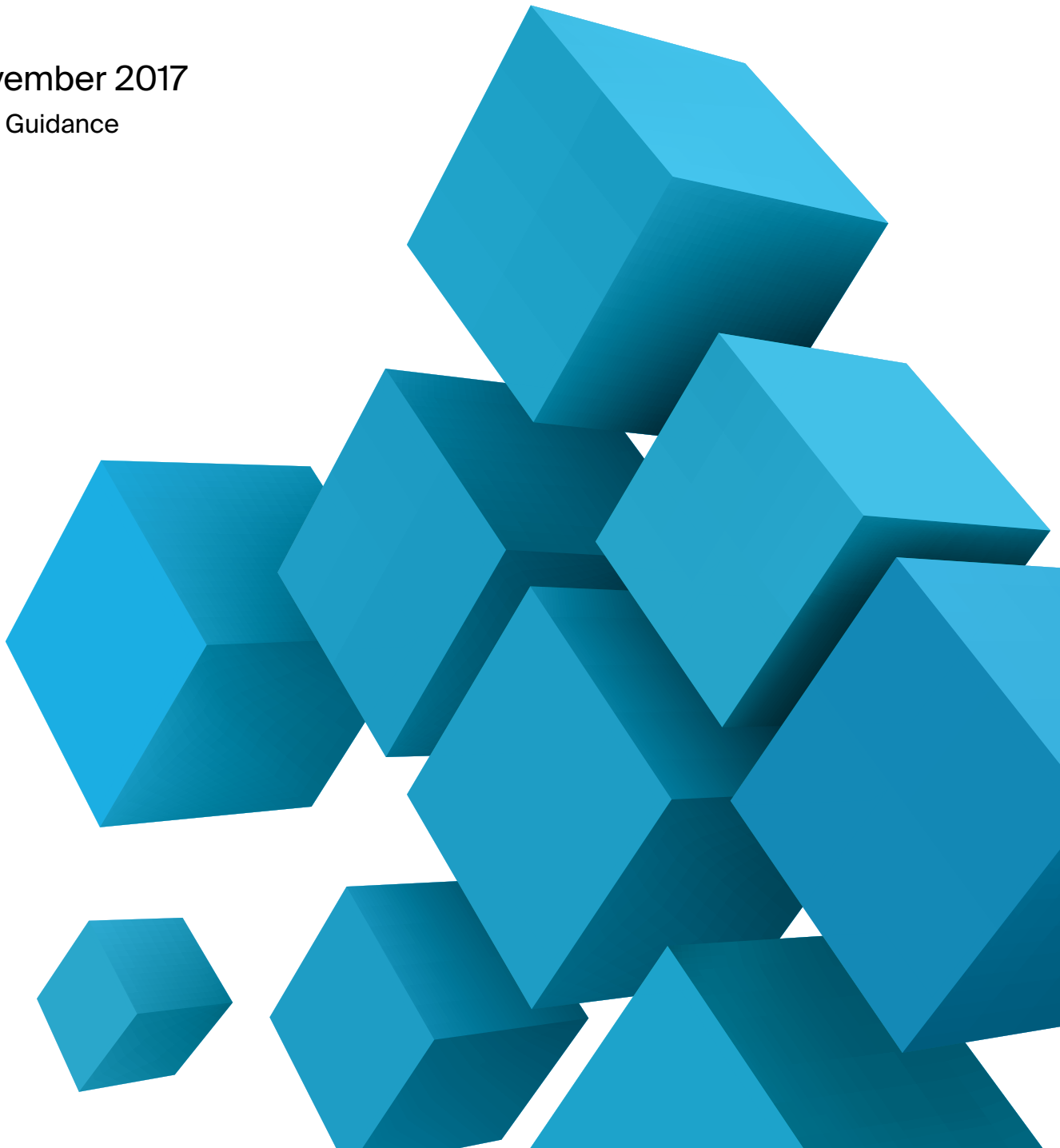


The Production Competitive Bidding Process



November 2017

ISBA Guidance



The Production Competitive Bidding Process

The competitive bidding process for production has been the subject of some scrutiny over recent months. The Department of Justice (DOJ) investigation and the subsequent probe by the Association of National Advertisers (ANA) in the US and the decision by a growing number of UK production houses not to bid against in house agencies means this is a key agenda topic for ISBA members.

The issues centre around 2 main areas:

1. Activities in the US: DOJ and AICP (US equivalent to APA) & ANA (US equivalent to ISBA) investigation into whether agencies are taking advantage of their power in the market to force other suppliers to supply fraudulent and inflated bids so that, when there is competitive tendering, the agency owned facility appears to be offering the cheapest bid, whereas it might be possible to get lower costs in the open market if there was genuine competition. In US federal anti-trust law this is defined as bid rigging.
2. Activities in the UK: (APA - Advertising Producers Association) The challenge from the Independent production Companies (UK) that agencies are using the information from genuine bids supplied by competing production companies and passing that information to their in-house production facility so they can use the technical information to prepare their own, cheaper bid with full knowledge of the bid they have to beat.

In a statement in January 2017 the IPA confirmed to the Advertising Producers Association (APA) that they were unaware of and, of course, did not condone, such practices by any of their members. Their view is that agencies are entitled to provide in-house production work and should be free to do so but should always make its intentions known to any third party production companies it has invited to pitch as well.

Articles outlining the issues:

- [Campaign Open Letter](#)
- [Ad Age](#)
- [Wall Street Journal](#)
- [WARC](#)

The purpose of this document is to:

1. Outline the issues and provide ISBA members with a balanced view of the differing perspectives and views of all concerned parties
2. Educate ISBA members to enable them to have knowledgeable dialogue with their agencies

In order to develop sound guidance, ISBA invited a panel of experts from the IPA / APA and a holding company owned (in-house) production facility to join ISBA's COMPAG (Communications Procurement Action Group) to discuss the current issues surrounding production competitive bidding processes. Facilitated by Claire Randall, an Independent Production Consultant, the objective was to provide a forum for all parties to be able to share their individual perspectives on the issues listed above and debate potential solutions for clients to consider.

In preparation for the panel ISBA carried out research to gather insight from clients on production process management, you will see stats quoted throughout this guidance the full results are also available on [request](#).

Market conditions are changing

Client challenges:

- The Advertising Industry has an increasingly fragmented ecosystem for content distribution. Content is now required for multiple platforms, in varying lengths and levels of quality.
- Significant increase in client's needs: more content for less money with a faster turnaround.
- Advertisers are working with an unprecedented number of agency, media and production partners to develop and place their content.
- The demands these changes place on advertisers are enormous, and we also need to remember the huge challenge this represents for the agencies.

Agency challenges:

- Advertisers want more for less.
- Many brands are moving away from their Agency of Record (AOR) model and working on a project by project basis.
- Clients are not willing to pay agency fees that are disproportionate to the cost of production and media spend for digital content.
- Pressure on agency fees and production budgets has resulted in a decrease in revenue for agencies.
- Agencies are adapting to this industry evolution and market pressure by increasing their service offerings to their clients.

Result:

- Many holding companies and individual agencies now have in-house production/editorial and music facilities.
 - In the past, it was not uncommon for agencies to have some sort of in-house facilities but these were primarily used for test commercials, pitches and testimonials. Today's in-house facilities are often more robust, with complete integrated production resources.
 - Agency in-house solutions have become important service centres for clients, offering convenience and savings for certain kinds of work.
- ▶ ISBA research: Do any of your agency partners have an in-house / affiliated production facility?
- 72% answered yes
 - 73% said they were currently using the in house facility
 - 58% said they plan to use it in the future.

- These in house facilities have also become important profit centres for agencies and holding companies.
- Some advertisers have added their own in-house production and editing capabilities.
- Decoupling has accelerated: advertiser direct sourcing of production is a growing trend.

Territorial Disputes

- **The march of the management consultants:** Agencies are increasingly placed up against IT/Management Consultancy firms in providing some services. This type of competition is more likely to increase in the future, although not across all marketing-related disciplines. Companies such as these are increasingly positioning parts of their businesses adjacent to agencies as they seek to build platforms which can manage the execution of media campaigns, monitor the impact of those campaigns and integrate those efforts with an array of marketing data within a company's ERP (enterprise resource planning) system. This land grab further impacts the production supplier landscape.
- **Increased demand for Agency 'In-House' Production:** The cost and complexity of the productions which are handled by in-house (network and non-network) production facilities, have grown and now overlap with the scale of productions which would have been handled by outside independent production companies, such as members of the APA. Those changes are partly why production companies are increasingly diversifying into other areas of production, and increasingly offering creative services on top of production.
- **In-House Content Production:** Another part of the problem is the growth in visual communication for marketing in the form of 'content', where the budgets are usually much lower than in commercials. The cost might be lower but often the projects are more complex, using up more production time and so making the projects significantly less profitable.

These territorial disputes will continue and may well get worse as the commercials production volume declines and as agencies become more competent and capable to take that work in-house.

Jargon Buster

'In-House' Definitions

It is important at this point to define the difference between different 'In-house' service offerings:

- **Network Owned 'In-house' production facility:** A central facility owned by the same network (or holding company) as the agency, not generally located on the same premises as the agency – [operates as a separate business](#).
- **Agency In-house production facility/studio:** Many agencies have developed production facilities in-house to turn around quick fire, low cost content for clients. The Panel agreed that in most cases these 'in-house' services were originally developed in response to client demand to produce quicker / cheaper turnaround content or work requiring a different processes i.e. social content and have only grown from there in response to increased client uptake and further demand.
- **Client In-house facilities:** An increasing number of clients are developing their own in house facilities to produce and roll out centrally created creative material, much will be regional adaptation and print for price points etc – see [ISBA In-house Agency Survey](#).

Competitive Bidding Process

It is important to understand where we have come from and where we are at now with regards to the process behind the search and selection of a production partner.

Traditional Approach:

For the purpose of this explanation we are generally referring to TV Commercial production:

- Once the agency, traditionally the AOR, has been given the go ahead on a production from the client, they will investigate the 'open market' to identify a shortlist of suitable directors and hence production companies* to partner with on the production.

**In the UK and some other key production markets, these two factors; the director and the production company can often be linked – i.e. most directors will be contracted to and sometimes even be a part owner of one specific production company. The production companies on the panel indicated they had on average 40/50 directors on their books (although these were particularly big, well established, Production Companies).*

- Traditionally, a shortlist of three production companies would then be identified and invited to treat on and bid for the job by the agency. They will respond but submitting a suggested 'treatment' for the production and a breakdown of the associated costs.
- The bids are then assessed by the agency and/or the client Marketing Director and the decision is made on who will be awarded the business*

**This is the part of the process currently under scrutiny. As the agency is traditionally the one briefing the work, then receiving and judging the bids, there is concern over one of those bids originating from an in-house / network owned facility who could possibly have more information than an external company.*

- Enter the [PIBS Contract](#)

ISBA Research:

- ▶ Is your agency required to disclose if they are including an in-house or affiliated production company in the competitive bidding process they are managing for you?
 - Yes: 43%
 - No: 24%
 - Don't Know: 33%

- ▶ Would you say that the person or people responsible for agreeing a production are fully aware of the competitive bid process which is generally accepted as best practice for assessing the market for a production partner?
 - Yes: 44%
 - No: 50%
- ▶ Are you familiar with the PIBS document: a contract between the agency and production facility?
 - 76% - No
 - 23% - Yes

Current Situation:

- The addition of the in-house agency function into this process has caused concern for independent production companies who say that it is unfair for the agency to be responsible for managing the bid process if their in-house production facility is going to be one of the competitive bids received.
- The production companies are also concerned about the IP rights contained in their 'treatments' and the expertise in their bidding approach being available to agencies whose 'in-house' facility are then also submitting a bid.
- No AOR: It is becoming less and less common for a client to have one AOR (Agency of Record) managing all productions, so a client can find themselves in a situation where they have multiple agencies managing many different types of productions, in many different ways!
- During the panel debate we also heard about Clients being presented with a 'closed package' where only the winning treatment is presented, client is unaware of the selection process and what has gone before.
- Lack of expertise: Everyone is having to do more of everything with less time, there is also, we believe, a massive misconception about the level of knowledge a client will have around the process that sits behind a production
- Ultimately: Transparency around the process is in dispute.

Potential Solutions

It is clear that the solution to these transparency issues lies in the process – on this we are in full agreement with the ANA advice which is that clients need to take more ownership: “Improved advertising production management is within the advertisers control.” / “Advertiser disciplines, accountabilities and controls for production need to be evaluated, upgraded and restructured to substantially elevate decision-making quality and enhance disciplines and overall financial management.”

ISBA Research:

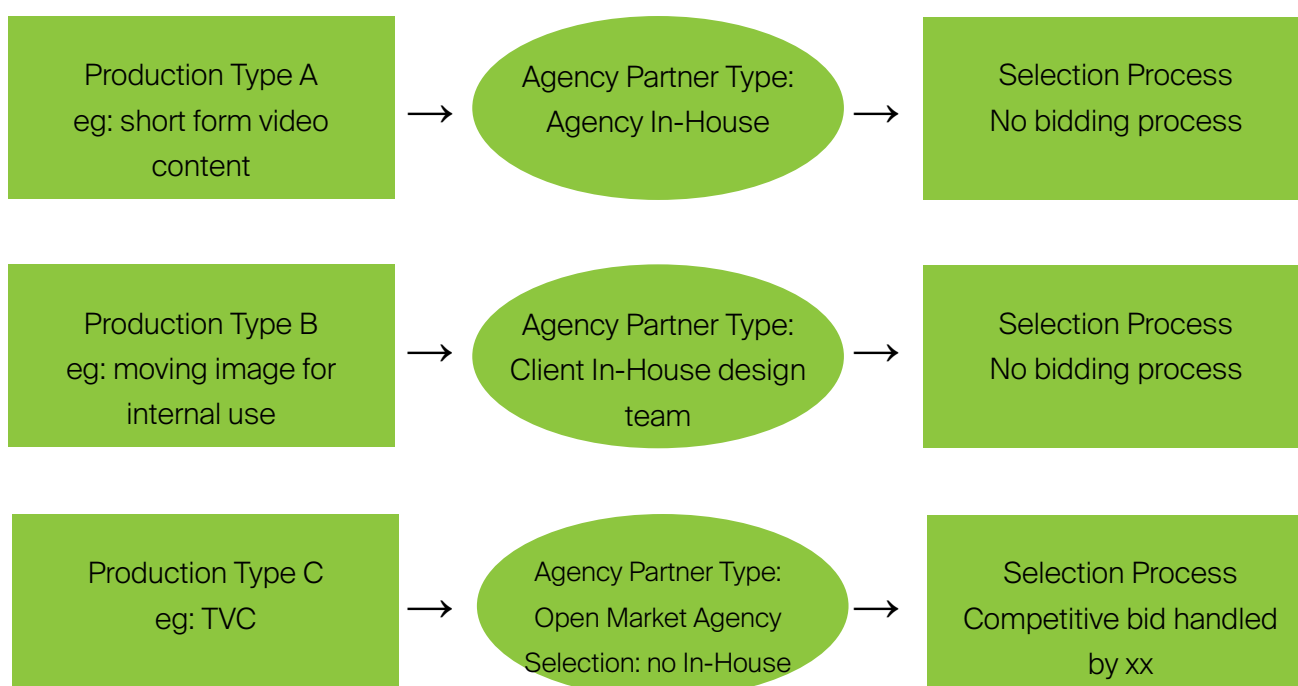
- ▶ When asked if they had Production Process in place 44% said ‘No’

For clients it is about understanding the different options available and choosing the solution that is best for them.

Develop a Decision Tree

It was proposed during the session that a good approach is for procurement, marketing and agency producers get together to define a decision tree to make it clear and easy to select a partner depending on what type of content you are producing and what level of budget is involved. There is of course a huge difference between TV commercial production and day to day content generation, it is important to understand what is going to be possible given the budget for the job and how much process should be aligned to lower budget executions.

Some Advertisers define the process based on budget threshold rather than activity type. A crude outline of how this could look is shown below: a process for each solution can then be attached to the outcome.



Other Options Discussed

- Tech solutions : Platforms are being developed to help solve the transparency issue, such as the Production Manager Tool from Decideware (as US based Company) and others.
- Procurement acting as neutral party to handle the bidding aspect of the process
- Use of a production consultant
- Another option discussed was total decoupling where the final script is given back to the client who then manages the production house selection and bidding process. The drawback of this approach is that the expertise of the original creative who came up with the concept is missing from this key part of the process. In addition clients might not have the necessary expertise to manage a bid process effectively. In this case, either the development of in-house production capabilities or use of a production consultant is essential.

ACTION FOR ISBA

ISBA is investigating the tech platforms that are being developed to support transparent bidding and will provide further updates in due course.

Advice For Clients

1. Have open and honest conversations

A point made often during the panel was that if we have honest and open conversations with all concerned we won't have issues like the ANA have discovered in the US. It is important to note it is generally accepted that in the UK we do not have the scale of the problems being faced in the US and that the DOJ investigation has and will as far as we can see remain in the US only.

The most important thing is that an agency and client have a very honest and open dialogue. Between them (agency/marketing/procurement) should fully flesh out what's required, look at all the options available and the implications of each.

Ask questions.

Have conversations.

Be open and transparent.

Transparency is vital - clients should know where their money is going!

2. Be aware of the process

At the very least, clients need to understand what the process for production company selection is and ensure transparency – you may find your process is actually running very smoothly and may only need to be tweaked or slightly updated.

You should ask yourself the question: what approach is going to service you best, the broad options are:

- All your work automatically going to your network production facility
- All your work under a certain threshold going to your network production facility
- All work being competitively bid to the open market, you will need to stipulate whether you are, or are not happy for the agency in house (network) facility to be involved in this process and this information should be shared with all concerned including the external production companies being asked to bid
- Direct relationship with a preferred supplier list of independent production facilities
- Client in-house solution
- Crowd source platforms such as Mofilm, Victors & Spoils, Liberty Guild, Talent House, Alternative Genius and others.

- Develop a decision tree to utilise a hybrid of the above.

Panel members noted:

- The APA believe open market is always going to be the best option, as when an in-house agency is involved the agency is 'marking its own homework'
- Clients should be aware that a growing number of production companies (the number quoted was 84 APA members so far) won't be part of the bid process if the agency in-house is also bidding.
- Agencies should make clients aware if the bid process includes an in-house agency and if the in-house option is selected clients should be given clear reasons for this choice.
- Clients should be comfortable requesting an in-house agency is or is not included in the bid process if they feel there may be a potential conflict of interest.
- Clients shouldn't view in-house as the only option for inexpensive or quick turnaround work, as many of the production houses can do this too.
- Agencies have a range of options and solutions available to address their clients' briefs – it is all about deciding what is best for you the client – after all, it's your money!

3. Have the right skills

It is recommended that the marketing team ensure they have access to the right expertise to make the right decision and that if necessary an external consultant / third party should be used.

With their increased involvement in production, procurement should ensure they understand the role of the agency producers and producers understand and involve procurement.

Consider Budget vs Expectations

Budgets are reducing and procurement need to know the levers that can be pulled to reduce cost whilst retaining quality. Clients need to acknowledge the budget vs expectation gap - procurement can help manage this.

Consider Quality vs Cost

Decisions should not be made on cost alone but on quality. The key is to find people who can make rounded decisions and not just make the differentiator about price. The cost will always relate to the approach, so it is not a 'like for like' comparison.

ACTION FOR ISBA

Procurement in the room were very keen to have some 1-2-1 time with both agency production teams and independent production companies to understand more about the different roles, responsibilities and challenges. ISBA offered to facilitate this.

Downloads

- [ANA Transparency Doc](#)
- [CIPS Guidance](#)
- [Claire Randsall Slides](#)
- ISBA Research Results ([available on request](#))

With thanks to the panellists

- Claire Randall- Production Consultant (facilitator)
- Steve Davies -The APA + 2 members:
 - James Bland- Blink
 - Lizzie Gower- Academy Films
- Kim Knowlton-The IPA + 2 members:
 - Matt Craigie -Mother
 - Phil Rumbol -Mullen Lowe
- Morgan Cox- Prodigious (Publicis Groupe production facility)

ISBA represents the leading UK advertisers. We champion the needs of marketers through advocacy and offer our members thought leadership, consultancy, a programme of capability and networking.

We influence necessary change, speaking with one voice to all stakeholders including agencies, regulators, platform owners and government.

Our members represent over 3000 brands across a range of sectors.

For more information please visit www.isba.org.uk



ONE VOICE