency relationships with their supply chains. This has driven more transparent agency business models, not just across programmatic but across other media channels too. Particularly within digital advertising, direct access to programmatic technology and data has allowed larger and more sophisticated advertisers to disintermediate agencies who have not been sufficiently responsive to market demand on cost, quality and transparency. This democratisation of technology has reduced barriers to entry, with larger clients increasingly setting up their own DMPs, obtaining their own seats on DSPs and Ad-Exchanges and in-sourcing programmatic activity to their own marketing departments. This increased market competitiveness has had a positive impact on quality and consistency of value delivery across the advertising industry.

The role of the media agency and their traditional business models have also evolved to meet market demand. While most continue to undertake programmatic planning and buying, this is now commonly undertaken with high levels of contractually agreed transparency for the advertiser. This means that the advertiser is provided with granular insight into media performance [redacted] However [redacted] Agencies [redacted] can only provide clients with details of costs charged to the agency by their immediate downstream suppliers (or estimates where suppliers do not break down costs on a per client or per campaign basis).

Where advertisers seek to establish their infrastructure to support the in-housing of programmatic activity, agencies are increasingly pivoting their service offerings towards the provision of implementation consultancy and specialist resources to manage campaigns on this client-controlled infrastructure. Concurrently, as agencies deploy consultancy capabilities, traditional consultancies such as Accenture are encroaching into traditional media planning, buying and campaign management. This convergence creates a highly competitive market for advertisers to receive better cost, quality and transparency.

DAN's view is that in this highly competitive market, advertiser demand will continue to drive the evolution of agency business models with success only possible for those who offer media quality, brand safety, competitive pricing and greater transparency. Within the less competitive technology and data stacks, advertiser and agency demands for transparency are more easily resisted. With the increased disintermediation of agencies, their ability to influence the large technology platforms on behalf of clients has diminished.

5. Advertiser Interests

As stated above, agencies are typically subject to rigorous tender processes by professionally advised clients. [redacted]

Agencies retain significant concern about whether they are able to compete fairly for advertiser business. Some pitch consultants engaged by advertisers, such as PWC CMO Advisory and Accenture Digital, offer similar services to agencies which gives rise to the risk that they might use their position as pitch consultants to gain insight into agency fees, underlying costs and service offerings in order to enhance the competitiveness of their own services. However, working with them is usually a condition of participating in the tender.

[redacted]

[redacted]

[redacted]

[redacted]

Agency compliance with transparency and performance obligations are actively monitored and enforced, usually through audits by advertisers' professional auditors. Again, despite concerns about conflict of interest, PWC and, until recently, Accenture also provide these "marketing assurance" services to advertisers providing them with further potential insight into their competitor agencies' performance.

6. Role of Agencies in Digital Advertising Supply Chain

Media agencies and their specialist programmatic affiliates continue to fulfil an important role for many advertisers. While some clients will opt to participate directly in the programmatic ecosystem, others prefer to take advantage of the significant investments in technology, data and people that media agencies have made in order to deliver effective digital marketing solutions for their clients. These options are also not mutually exclusive; DAN is aware of clients who are successfully using a combination of both.

The growth in ad-spend via programmatic technologies is a direct result of the value it can deliver for clients compared to other ways of buying media, but that value is not delivered by the technology alone. Although advertising technology like DSPs and DMPs automates some elements of the buying process, the best results are achieved by layering strategies, testing different data sources, optimising campaigns regularly while in flight and moving investment into the best performing areas. These are tasks requiring talent who not only understand media planning and buying, but also technology and trading practices.

Capability across technology, data and skilled resource to run effective programmatic trading teams is required in order to see a long-term return in investment. This was not well understood by advertisers when the trend to moving capability in-house first emerged and there are many well documented examples of clients in-housing some or all elements of their programmatic buying only to subsequently move it back to agencies who have invested heavily in ensuring all necessary elements exist. We continue to believe that the cost of using media agencies to undertake programmatic advertising represents good value to advertisers.

The global scale and aggregate digital spend volumes of the larger media agency holding groups allows them to license a broad range of advertising and marketing technologies and do so at rates not achievable for a single advertiser's ad-spend. Utilising a media agency provides clients with access to a range of best in class technology at rates they would not be able to achieve going direct. [redacted] Media agencies are therefore able to provide clients with a choice of implementation technologies and data at competitive rates while mitigating the risk of price fluctuations that would otherwise exist in such a dynamic trading environment.

[redacted]

Further, the programmatic landscape can expose unwary advertisers to brand risk and exposure to ad-fraud. Therefore, many clients recognise the benefits of engaging subject matter experts deploying specialist brand safety technology, to help navigate that financial and reputational risk and achieve a measurable return on their marketing spend in a brand safe environment. Brand safety is now typically an integral part of how an agencies performance is measured and, in some cases, remunerated.

7. DAN Digital Advertising Supply Chain

The digital advertising industry has evolved to become a complex ecosystem of technologies, data and services. These capabilities enable a variety of advertising outcomes for our clients, not typically available in more traditional media types. However, there are additional costs associated with them. The mix of technology, data and services required for each campaign differs depending on the specific requirements and objectives of the client. From a DAN perspective, all decisions around what elements of the digital supply chain (technology, data, verification, media) are applied to a client's campaign are made in consultation with the client. Similarly, DAN will only recommend the use of elements in the digital supply chain that we believe benefit the outcome of the campaign and where the costs associated to its use are offset by the value returned in campaign performance.

[redacted]

DAN's programmatic supply chain consists of partners across each part of the ecosystem:

I. Demand Side Platforms [redacted]

These are used to facilitate the buying of digital ad inventory programmatically. Typically, the decision around what platforms are used sits with the agency based on what will deliver the best outcome for clients. Similarly, the contracts and fees will be negotiated directly between the agency and technology vendor. In many cases these will be global contracts.

In relation to transparency, all these platforms will report on the cost of media or data procured through the platform and their service fees. [redacted] will report on fraudulent ad-impressions where their platform is able to identify them. DAN does not have visibility of a DSP's overheads or margins.

[redacted]

II. Supply Side Platforms [redacted]

SSPs are used to facilitate the selling of digital inventory programmatically. Typically, the decision around what platforms are used sits with the publisher based on what will generate the highest sell-through rate and yield. Similarly, the contracts and fees will be negotiated directly between the publisher and the technology vendor and treated as a cost of the goods sold.

In relation to transparency, the levels of reporting data provided to agencies is typically controlled by the publisher. While there are circumstances where the technology fees on the supply side are separated from the media cost in reporting, it is far more common for agencies only to see the total cost of the media procured, including the SSP's fee.

III. Brand Safety and Fraud Protection [redacted]

These vendors are used to monitor and block sites or content that is not considered brand safe or is flagged as fraudulent. At DAN we apply certain controls on behalf of all clients, with others applied where a specific client requires it. Contracts and fees are typically negotiated between the agency and the technology vendor, in DAN's cases after a lengthy selection process to ensure we are using the best in market technology.

[redacted] provide granular reporting around campaign performance at the client level, including technology costs. DAN does not have visibility into their costs or margins.

IV. Publishers

Publishers own and supply digital ad-inventory across display, video, social and native for our clients' campaigns. Although it is possible to buy programmatic inventory without a direct relationship with the end-publisher, most agencies including DAN maintain close relationships with their main publisher partners. This is important to maintain visibility over the end to end supply chain and deliver complete brand safety.

As programmatic technology can now handle both auction based, non-guaranteed buying and fixed price, fixed volume buying, price can be determined by different mechanics. In the first instance a combination of the floors set by the publisher and demand in the market determine price. In the second instance, price would be pre-determined through negotiation between the agency and the publisher on behalf of a client, often for a specific campaign.

In relation to transparency the level of transparency provided is at the discretion of the publisher. In all cases an agency will be able to report on the cost of the media procured but DAN does not have visibility over a publisher's costs or margins.

DAN Supply Chain Management Methodology

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

As an active member of the Interactive Advertising Bureau (IAB), Dentsu Aegis Network also employs the best practice guidelines such as ads.txt and apps-ads.txt to shape our supply framework.