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MEDIA MATTERS

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To media agency executives, CFOs, media directors or official contacts.

Corporate Trade or Barter: Financial Flexibility for Today's Economy

The 4A's has periodically studied and commented on the use of corporate trade or barter as a tool to expand media budgets or better utilize an advertiser's excess (under-performing) assets to create an advertising budget. Given the current economic climate, it seems like a good time to revisit how corporate trade works and provide an updated point of view in order to help members who may be or are considering using it. This is not intended to be a fully comprehensive document; we suggest that you consult with your internal financial staff and your agency contacts for more detailed guidance.

Some believe that corporate trade/barter tends to become more popular during recessions. While this is true to some degree, corporate trade/barter has also gained favor in recent years as a strategic tool in driving greater efficiency and advertising returns through a company's planning process, regardless of external factors.

Companies typically begin a corporate trade relationship when they have excess (under-performing) assets but find that, in many cases, it can serve as a turn-key solution that delivers an ongoing financial and marketing benefit. As measurability, innovation and bottom-line results become increasingly intertwined with the need to drive greater advertising efficiency, we recommend that every agency media and marketing executive re-examine corporate trade/barter and its value proposition.

How Does Corporate Trade/Barter Work?

Two key elements exist in a typical corporate trade transaction—financial need and services. If the corporate trading company purchases an asset from a company (usually excess or slow-moving inventories, capital equipment or real estate) payment by the trading/barter company exceeds the fair-market value of the asset traded. Payment is made with either trade credit or cash, depending on the client preference. The company then agrees to purchase media or other services through the corporate trading company (in accordance with specifications and qualifications). If using trade credit, the media purchases are made by utilizing a combination of cash and trade credits at the amounts that otherwise would have been spent in cash. If it is an all-cash transaction (meaning the barter company paid the company cash), then media is purchased from the barter company on an all-cash basis as well. A large percentage of agreements are now constructed on an all-cash basis since it affords clients the opportunity to address immediate needs (e.g., cash payments due on sponsorships, lease payments). Where cash is used, the company may be subjected to additional contractual obligations not present in a trade credit transaction. The corporate trading/barter company charges no fees or commissions and bills the media net of agency compensation so as to not interfere in the agency/advertiser relationship. As a result, the corporate trade/barter model is an effective approach for addressing assets with declining value or funding the current needs of advertisers (sponsorships, other marketing programs).

How Do Corporate Trading/Barter Companies Buy Media?

Corporate trading/barter companies don't buy better than agencies but rather, based on an investment and trading model, acquire media on a non-agency basis. Corporate trade/barter companies typically take long positions in the media by making investments, providing needed services or some combination of both. In return, the corporate trading company receives media inventory on an unrestricted basis which is cost-advantaged relative to the marketplace. As a result, corporate trading/barter companies are able to customize and execute a media plan as specified by the advertiser or agency and deliver the value that is expected. The media delivery is guaranteed in accordance with market standards and all value-added is included. Most importantly, no media are ever placed without written approval from the agency and/or client.

Using Trade Credits to Purchase Media

When working with a corporate trading/barter company on a trade credit transaction, the trading/barter company delivers the same media as specified in their media plan, at their benchmark costs (i.e., which is what they would have otherwise paid on a 100 percent cash basis) and to their same specifications. However, in a corporate trade/barter transaction, companies pay for the media with a combination of cash and the trade credits. This use of trade credits means that the advertiser is paying for the exact same media but with less cash.

Using corporate trade/barter creates measurable benefits. The media is partially purchased using trade credit, which may have a positive cash flow impact. In addition, through the incorporation of trade credit, the company recovers economic value for the under-performing asset. They may also choose to use the benefit to improve advertising returns, reinvest or fund other marketing initiatives to drive greater sales.

Purchasing Media on an All Cash Basis

In an all-cash agreement, the corporate trade company pays all cash for an asset or provides funding for an identified need. In return, the company agrees to purchase a fixed amount of advertising over a specified period at market price, as defined by their agency, on an all-cash basis. The media obligation is determined and agreed upon in advance after review of the client's media needs and in partnership with their agency. The media spend, or associated reconciliations should the media not be placed as specified, allows the corporate barter company to recover its original payment. An all-cash transaction may be preferred for clients not wishing to have a trade credit balance reflected in their financials or who wish to know precisely how much media must be purchased under the barter agreement.

Media Placement Process

When using trade to purchase media, the most successful approach is to bring the corporate trading/barter company into the process as early as possible. This ensures that the corporate trading/barter company has a full understanding of client goals and is in sync with all elements of the media plan. Regardless of when the corporate trading/barter company is brought into the process, no media are placed without client and agency approval. Corporate trading/barter companies have rigorous processes in place to ensure that this occurs and regularly participate in third-party media audits. Expect a well-documented process explaining how media are purchased and how the corporate trading/barter company interacts with the advertiser and agency.

Emerging Opportunities

Based on the strategic relationships in place with media providers, corporate trading/barter companies often develop principal strategic partnerships with emerging media and communications companies. These alliances allow corporate trading/barter companies to develop new ways to reach and connect with consumers; ways that clients and agencies may want to explore. In partnership with a client and its agency, corporate trade/barter offers a means to explore new communications or increase their exposure through potential reallocation of cost savings as mentioned previously.

What Happens to the Asset?

After the corporate trading company purchases the asset, it sells it into pre-approved channels. Corporate trading companies, well aware of the importance of protecting brands, distribution channels and market share, will not sell assets without written approval from their client. Again, when working with a corporate trading company, expect a well-documented process for how they distribute the asset.

Best Candidates for Corporate Trade

Not every company is a candidate for corporate trade. Below are some general criteria describing the best candidates for corporate trade:

- $5MM+ advertising budget (this is a general guideline, not a hard and fast rule)
- Manufacturers or retailers
- Centralized decision maker for marketing or media.

Things to Look for When Working with a Corporate Trading/Barter Company

Not all corporate trading companies are alike. Below is a checklist of things to look for when you or your client are considering the use of corporate trade.

- Guarantees its performance.
- Practices full transparency to ensure proper accounting of all transactions and facilitate accurate financial reporting. Verify that they follow all guidelines currently set by the AICPA (American Institute for Certified Public Accountants).
- Has a complete, professional, in-house media buying staff with sufficient depth and scope to fulfill all potential buying requirements.
- Welcomes the participation of the client's agency in planning and reviewing media schedules and is accountable for any changes or revisions or refinements suggested.
- Has a track record of successful performance in retiring trade credits with major clients for at least five years and will furnish client, agency and financial references.
- Provides agency and client with station affidavits and post-buy analyses based on standard audit sources for each media vehicle.
- Will buy in accordance with agency/client-approved plans rather than pushing pre-owned inventory or time bank inventory.
- Can deliver any required medium, market or weight level.
- Value-added is included and guarantees in accordance with market standards are in place.
- Tracks the media buy while the flight is in progress to assure full delivery of media weight. Any pre-emptions are made good during the flight with spots of equal value and in adherence to all guidelines.
- Can demonstrate the ability to buy and deliver required schedule in tight market conditions as well as soft.
- Can demonstrate the ability to buy and deliver the highest viewed networks/stations as well as the weakest, particularly in the top-50 markets.
- Calculates media costs based on negotiated rates (Media Market Guide, SQAD, or agency cost-per-point) rather than on standard rate (rate card or other arbitrary cost criteria).
- Is willing to commit in writing to full proof of performance and deliver the specific media schedule agreed upon, not merely to offer the best efforts.
- Has a documented process in place for placing media and is willing to customize based on client needs.
- Has experience and resources to resell the asset globally and across multiple channels, along with a documented process which includes channel protection.
- Uses industry-standard tools to measure and report results.

Given marketplace conditions, budget reductions and the need for innovation, corporate trade/barter represents an attractive resource that can deliver tangible benefits to clients and their agencies. When appropriate, it can not only enhance efficiency and advertising returns, it also provides additional marketing opportunities that will drive business for clients and deepen client/agency relationships.

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Donna G. Campbell
Senior Vice President
Media Services