Value Pots

Part of the ISBA Media Services Framework 2021 Guidance Notes

Produced in Partnership with Ebiquity

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workingtogether

Introduction

What exactly are Value Pots? Do they represent real, tangible media spend that can and should be in the control of advertisers as well as their agency partners? Should they fall under the scope of the advertiser-agency contract?

We know from discussions with ISBA, that for many of Britain's advertisers there is a lot of confusion about Value Pots. This is true for both large and smaller advertisers. Value Pots are a media pricing solution in the UK market, though they feature in other markets, including the Netherlands and Australia. For some, Value Pots have almost become a taboo subject that agencies don't want to talk about or engage with.

Value Pots are an increasingly common dimension of agency media pricing and are included within ISBA's Media Services Framework 2021 (MSF2021). Ebiquity supported ISBA in the development of the previous version of the Framework and that thinking has been developed further in the MSF2021. As a result, ISBA approached us with the request to produce this short, no-nonsense guide to Value Pots that not only explains what they are but also how they are used.

To commence this paper, please find following the definition of a value Pot as stated within ISBA's MSF2021. It should be noted that this is a definition only and how to understand how it is applied, the framework should be downloaded and reviewed by appropriate, skilled people within your organisation.

"Value Pots" means benefits such as free media or discounted space, increased quality, access to preferential programming or content, concessions allowing exemptions from surcharges and awarded by Media Owners and/or Media Resellers whether retrospectively or otherwise, to the Agency, a Related Party, or the Media Holding Company. These may arise directly or indirectly as part of or related to the same or an equivalent negotiating process which is carried out by the Agency, a Related Party or the Media Holding Company when negotiating Aggregated Rebates. This shall not include client-specific benefits conferred by Media Owners or Media Resellers.

We answer the following nine questions in this guide:

- What are Value Pots?
- Why do Value Pots exist?

- Do all agencies use Value Pots?
- Are Value Pots the same as AVBs?
- Can Value Pots be exchanged for cash?
- Can Value Pots be audited?
- How are Value Pots deployed and what's the fuss about 'fair share'?
- Why have you published this paper on Value Pots now?
- What's Ebiquity's position on Value Pots?

What are Value Pots?

Value Pots are free or discounted media and other benefits and are negotiated as part of the agencies' overall price position with a media owner. They are provided by media owners, media vendors, and digital/social media platforms to media agencies in return for volume of media that agencies intend to buy on behalf of their clients and as such are not guaranteed. Value Pots are calculated as a fixed proportion of an agency's total spend. At the time they are given to agencies, this spend is not allocated to any specific client. Rather, they reflect the total anticipated agency spend for a given period, typically a quarter or a year. Value Pots are an increasingly important part of agency pricing deals, negotiated with media owners or vendors. They help agencies secure discounted media based on multiple client commitments.

Why do Value Pots exist?

Value Pots were introduced as a trading mechanic when agencies started to negotiate whole-agency deals rather than deals on a client-by-client basis. They were seen as a way of managing pricing fluctuations without agencies having to renegotiate bespoke pricing by client, by month, and by audience every time the market moves. Factors affecting pricing, which can differ from client to client, include: seasonality, target audience, and quality. They are also driven by micro-econometric factors that impact the market, including supply and demand and therefore also price.

Do all agencies utilise Value Pots?

The Value Pot trading mechanic relates principally to agency groups and holding companies who are negotiating group deals. Independent agencies trade on behalf of each client according to bespoke requirements per client and so do not take this approach.

Are Value Pots the same as AVBs?

Value Pots **are not** the same as AVBs – Agency Volume Bonification (or Bonuses) – which are media rebates or kick-backs that agencies receive from media owners and vendors and are then passed back to clients. AVBs typically take the form of cash or cash incentives and are designed to encourage agencies to invest more of their clients' ad spend with specific media owners and vendors. Provided this is specified in the contract, it is possible to offset or exchange AVBs for cash.

What about Inventory Media?

Inventory media trading is another trading mechanic separate from both value pots and AVBs. Inventory media trading is where an agency uses its own funds to buy media space to on-sell to the client, at a better price than the agency has previously negotiated. Importantly, this form of trading is non-auditable from a finance perspective.

Can Value Pots be exchanged for cash?

No. Unlike with AVBs, it is not possible for advertisers to receive cash in return for the Value Pots granted to their agency partners as a result of the scale of their investment on behalf of multiple clients.

Can Value Pots be audited?

It's important to distinguish exactly what we mean by 'audit' here, as there are two kinds: media performance audits and financial audits.

Value Pots are a pricing mechanic which measures delivery against contractual pricing guarantees and – as such – are audited and covered by the media performance audit. We recommend that the reader reviews this section having first read clause 18 of the MSF2021 in its entirety, and with specific regard to 18.6.

Value Pots are not automatically included in a financial audit, however There is an appetite among some advertisers to conduct a financial audit of Value Pots and these advertisers would seek to have clauses in their contract enabling them to do so. However, it is crucial to be aware of the implications of this. Operating a 'fair share' market on Value Pots makes it harder for agencies to deliver obligations to their clients. Because of the way in which agencies deploy Value Pots and the trading mechanics associated with them, some advertisers will naturally receive more than their 'fair share', and that means a reduced share for others. This doesn't have to be a concern, provided pricing obligations have been agreed and are being delivered.

What's more, advertisers should assess whether a financial audit actually helps their agency partners achieve agreed objectives or whether it's better to negotiate price and quality parameters and then audit whether and to what extent the agency is delivering against those KPIs. Meantime, advertisers who have a contractually-agreed price in the market can undertake benchmarking to check competitiveness of the price.

How are Value Pots deployed and what's the fuss about 'fair share'?

Many advertisers renegotiate their contracts every three years, usually using an open pitch process with multiple agencies competing for the client's business. Pricing is a key element of the pitch. Even when advertisers don't run a pitch, they often invite a third-party consultant or auditor to advise them in a closed conversation, also usually led by price. The successful agency is often paid in part for delivering against the promised pricing.

Agencies factor Value Pots into the pricing offered in competitive pitches and renegotiations to underwrite their offer to their clients. The allocation of Value Pots to pricing offers is at the discretion of the agency, determined in part by how much they want to win a particular account; the keener they are, the more they will underpin their offer with Value Pots.

Some argue that Value Pots are rebates and incentives to which advertisers are entitled to their 'fair share' or 'fair deal'. However, this would lead to a very flat pricing environment, with smaller advertisers disadvantaged solely because of budget size, negating the opportunity to compete through skilled negotiation or trading strategies.

Why have you published this paper on Value Pots now?

Although Value Pots have featured in the ISBA contract framework for some time, there is still widespread confusion and a lack of trust about their role. That's why Value Pots are more prominently referenced in the newly-updated ISBA MSF, published in July 2021.[1] Until recently, Value Pots had not been part of the traditional media agency contract. But since we've included them in the new contract framework, we wanted to provide our members with additional clarity around their role to prompt deeper understanding. We will continue to monitor the way Value Pots are handled in client/media agency contracts and review our framework accordingly. This paper provides further explanation on Value Pots to support the updated terms. It is our aim to promote positive, better-informed dialogue between advertisers and their media agencies.

[1] See "Media Services Framework 2021" https://www.isba.org.uk/knowledge/media-services-framework-2021

What’s Ebiquity’s position on Value Pots?

Ebiquity is the world leader in media investment analysis, helping brand owners improve media investment decisions for better business outcomes. We do not advise clients that Value Pots are a bad idea nor do we advise against them. From experience we know that they can be a useful component part of media trading practice.

We do feel, however, that Value Pots should be better understood by the advertiser community and so have worked with ISBA to produce this short guide. We also believe that the concept of ‘fair share’ in Value Pots is flawed. Advertisers have the opportunity to set a market price target which they believe is right for their business, through discussion with the agency and an independent third party. There are a variety of trading strategies that can help to achieve those objectives. Price auditing can verify delivery and benchmarking can help to assess competitiveness in the market.

About ISBA

ISBA

ISBA is the only body that represents brand owners advertising in the UK. We empower them to understand the industry and shape its future because we bring together a powerful community of marketers with common interests; lead decision-making with knowledge and insight; and give a single voice to advocacy for the improvement of the industry.

ebiquity

Ebiquity is the world leader in media investment analysis

We harness the power of data to provide independent, fact-based advice, enabling brand owners to perfect media investment decisions and improve business outcomes.

We are a data-driven solutions company helping brand owners drive efficiency and effectiveness from their media spend, eliminating wastage and creating value.
We provide analysis and solutions through five Service Lines:

- › Media management
- › Media performance
- › Marketing effectiveness
- › Technology advisory
- › Contract compliance

Ebiquity is able to provide **independent, unbiased advice and solutions** to brands because we have no commercial interest in any part of the media supply chain.

More than **500 media specialists** operate from our 24 offices across 20 countries, covering **80% of the global advertising market.**

Ebiquity has the most comprehensive, independent view of today's global media market. We **analyse $55bn of media spend from 75 markets** annually, including trillions of digital media impressions. Our Contract Compliance division, FirmDecisions, **audits $40bn of contract value** annually. As a result, more than ***70 of the world's top 100 advertisers* today choose Ebiquity** as their trusted independent media advisor.

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