# The Customer Benefits of The **Full Data** Direct Response Radio Advertising Agency

If you are reading this you're probably interested in whether direct response radio advertising can help your business grow profitably. To find out the answer, you'll have to go through the process of selecting an agency and conducting a test. But where do you start? Which agencies do you talk to? First you should know that there are two basic "kinds" of direct response radio agencies: Full Data and Black Box.

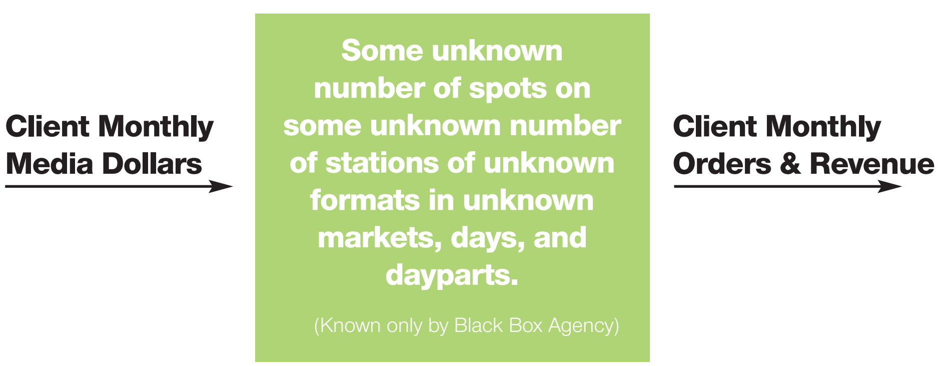
The Full Data and Black Box models sit on opposite ends of the spectrum in their approach to and philosophy about direct response radio advertising. Yet, as different as they are, they are the same in one crucial way: they are both successful at procuring the discounted, remnant media rates required by all direct response radio advertisers. They differ in their tactics, which can have enormous implications for your business. As we'll show you, the Full Data agency offers a number of customer benefits that are worthy of serious consideration.

## Comparing the Black Box Agency and the Full Data Agency

With the Black Box model, the radio agency commits to buying a certain amount of remnant media over the course of a year if, in return for that commitment, the station sells it to them at a super-low rate. The Black Box agency, now obligated to that amount of media, resells it to its clients for a marked-up (and possibly variable) amount. Black Box agencies won't disclose what they're paying for the media before they mark it up and resell it to clients. As a result, clients don't see detailed station-by-station or spot-by-spot reporting. Instead, they only see metrics based on the entire media spend over a particular period. This is where the "Black Box" name comes from—clients are not given any level of detail about what's going on behind the curtain, only basic "dollars in—dollars out" reporting.

Full Data agencies also obtain remnant media rates. However, instead of negotiating for the full year and taking on a large and possibly risky obligation to the radio station, the Full Data agency negotiates on behalf of each specific client *during the week or two prior to airing.* This labor-intensive "last minute" approach allows the Full Data agency to obtain remnant rates, but without the inflexibility or conflicts of interest that stem from a long term contractual obligation. As a result, the Full Data agency can provide detailed reporting of media performance , including station, day, daypart, format, geography, call center, adcopy and so on. *Full Data is the only way for a client to understand the answer to the questions "what works, when does it work, and with whom?"* This transparent approach is where the name "Full Data" comes from.

### The Black Box Agency:




## The Customer Benefits of the Full Data Radio Agency

### Fee Transparency vs. Floating Rates

With Full Data agencies, the agency fees are fully disclosed, reconcilable, and don't change unless agreed upon in advance with the client. Since the Black Box markup is variable, or floating, the agency can increase its margin to take more profit if a client's campaign is performing better than expected. Without visibility inside the black box, there is no way for the client to know when this floating margin occurs.

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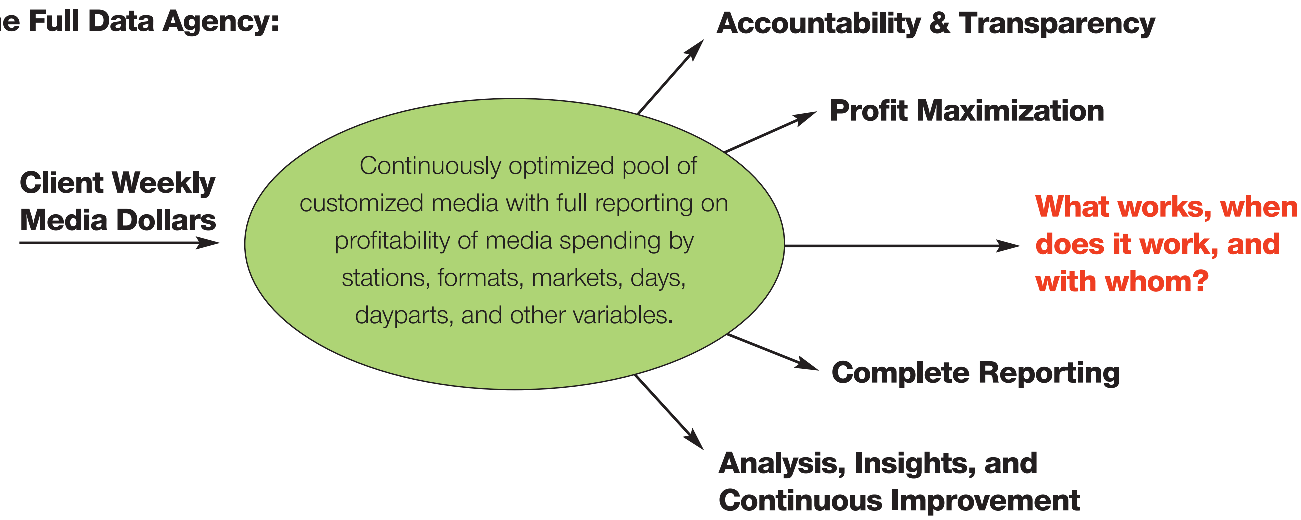
## The Full Data Agency:




**Accountability for Profit Optimization**

Full Data agencies show clients reporting detailed to the individual station level. They can therefore demonstrate that they are optimizing the profitability of a campaign. With the Black Box approach, the client loses the ability to hold the radio agency accountable for profit optimization. The client can't know that the Black Box agency is cancelling unprofitable media because the client isn't able to see the full station by station data. In a direct marketing business, data tracking and reporting is what enables the very foundation of direct response advertising: testing and continuously improving the profitability of a campaign. Without visibility into the data, clients of Black Box agencies cannot know for sure whether their campaign is providing the maximum return on media dollars.

**Input into Business Improvement Initiatives**

Every dollar spent in direct response radio advertising will generate valuable data that can be used to improve not only the campaign but also the business. Calls, close rate, average revenue per sale, credit card decline rates, customer retention rates . . . these are all areas that can be linked back to certain media buys to optimize profitability. With the Full Data approach, the client can see the detailed results data, and therefore has the ability to benefit in many ways from its own radio media spending. With the Black Box approach, this is not possible. The client loses the ability to learn what's working and why. The client can't know which audiences its campaign is working best (and worst) on, because the client doesn't have visibility to station formats, days, dayparts, and other data that can yield important—often vital—insights about the client's customer and campaign. Without this information, the client is often left without guidance as to where to focus efforts to improve radio advertising results should they be falling short.

**Freedom to Choose or Change**

What if the client wants to engage another radio agency? With a Black Box agency, the client doesn't have the knowledge of its campaign that makes it possible to pick up with another agency where it left off with Black Box. The client's campaign knowledge stays visible only to those inside the Black Box agency, forcing the client to start from scratch if they decide to use another agency. Full Data agencies, in contrast, provide the client with all of the information needed to test with another agency.

**Better Access to High-Performing Media**

Full Data agencies buy media just before it becomes remnant, which allows them access to media that is a combination of lower cost and higher quality—the sweet spot for direct response radio advertisers. A Black Box agency can only place a client on a station if there is remnant time available—that is, radio airtime that is left over and unsold – in other words, bottom of the barrel inventory. Nobody else, including the Full Data agency, wanted it.

**More Effective Media Schedules**

Full Data agencies work with detailed data and have tested different schedules to determine which schedule configurations work better. Buying media according to those station- and product- or service- specific schedules reduces the client's cost per lead and cost per order which increases profits. With the Black Box approach, the ability to buy specific placements in specific days and dayparts is seriously hindered because the Black Box agency clients simply have to take whatever airtime is left-over—in whatever day or daypart it falls, regardless of whether that happens to be a time when the target audience is listening or ripe to pick up the phone and buy.

**No Conflicts of Interest**

Full Data agencies have one customer—the client. This creates a very close alignment of interest between the Full Data agency's success and the client's success.

Conflicts of interest are inherent in the Black Box radio agency model because agency has two customers – the client and the radio station. The commitment to the radio station requires the Black Box agency to buy a certain amount of media from each station. They must fulfill the obligation by selling to a client or paying out of its own pocket. As a result, the agency might book a client on underperforming stations just to satisfy the needs of the Black Box agency. The client would never know, because the poor media would be buried in a total media buy that achieves the client's minimum profitability objectives. The result could be that a client's campaign could have been more profitable, not just profitable enough.

There can also be a conflict of interest among Black Box clients. If one Black Box campaign is performing better and is therefore allows Black Box to charge more for the media, the lesser performing campaign might find itself without access to the same opportunity for quantity and quality of media placement.

**Media Budgets Customized By Client That Maximize Campaign Profitability**

Full Data agencies can take full advantage of radio's ability to target a specific demographic and quality of listener, because they negotiate specific schedules (i.e. number of spots by time of day and day of the week) with individual stations and networks. This greatly increases the efficiency of the media, delivering leads that are more likely to convert to sales, have methods of payment, and remain customers over the long term.

Full Data agencies negotiate each media buy with a specific client/campaign in mind. As a result of this approach, a 100% customized "pool" of media is built for each campaign, thus optimizing profitability. The whole idea of media profitability management is based on the process of continuously refining media buys, weeding out the stations that perhaps once performed well but are fading and replacing them with new high performing stations. This is a process completely enabled by the Full Data agency model, and which is nearly impossible to either do or monitor in the Black Box agency model.

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Black Box agencies, in contrast, don't know specifically what product or client they're buying for when they negotiate the annual media contract. As a result, they generally have to buy their media based on 18+ CPM[1]s, which is a shotgun approach that always includes wasteful media. Plus, remember that Black Box agencies don't get to place their media according to a specific schedule. They only get to choose from unsold slots (generally the least desirable schedule) on that station.

**Call Forecasting Maximizes Monetization of Leads**

Forecasting calls and orders is imperative to a smooth running direct response campaign. From staffing call centers to managing inventory and procuring enough product to fulfill orders, having accurate and smooth volume is very important. For example, call centers are used in many direct response marketing businesses. The radio ads entice people to call a toll free number as the call to action. If the call center is not properly staffed, many calls will go unanswered and the media spend will be a waste. On the flip side, if the call center is overstaffed with idle agents, the center will lose money.

In the Full Data model, call forecasting is much more effective because the Full Data agency places media according to a specific schedule, not just whatever time is available. This greatly decreases the percentage of wasted calls due to call abandonment. In addition, because the Full Data agency is placing specific media schedules, the client knows their call and order volume will not fluctuate wildly.

Under the Black Box model, call forecasting is difficult because there is no way to know ahead of time when the stations will air the remnant rates. In addition, the Black Box model is very vulnerable to wide call volume fluctuations that create a nightmare scenario for clients. Call volume can suddenly fall in the latter half of each month because stations give bonus airings to their high-paying customers (called "rate card" advertisers) at the end of the month. Also, the sales teams at the stations try to meet their numbers toward to end of the month so some additional remnant inventory goes

[1] CPM stands for "cost per thousand" and refers to the cost for 1000 people to be exposed to your radio commercial.

to rate card advertisers and to Full Data agencies. The Black Box agency as no control over this because they're the last to receive inventory.

### Flexibility and Working Capital Management

Full Data agencies require only one week's worth of media one week ahead of time. This enables the client to better manage its cash flow and working capital. Many Black Box agencies require large up-front media commitments, often up to a month's worth of media spending. This is to mitigate their own risk due to their large media commitments.  This strategy transfers the agency's risk to the client. The difference can often translate into hundreds of thousands of dollars in the client's working capital.

A Full Data can make adjustments in campaigns with relatively short notice. Let's say it's week one of the four week month and the client's campaign experiences a dip in performance that needs to be diagnosed and remedied. The Black Box agency has committed the next three weeks of the client's media spend, whereas the Full Data agency has the flexibility of selectively booking the following week's media until a solution is found to the campaign performance problem. The Full Data agency's flexibility saves the client a lot of money and time.

## Summary and Conclusion

The table below summarizes the differences between the Black Box and Full Data agency models.

For some radio advertisers, the Black Box approach probably works just fine. As the client, you simply hand over your money for media and as long as you always get a certain amount of revenue or a certain number of orders in return, you're happy. If you're a company that doesn't particularly care about data analysis or the insights your advertising dollars produce, and you have a very profitable campaign that minimizes the need for diligent profitability optimization, the Black Box approach may meet your needs.

But you must also be comfortable with the fact that the Black Box approach concentrates a lot of information and power in the agency's hands and away from the client's hands. An over-concentration of power combined with a misalignment of interests (incentives) can lead to problems. Add-in the known conflicts of interest and there is increased potential for substantial issues.

Fortunately, there is a better radio agency choice for business people who require accountability in their agency and relish the insights and information produced from their media spending.

With the Full Data approach, all of the "catches" are for the agency.  This method to obtain remnant media rates is much more time intensive than the Black Box agency approach. Nonetheless, the hard work pays off for the client. Not only does the Full Data agency obtain remnant rates, they also provide additional important benefits.

You do have a choice when it comes to radio advertising agencies. At first it may seem overwhelming to decipher the similarities and differences between the available alternatives. We hope that this paper proves useful in assisting you with your selection process.

| Full Data Agency | Black Box Agency |
|---|---|
| Provides data to clients that allows them to understand what works, when does it work, and with whom? | Provides only summary-level data relating media spend to revenue and/or orders. |
| Procures remnant rates by "last-minute" media buying techniques, charges standard agency commission. No hidden fees or floating margin. | Procures remnant rates via large buying commitments with stations, then marks up and resells to clients. |
| Provides full data to client for maximum learning about what's working and what's not, and have mechanism of accountability with agency. | Provides only summary data to clients because of restrictions in the media deals with stations. |
| Buys media specific to each client using targeted media buys. | Buys media in bulk using untargeted 18+ demographic |
| Buys specific media schedules in days and dayparts that history has shown work the best in direct response for that category and station combination. | Buys the leftover media nobody else wanted, whenever it may fall in the week or hour of the day. |
| No conflicts of interest. Acts solely in the client's interests. | Conflicts of interest between client and obligation to the station for a certain amount of media. |
| Week-to-week approach maximizes flexibility, reduces working capital for client. | Month-to-month approach inflexible and greatly increases the client's working capital requirement. |
| Supports clients need for business forecasting and smooth volume trends. | Can't provide solid call forecasts and volume can suddenly fall late in the month. |