Agency Trading Desks

Basics Marketers Need to Know & Questions to Ask

The purpose of this document is to educate ANA members on agency trading desks regarding what they are, what they do, potential benefits, questions to ask, and more.

What Is an Agency Trading Desk?

There are various definitions, Forrester Research's description follows:

> A centralized, service-based organization that serves as a managed service layer, typically on top of a licensed demand-side platform (DSP) and other audience buying technologies; manages programmatic, bid-based media and audience buying. Works as an agency's internal "center of excellence," supporting agency teams wishing to tap into this new buying model on behalf of agency clients.

Agency trading desks have also been described as:

- A dynamic way to purchase audiences, allowing media to be purchased in real time rather than from pre-procured inventory.
- Takes search (an auction based model) and applies that to display media; in a real time fashion like a stock exchange.
- An audience-buying company.
- A platform that uses data and technology to help advertisers more effectively purchase audiences at scale across digital media.

Media Impacted by Agency Trading Desks

The agency trading desk model was initially trialed on display advertising. This was done by tapping into auction-based advertising exchanges such as Google's DoubleClick Ad Exchange, Yahoo!'s Right Media Exchange, and other sources of real-time bidding (RTB) supply (companies that provide publishers with tools to make inventory biddable and better manage yield optimization across buyers) through DSPs. Generally speaking, the inventory made available through these supply sources has been inventory that publishers had traditionally allowed advertising networks to sell which was considered unsold inventory.

In addition to display, agency trading desks are also now actively buying online video, mobile, social media, and search. Agency trading desks may also be buying digital out of home and addressable television in some very limited instances.

Who Has Agency Trading Desks?

All the major holding companies and a few independents have agency trading desks.

Holding Companies

- Havas – Adnetik (spun off as an independent company in 2010)
- IPG – Mediabrands Audience Platform (includes Cadreon)
- MDC – Varick Media Management
- Omnicom – Accuen
- Publicis – Audience on Demand
- WPP – Xaxis

The holding company trading desks primarily service that holding company's media buying agencies and clients.

Independents

- Accordant Media
- The Trade Desk

The Origin of Agency Trading Desks

The first agency trading desks started in 2007 or 2008 and came into existence for these fundamental reasons:

- **High Cost of Digital Agency Labor:** The labor costs associated with delivering/buying digital media can be up to three times higher than traditional media. Agencies continue to seek ways to be more effective and more efficient.
- **Advent of New Technology:** As new technology and targeting tools became available, agencies invested in platforms which have enabled them to manage data and targeting for clients "in house." Since audience buying is more automated, it dramatically reduces workloads in a very complicated, operations-heavy environment.
- **High Margins and Decreasing Value Creation of Intermediaries:** Due to the complex nature of digital, it has attracted many intermediaries, such as ad networks between clients/agencies and publishers. The perspective of agency trading desks is that those intermediaries provide little additive value. Further, ad networks historically have had very high margins (perhaps as high as 70 percent). Agencies sought to recapture a portion of that margin for themselves and their clients.
- **Reduction of Waste:** Agencies and clients were attempting to reduce waste and discover a better way to target in order to improve performance. "Contextual advertising is inherently wasteful because as much as 90 percent of the people targeted in this way may not be in the market for your product," noted a senior agency executive.
- **Attracting and Keeping New Talent:** The historical digital media planning and buying model is complex and administratively burdensome—requiring a considerable amount of time dealing with the "drudgery" of reconciliations and discrepancies. Audience buying allows agencies to realign talent towards data, technology, and automation, which can help attract new talent into the digital media industry. One agency executive noted that "operational complexity is killing our people." The transition to agency trading desks frees up a substantial amount of administrative time and requires different skill sets that allow the industry to attract new people to the business.

Benefits of Agency Trading Desks

Agency trading desks are an operationally efficient model that can offer multiple benefits:

- **Better Targeting:** Agency trading desks target individuals by matching certain criteria so that targeting is on a one-to-one basis, rather than the more-traditional approach which relied on packaged impressions. The agency creates a list of attributes that define desired audience behavior and uses a DSP, which has an algorithm and bidding capabilities that can match inventory and audience attributes as well as optimize campaign performance, in real or near-real time. This provides the ability to selectively choose inventory, reducing the likelihood of buying unwanted impressions and/or audiences.
- **Richer Insights:** Trading desks provide deep data analysis that can help uncover richer insights to contribute to the efficiency and effectiveness of a buy and also provide intelligence about other online and offline marketing initiatives.
- **Better Integration/Consistency of Service:** When working with an agency trading desk that is part of the same holding company as one's digital media agency, there's likelihood for better integration and consistency of services between the two than there would be if the buy were executed via a third party, such as an ad network. The media agency has more control over the spending placed via a trading desk and can provide more input into the process.
- **Better ROI:** Trading desks should be able to deliver a better ROI on dollars spent, i.e., cost per acquisition, cost per lead, lower CPM, etc.

In summary, the goal of agency trading desks is to help clients improve performance and get more value from their display advertising (and potentially other types of digital media spend) by (a) taking advantage of a new buying model and (b) bringing much of the service which was outsourced (to networks, for example) inside the agency's walls.

How Trading Desks Make Money

Business models vary across agency holding companies; however, all trading desks are compensated via some form (or combination) of:

- Professional services, i.e., a labor-based fee.
- Technical fees, there are costs associated with trading desks including data analysis, modeling, and technology.

In at least one case (WPP's Xaxis), there is profit margin for agency trading desks via incremental media fees. Xaxis buys some media, at its own risk, and then resells that media to clients, often at a premium. According to Xaxis, they add value by combining various data sources to provide better targeting and insights and further optimize the inventory by overlaying technology such as frequency capping and attribution modeling and then make it available to clients for less than they would have paid for it from an ad network or publisher. Xaxis said it's transparent with clients about its business model but does not disclose the price the company pays for media due to the real-time nature of pricing and the confidentiality agreements with partners (who do not want clients to know which publisher the company is buying from so they can protect their "premium" business).

Criticisms of Agency Trading Desks

Criticisms of agency trading desks include:

- **Lack of Transparency:** It's likely that in some cases clients aren't even aware that their digital media buys are being executed via agency trading desks. In ANA's research for this white paper, we found member knowledge about agency trading desks to be extremely limited.
- **Double Paying:** Some clients have expressed concern that they are paying their agencies to manage media and then paying again for the agency-acquired services of a trading desk.
- **Conflicts of Interest:** Agency trading desks act simultaneously as both agent and vendor (i.e., buyer and seller).
- **Marked-up Media:** Some agency trading desks buy media at their own risk and then resell that media to clients, often at a premium. A criticism regarding this approach is that the incremental cost is simply a mark-up and, building on the conflict of interest point, the trading desk cannot function as its client's agent if it has its own separate profit center for media.
- **Mandates:** It has been reported that some agencies/holding companies have taken the position to mandate that all network-based transactions be executed through their internal agency trading desks. That begs the question – are media agencies choosing the agency trading desk because it represents the best option for a client or because it is owned by its parent company?
- **Rebates:** Some agencies may help fund trading desk and technology infrastructure by getting rebates or discounts from publishers. Clients should be made fully aware of such rebates.
- **Operational Challenges:** Given that trading desks are such a new offering for agencies, some may have rushed into this new business without properly integrating this service into their overall business practice, causing issues around billing, reconciliation, ad serving, etc.

What Clients Need to Do

While agency trading desks could indeed offer many benefits, marketers need to be educated on how their company's money is being spent and take responsibility for understanding the pricing model, unique role, and value that each player in this sector provides.

Every holding company (and independent) conducts its business differently. Marketers who work with a trading desk should understand and be comfortable with their agencies' models. The following questions and action steps are important.

- Have a conversation with your agency and understand if a trading desk is being used for your business. Comment to agencies – the use of a trading desk should be clear and transparent with a client and discussed with a client before a trading desk is engaged. Agencies need to initiate discussions re: the value proposition of the trading desk and its compensation.
- Understand the business model of your trading desk. Ask your trading desk, "How do you make money? What are the costs for service? Costs for technology? Costs for data?" Determine whether or not the trading desk marks-up the cost of media.
- Understand which media is purchased via a trading desk. As noted earlier, the agency trading desk model was initially trialed on display but is also now actively buying online video, mobile, social media, and search (plus digital out of home and addressable television in very limited instances).
- Be clear on metrics. Those could include cost per lead, cost per acquisition, ROI on sales, or some other quantitative metric. Understand how the performance of the trading desk compares with previous buys not executed via a trading desk.

- Leverage the current working relationship with your agency and its institutional knowledge of your business and ask for a report on insights gleaned from your data.
- Ask if there are mandates, real or implied, for your agency to use its holding company's agency trading desk. An alternative would be for your agency or you to work directly with a DSP.
- While there may not be competitive issues within your media agency, remember that the trading desk can work on behalf of all the media agencies within the holding company. Understand how the trading desk addresses competitive conflicts. Ask how pricing is handled in an instance when two competitors are vying for the same inventory, "first rights" for premium inventory, and about the existence of firewalls.
- If not using a trading desk, consider a test. The benchmark would be performance on the alternative, i.e., media spend on an ad network.

Continue the Conversation

ANA invites comments from the industry on this blog: www.ana.net/atdblog

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