Low media fees - is this trend sustainable?

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The symbiotic relationship between agencies and clients continues to evolve and due to decreasing marketing budgets year-on-year, getting more complex. A once traditional approach has morphed into practices that are often unrecognisable to those who have been in the industry for a long time.

For example, take the issue of media fees. Back in the day, commission used to be as high as 16.5% and has been on a steady decline over the years. With the emergence of media independents and increased competition, media houses have had to reduce their fees (and in rare occasions, even working for free) to attract and keep clients.

But is this sustainable? Is this healthy for both the agency and the client?

Consider the following hard truths. When an agency lowers its fees to the bare minimum, it reduces its ability to hire quality staff. This creates difficulties because clients expect to work with the best people in the game, but agencies can’t afford to have them on their payroll.

Lower quality staff leads to lower quality of service, and the value the clients expect to receive is affected. Agencies try hard to remain professional and deliver what the client pays for under these cut-throat circumstances, but to remain profitable an agency needs to decrease input time on projects so that they can move to the next one as quickly as possible to increase turn-over. This has further implications for smaller agencies, which are often black agencies, that are not backed by multinationals and foreign investment and find it even harder to compete in an already hostile space.

In an ever-evolving world dictated by economies of scale, geopolitical issues and technological advancements, media agencies must be increasingly adaptive and agile to respond to business demands, for their long-term survival.

It is likely that this downward spiral of media fees will continue. While I cannot predict how it will end, the evidence we have seen over the last few years’ points to the direction that businesses must be different in order to stay in the game.

This leads to questions about how the future working relationship between agencies and clients will be.

Deeper and closer working relationships will only survive when the two parties see each other as partners. This requires closer collaboration, negotiation, openness, fairness, and innovation. There will be a lot more giving than taking from both parties when it comes to how the pie is shared.

Contributed by The AMF Board

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The Advertising Media Forum (AMF) is a collective of media agencies and individuals including media strategists, planners, buyers and consultants through whom 95% of all media expenditure in South Africa is bought. The AMF advises and represents relevant organisations and aims to create open channels of communication and encourage and support transparent policies, strategies and transactions within the industry.

For more information on the AMF, visit amf.org.za.

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