

Double dipping in ad buying: Is your company aware?

Charlatans, con artists and thieves make their way into every industry, and the creative sector is by no means immune.



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Ad agencies, public relations firms and marketing companies are entrusted to represent their clients' financial best interests when negotiating advertising pricing. Although these entities may be employing their best negotiation skills, clients do not necessarily

enjoy the full benefit of the result.

This is because of the practice of pocketing money – in the form of rebates and discounts for ad buys – that exchanges hands underneath the radar.

Agencies typically bill in one of three ways:

- **Monthly fee:** Flat-rate retainer for ongoing services which is governed by a strategic plan.

- **Hourly rate:** For clients that require occasional services.

- **Project rate:** Negotiated rate for a special project or short-term campaign.

The monthly retainer arrangement is the most common method for companies that prefer to outsource their strategic

LOOK CLOSELY, STAY INFORMED

How does a business ensure the ad agency it selects does not engage in double dipping on costly long-term campaigns? Some advice:

- **WHILE NEGOTIATING WITH AN AGENCY,** ask if it receives discounts from ad reps. If so, have a discussion of how that is factored into the fees the agency will charge you. Will it pass 100 percent of the discount on to you? Will it work for a lower retainer fee in light of the volume of advertising you intend to buy?
- **ASKED TO BE INTRODUCED** to the ad rep and to be cc'd on all email correspondences. Have negotiations take place at your facility in your presence. Although participating in these meetings will require your time, it will be worth it when engaging in a costly long-term campaign.
- **GET IT IN WRITING.** Be sure to confirm language about advertising discounts in your contract with the agency. Insist upon receiving original copies of all documentation from the ad rep.
- **ASK YOUR AGENCY TO WORK** on a month-to-month arrangement. Assure your agent that you are in it for the long haul, but that you believe an agency should earn your business on merit, not through a long-term contract. A job done well and done honestly will keep an agency retained for years.



communication needs.

This method benefits both parties. The client company knows how much to budget and can deduct the expenses from taxes.

The agency is able to maximize employee productivity through long-term scheduling and has a reliable monthly source of income.

DISCOUNTS, REBATES

During the ad-buying process, agencies sometimes negotiate discounts or rebates from media companies.

Here's how it works. The agency negoti-

ates several months of radio or television commercial time. The media ad rep gives the agency a discount, typically 15-20 percent.

The ad rep offers to provide two invoices: one that reflects the full price and another with the discounted price. The agency passes on the full price invoice to its client for reimbursement and keeps the discounted invoice for accounting records.

In this scenario, rather than pass through the discount to the client, the agency pockets the commission, which, for a multimonth contract, is lucrative.

Keep in mind, the agency bills the client a monthly retainer fee. Unless pocketing the discount goes against the terms of the agency's contract with the client, pocketing the discount is perfectly legal.

WIDESPREAD PRACTICE

Legal or not, this double dipping also is perfectly immoral.

K2 Intelligence, a global corporate investigations firm headquartered in New York City, conducted a seven-month probe into agencies pocketing advertising discounts and rebates.

According to The Wall Street Journal, K2 Intelligence found widespread abuse of this practice.

This prompted J.P. Morgan Chase to launch an audit of its ad buyer. As hidden deeds began to come to light, the agency's work was suspended on Morgan's \$250 million ad-buying campaign.

CONTRACTS UNDER REVIEW

Many corporations are following J.P. Morgan's lead as a result of the investigation, and some companies are reviewing and renegotiating contracts to eliminate this practice.

Because of the sheer violation of trust

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in these situations, a number of contracts will not be renewed.

And while K2 said that it was outside of its scope to determine whether laws were violated, it is a fair assumption that corporate counsel will be looking into that matter.

POOR CHARACTER

By reason of decency, an agency that receives a monthly retainer simply should not collect advertising discounts that could be passed on to the client.

It demonstrates poor character and is a lack of gratitude for the privilege of being awarded the client's business.

There is nothing wrong with an agency pocketing discounts if doing so is agreed to up front and is documented in its con-

tract with the client. In fact, some advertising agencies work purely on commission as their fee model.

MAKE THE RIGHT CHOICE

Advertising agencies, public relations firms and marketing companies sit in a very crowded field.

The field has characters wearing funny eyeglasses and putting on dramatic acts to win business. There also are plenty of

honest people who put your best interests before their own.

Sort out the good from the bad, and get the best bang for your advertising buck.

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