Trust but Verify: Challenges in TV Ad Verification

A report prepared by CFO Research Services in collaboration with Eloda

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About this Report

In January 2008, CFO Research Services (a unit of CFO Publishing Corp.) launched a research program on how finance organizations validate the delivery of their companies' television advertisements. Through an interview program with senior finance executives at large U.S. companies that spend heavily on television advertising, this study explores how finance executives view ad spending and delivery from a financial and operating controls perspective. In addition, we interviewed sources at advertising agencies, trade groups, and management consultancies.

This report presents the findings from our in-depth interview program with executives at the following companies:

- American Association of Advertising Agencies
- Coors Brewing Company
- Deloitte & Touche
- Longview Consulting Group
- PriceWaterhouseCoopers
- Red Bull North America
- Verizon Wireless

In addition, CFO Research interviewed executives at several other companies who asked not to be cited by name in this report.

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Are You Getting What You Paid For?

Although ad verification may seem like an obscure issue, it is the crucial element in assessing the ROI of television advertisements and determining whether or not a company is getting the full value for its ad spend. If you're not certain that the right ad actually ran at the right time, then any other number having to do with the efficacy of your TV ads or their impact on sales is suspect.

Unfortunately, the current system of ad verification is difficult to check for accuracy and doesn't provide information in a timely manner. It relies on self-reporting from broadcasters. Companies are entirely dependent upon outside agencies to make sure their ad numbers are correct. Neither these agencies nor the networks have an incentive to provide timely information back to advertisers. "Our agency partners deliver the information to us that a spot aired or it didn't air based off of network affidavits," says a senior finance executive at a Fortune 100 consumer products company. "They're not utilizing server type of technology that can give them a real time point of view. So it's going to be 30 days before we can confirm absolutely everything."

By the time an advertiser becomes aware that a particular ad didn't run, or didn't run at the right time, too often the opportunity has passed and the company has lost the market impact of that spot. If a company doesn't receive good information fast enough to act upon that information, then it will be hard pressed to take corrective actions. "The issue now isn't so much, 'Did I get what I paid for?'" says Harold Geller, SVP for digital initiatives at American Association of Advertising Agencies. "It's the timeliness of knowing that I got what I needed" to reach the target market at the right point in time, he says.

While there are systems that give more timely information, advertisers have been slow to adopt them. They still have lingering concerns about whether the ROI justifies the increased expense. Still, companies must do a better job of looking at what it is they actually know and don't know about their advertising.

Taking an active approach to improving ad verification can have several benefits. First and foremost, it will increase understanding between marketing and finance. Typically, marketing is looking at one set of numbers about ads and finance is looking at another. Each department sees its own numbers as accurate but doesn't consider the impact of the other department's numbers. "Marketing and finance don't know what each other does," says a senior finance executive at a Fortune 100 consumer products company. "So, a conversation regarding how we could solve everybody's issue would be beneficial. I think ad tracking has to be a prong in one of those types of conversations."

According to Russ Sapienza, a partner at PriceWaterhouseCoopers, improving this information will also make for a more collaborative relationship between your company and its advertising agencies. "It allows the agencies to say, 'I will accomplish this for you, Mr. Client. I will be proactive and preemptive in showing you how my performance is moving along. I will provide you dashboards. I will provide you with checkpoints,'" says Mr. Sapienza. "That kind of relationship is really the optimal setting for measuring performance, as opposed to saying, 'Oh Mr. Service Provider, I'm going to send my auditors in to check your invoices.'"

It will also free up your agencies to focus on getting the best value for your ad dollar, instead of just making sure that the ads you paid for ran. "The role of a media buyer today is not so much media buying, it's media stewardship," says Mr. Geller at the American Association of Advertising Agencies. "They spend two-thirds of their time managing preemptions, make-goods, and invoicing discrepancies."

Ultimately, more reliable ad numbers mean success for everybody. "It's important to watch that [the marketing mix modeling] and see what types of returns you're getting for the various types of spend and correct as you need to along the way," says Kristen Anthony, vice president of demand creation finance for Coors Brewing Company.

An Elusive Target for Finance and Marketing Teams

For practically any company purchase other than advertising, there's tangible proof of the thing itself: piles of boxes in inventory, items shipped and received, or lists of tasks completed and accepted. Companies independently verify this tangible evidence of delivery as a routine part of doing business.

But broadcast advertisements are different. Ads are supposed to run electronically on hundreds of different TV stations every day as part of marketing campaigns that are tailored to reach the right customers with the right message and call to action. But, according to what we heard in this research program, there's little, if any, independent verification that they actually run according to the terms specified by advertisers and their agencies. No company is going to sit someone in front of a TV all day to verify ad delivery, and so advertisers—large and small—have come to rely on delivery information provided directly through their agencies and broadcasters.

> "[TV advertising] is the only large P&L item that is subject to self-reporting," says a management consultant with experience in finance and ad verification. "Companies' control systems do a better job of verifying they actually received raw materials, office supplies, even paper clips, than they do ensuring that the company actually got flawless execution of the TV time they paid for."

Knowing that TV ads do, in fact, air according to specifications is a critical task for the finance function. Advertising is among the largest expenses for consumer goods companies. Although the amount those companies spend on TV advertising is declining, it is still enormous. In calendar year 2006, businesses spent $48 billion on all types of TV advertising in the United States, according to TNS Media Intelligence. And among the heaviest advertisers—makers and sellers of consumer goods and services—this vast spending is both a substantial cost and a fundamental source of sales.

"It's a huge amount, and it's clearly a material line item in our financials," says Glenn Fernandes, director of auditing services at Verizon Wireless. In 2006, Verizon spent more than $800 million on TV ads, according to TNS. "If you watch major sporting events and TV programs, you're going to see a lot of Verizon Wireless commercials: the test man, a lot of promotions for phones and pricing plans, our fourth quarter phone line-up, the 'Can you hear me now?' Network message—so there's a lot that occurs. It's an important item for us," says Mr. Fernandes.

Given both the dollars spent and the returns companies expect from ad spending, it is surprising how much companies rely on a fairly antiquated system to make sure they have received the advertising they are paying for. Companies ensure their ads have run according to specification largely through checking the affidavits provided by broadcasters by way of ad agencies. (See "How It Works," page 5.) While the system has proven reliable when dealing with major national broadcasters, its error or discrepancy rate increases notably as the broadcasters get smaller. This increase in discrepancies could be in part because the verification system doesn't actually check what ads are run. As currently configured, the verification system simply compares what ads a company has contracted for against the ads the broadcasters say they have run. It does not include a third-party corroboration of the broadcasters' statements.

"This is the only major expenditure for a brand marketing company that is not subject to traditional three-way match and accepted internal control of purchasing," says Neil Schaffer, CEO of Longview Consulting Group. "It's the only large P&L item that is subject to self-reporting. Companies' control systems do a better job of verifying they actually received raw materials, office supplies, even paper clips, than they do ensuring that the company actually got flawless execution of the TV time they paid for."

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Research in which Longview was involved has found that the error rate is slightly less than 1 percent for the four major national broadcasters—NBC, ABC, CBS, and FOX, says Mr. Schaffer, and for the national cable networks the error rate may get as high as 4 percent. The error rate increases dramatically among local broadcast stations and can hit 18 percent. This may well be especially important to monitor as TV viewers (and advertisers) migrate away from major national networks to smaller niche channels.

Finance executives say that, when they find variances between contract and delivery of advertising, broadcasters do respond. Indeed, the broadcasters' dependence on advertising revenue is a strong incentive for them to keep advertisers happy—for one thing, invoices for advertising aren't expected to be paid until after variances have been resolved. Broadcasters typically offer compensation for under-delivery in the form of future advertising, although there are occasional exceptions. During the recent Writers Guild of America strike—which caused a large drop-off in viewers—some networks actually returned cash to advertisers in an effort to ensure goodwill and perhaps to avoid giving away inventory that would in fact become more valuable after the strike was resolved.

However, the issue with the current verification system is that it corrects problems only well after they have occurred. "Over the course of a year, someone will eventually come forward with the make-good," said a senior financial executive at a Fortune 100 consumer goods company, who asked not to be identified. "Now, whether or not that make-good is going to be valuable to you depends. I mean, if you run media 52 weeks a year, then it means something to you. If you run media in the first eight weeks of a 52-week year and you don't get the make-good until week 50, then that ad doesn't mean anything to you. It's a lost opportunity. So I do think ultimately everything is made known, it just isn't made known in the time in which you could do something about it."

"The people that are going to be affected by this are your finance folks, the accounting folks who are going to record it, and your CFO who wants to know that he's getting the right money spent at the right time," says Verizon's Mr. Fernandes. "When we talked to our CFO and other finance leaders about this, their biggest concern wasn't that outside parties are dishonest—the networks are not going to be dishonest. They were much more concerned about networks putting ads in the right time slot."

How It Works

At most companies, the primary conduit for verifying that ads ran when they were supposed to resides with an outside media purchasing agency. That agency depends in turn on attestations from broadcasters. These are monthly statements required by law that give the exact times of the spots. Agencies typically take invoices and broadcaster affidavits and transmit them electronically into the various agency administrative systems. The statements are then compared with what was contracted for.

Variances between the two are frequently found even without the use of an independent auditor. This happens for the most part because of unscheduled events—for example, a sports event running into overtime or a major news incident—that disrupt the broadcast schedule. These variances are resolved between the broadcaster and the media purchasing agency in a process that typically takes 60 to 90 days.

Not all variances have to be corrected, as many companies build a certain amount of flexibility into their contracts.

"If it's a matter of a few minutes, like a timeout wasn't called, and we still got our audience that we were trying to reach, then that's okay," says Kristen Anthony, vice president of demand creation finance for Coors Brewing Company. "We have a 10 percent leeway rule with our agency. So, we allow them to deliver plus or minus 10 percent of the TRPs (audience numbers) goal due to the fluctuations in the marketplace."

Companies do periodic tests of these results with either internal or external auditors. The frequency of these tests varies widely among companies we interviewed for this report—from monthly to quarterly and even every other year.

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Problems with a Well-Established Model

Finance executives in our interviews expressed several concerns with the current verification model. First, companies can't be sure exactly what is being counted when broadcasters and media agencies true up their attestations that ads ran at a particular time. The attestations are self-reported by the broadcasters, and then the media agencies check them against advertisers' contracts.

When companies attempt to audit advertising spend, "You're taking a self-reported invoice and affidavit from a broadcaster and comparing it to the latest version of the media buy schedule... There's no receiving report... So you're testing self-reporting," according to the CEO of Longview Consulting Group.

According to Mr. Schaffer of Longview, companies and their finance teams are often under-informed about the relationships and reporting procedures among broadcasters, agencies, and their clients—that is, they often don't know what is being measured. "We visited with a large telecommunications company right before they were about to start a field audit of their agency and their media spending," says Mr. Schaffer. "We just basically put in front of the audit team the fact that there is no receiving report. What you are testing against in the media invoice reconciliation process is this: You're taking a self-reported invoice and affidavit from a broadcaster and comparing it to the latest version of the media buy schedule which may or may not agree with the broadcaster's understanding of the last change-order. There's no receiving report from an objective scale or independent third party. So you're testing self-reporting. This should not be considered adequate audit evidence. The director of internal audit turned to the person who was writing the audit plan and said, 'Well what are we doing here? What are we testing against? Are these guys right?' Once he understood that this was an issue, he wanted it fixed."

Much of the confusion surrounding advertising delivery may be tied to the complex and often uncoordinated roles among those who build, execute, and sign off on advertising campaigns. Julie Connors, a partner in the audit and enterprise risk services group at Deloitte & Touche, says, "People have very distinct talent on their teams driving the advertising campaigns. The contract is written by legal and gets executed by the business people, and there usually are huge disconnects between the two. So the lawyers write a nice contract that makes perfect sense to the people in accounting and finance, but then when the marketing and advertising people go out and actually have to execute and manage the agency based on the contract, they struggle. I think they often put in place what works for them given the personalities of the people that they're working with, but they don't necessarily tie it all back to the contract."

For all that, many finance executives say their periodic audits have confirmed their confidence in the current verification system. "The annual reviews we carry out give us the highest degree of assurance for us to rely upon," says Niall Stirling, EVP of finance at Red Bull North America. "If we had major concerns—either about the effectiveness of the advertising or about the internal controls in the agency in terms of making sure we only pay for what gets aired—we would be putting in place more regular reviews."

"We have over a hundred ads running on television a day nationally," says Verizon's Mr. Fernandes. "You're probably going to see a 20 percent to 30 percent exception rate where they're run at the wrong time and whatever else, and we need to get compensated or have our account adjusted for these exceptions. Our experience and testing found that the networks were doing so."

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Like many other finance executives, Mr. Stirling at Red Bull isn't concerned about the self-reporting issue when it comes to ad verification. The veracity of attestations isn't a point of concern either: "We rely on these affidavits because they are coming out of publicly run companies who have Sarbanes-Oxley compliance; therefore, their internal controls are subject to a high degree of scrutiny." But as Longview's research shows, the accuracy falls off dramatically when dealing with smaller broadcasters. (See "Is advertising delivery a Sarbanes-Oxley issue?")

The problem for finance executives is whether it is cost-effective to track down every discrepancy. Mr. Fernandes at Verizon says there needs to be a threshold for which things to examine. Given the sheer number of ads his company runs, some mistakes are too small to make these reconciliations cost effective. Says Mr. Fernandes, there's a risk of getting "bogged down in trying to find pennies," that wouldn't be worth the effort and expense. "But for the larger items, though, there should be a comprehensive end-to-end reconciliation." He says that with such a system, "The onus could be taken off marketing to some extent within an organization. Thus, verifying ad delivery would be easier and much cleaner."

Is advertising delivery a Sarbanes-Oxley issue?

The self-reporting element of ad verification can trigger doubt about the accuracy of broadcaster affidavits. And when there's doubt about accuracy in accounting, companies and their advisors need to confirm whether this accuracy affects the company's financial statements or its ability to comply with Sarbanes-Oxley.

Julie Connors, a partner in the audit and enterprise risk services group at Deloitte & Touche, says advertising and marketing have substantial SOX requirements, "especially in consumer-focused companies, where it's usually among the biggest expenses for a company. So, Sarbanes-Oxley would say that if you follow the premise, you should have the right internal controls in place to ensure that your money is being spent and you're getting value for it."

The simplest issue to resolve is whether or not a company did in fact get all the spots it paid for. If you paid for 15,000 spots and only got 14,500, then that is a clear issue of not receiving what you paid for. But for some executives the knotty reporting issue is, "Were they of a quality appropriate to the amount paid?" After all, you don't want to be paying the same amount for an ad that runs at 3 a.m. as one that runs in primetime.

"I think for the most part, finance and accounting roles understand Sarbanes-Oxley but don't necessarily understand how to apply Sarbanes-Oxley across the advertising and marketing arena," says a senior finance executive at a Fortune 100 consumer goods company. "If you have a targeted cost-per-thousand impressions or cost-per-rating-point that was the basis of your agency's negotiations over price and when you do the analysis, it's significantly off, then I think you do have a Sarbanes-Oxley issue. So either you should be getting make-good for the ratings points to get your CPRP or your CPM in line with what was agreed upon, or you need to be going back and saying, 'Somebody owes me some cash.'"

This executive believes the issue can easily be avoided by better educating business managers and media purchasing agencies about the requirements of SOX reporting.

But not everyone agrees that this rises to the level of a real concern for compliance and financial reporting. According to Glenn Fernandes at Verizon Wireless, "If you were paying someone a massive amount of money and they weren't delivering at all materially, then it would be a Sarbanes-Oxley issue because you'd be misstating your financial statements. But we're not misstating our financial results. If anything, it's an efficiency issue."

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Speedy Markets but Slow Information

Finance executives also have very real concerns about whether make-up advertising gives companies the value they were seeking. The most basic way to assess a make-good ad's value is whether the make-good is seen by the same number of people in the same demographic that the original placement hoped to capture. However, there is also the question of value in terms of how the make-up ad fits into the broader campaign goals of an advertiser's sales and marketing team. It usually takes 90 days for the agency and broadcaster to resolve discrepancies in ad delivery, say the executives interviewed for this report. As a result, make-good ads frequently don't run until six months after they were contracted for. If your company runs consistent advertising throughout the year then receiving a make-up ad in October for a mistake made in February can indeed be of equal value.

However, if you operate in a more time-sensitive arena—if, for example, you are offering a special discount or your product has a seasonal appeal—that time lag can have a significant impact. In those cases the value to your company of the advertisement cannot be judged only by the number of viewers.

"If you have a 10 percent discount sale that you're running next week and you plan not to do any advertisements for a long time after that, by the time you get your makeup, what are you going to run in the space that's made up to you?" asks Ms. Connors of Deloitte & Touche. "That's a big issue. The timing is a problem."

Mr. Geller of the American Association of Advertising Agencies concurs on the timeliness issue. "The problem is that discrepancies sometimes take far too long to resolve for it to be appropriate or timely for the advertiser. If you have an advertiser, let's say it's a movie advertiser, who is running the commercials for a specific movie, we know for a fact that we're not going to pay an invoice if the spots that we specifically ordered didn't run. That's not the issue. It's getting the media value that they wanted when they wanted it," he says.

In addition, there is a value that can be measured only by looking at the make-good in marketing terms. Say, for example, an ad is designed to run at a particular moment in a particular show—during an episode when a celebrity particularly identified with your company is scheduled to appear.

"That's a situation where to a finance person, it's going to look like delivery happened because we were supposed to buy a certain number of spots and those spots happened and it was in the evening/day part, then we got it," says the Fortune 100 finance executive. "By the time they resolve it, it's six months later. So it could be resolved and it doesn't necessarily mean 'resolved' as in they delivered the ad. Technically, yes, they have given us an equivalent ad but it may not have the same value to us. It could be that by then we're completely out of marketing money and anything that we're doing is just trade products, discounts, and so… running that one spot isn't going to have the impact we first paid for."

This difficulty in assessing value frequently stems from the cultural divide between the finance and marketing departments. The more closely the two work together, the easier it is for them to come to an understanding of what real advertising value is. At Coors, for example, Ms. Anthony's demand creation finance team is an integral part of the marketing effort. That team helps translate from finance to marketing and vice versa. The translation is essential because of the substantial conceptual differences between how the two groups look at things.

"It's very different from a finance perspective and working with the front end because it's services," Ms. Anthony says. "It really helps to have that liaison role because there's a little bit more of an understanding on both sides. It helps us understand a business need that we can then translate back to the rest of the finance group and explain what is driving the expense. In turn, marketing understands the financial need to have specific answers. Then, it helps us to be able to ensure accurate books and records and report properly."

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However, Coors may be more the exception than the rule when it comes to cooperation between the two departments. The best method for assessing the value of TV advertising is a post-buy analysis of what ads actually ran and who actually saw them, but many companies have been slow to adopt these. One of the reasons for this is marketing's concern that greater oversight by finance might show lapses in managing spending. Ms. Connors of Deloitte & Touche says that companies' reluctance to do that kind of post-buy analysis of TV advertising is one example of this. She recommends this kind of analysis to all her clients—and it is not a service that Deloitte & Touche provides.

"The people who would do this kind of review would be somebody who is from the finance, CFO area, potentially internal audit or procurement," explains Ms. Connors. "So, we do find that the rub can sometimes be the people from the marketing and advertising department trying to explain away why they don't think TV ad verification is a risk."

Post-buy ad delivery audits bring a new level of discipline to the advertiser/agency relationship. "In honesty, if the agency knows that you're doing it frequently, they keep much tighter controls over the organization," according to a partner in Deloitte & Touche's audit and enterprise risk services group.

The Hidden Error Issue

Putting ads on TV is no simple thing. First, they are usually bought a month to a quarter in advance of when they are going to run—and frequently before the ad itself has been created. Once the time has been purchased, the ad itself tends to change as a marketing plan comes into contact with the real world. These changes can be caused by a different marketing goal, a desire to have something different in the ad itself, the availability of a particular talent, an increase or decrease in the budget for the ad, a reduction or increase in the number of ads that the company wants, and so on.

Each change brings with it the increased likelihood of a mistake, as instructions are trafficked among agencies, creative and marketing teams, and broadcasters. These changes are handled via email and phone, fax, and priority mail, and there's seldom a shared electronic work space that logs in and tracks all these changes. The end result of this? While companies usually have an ad that runs at the contracted time, it is too often not the right ad.

In an effort to expose these hidden errors, finance and accounting advisors tell their clients to conduct detailed audits of ad delivery or to commission them through third-parties. Such audits, says Ms. Connors of Deloitte & Touche, often extend far beyond simply verifying an ad's placement. "We recommend that our clients do periodic post-buy analyses," say Ms. Connors. "There are some boutique firms out there that do 100 percent reviews. They take the buy plans and then they compare them to the actual Nielsen information to tell companies not only that they didn't get what they paid for and that they're due restitution or commercials owed back to them, but they also tell companies that they didn't reach the audience that they were promised."

Ads running on a particular network or channel in a designated time frame may seem at first to be in line with an advertiser's plan. But, explains Ms. Connors, examining the details of exactly what ran under what circumstances reveals useful information on broadcasters' true compliance with orders and the real value of media purchases. Citing a hypothetical ad run during a well-known shock TV program, she says an audit can reveal that "this ad played during 'Jerry Springer,' and 'Jerry Springer' is on your restricted list—you don't want your ads shown during that program. Companies don't know that this has happened unless they have some kind of audit." She says in her experience, these post-buy audits bring a new level of discipline to the advertiser/agency relationship. "In honesty, if the agency knows that you're doing it frequently, they keep much tighter controls over the organization."

Production and programming errors—the wrong ad on the wrong channel alongside the wrong program—can also cause a huge embarrassment for the advertiser, not to mention the financial impact and diminished marketing ROI of a poorly executed campaign. Says Mr. Schaffer of Longview, "Several years ago, there was brand new spot that was targeted to run by a new sponsor of the Kentucky Derby. They had a brand new piece of creative that was designed to run in the last commercial block right before post time. The broadcaster accidentally ran an old spot. Everyone from the CEO of the advertiser on down was watching for that new spot, and it didn't run," much to everyone's disappointment.

Shift in Media Spending Drives Change in Ad Validation

The marked change in TV viewing habits may force broadcasters and agencies to come up with new and more reliable models of ad tracking. The increasing popularity of TiVo and other digital video recorders is just one factor that has forced Nielsen, the primary TV ratings tracker, to redefine how and when an ad is "viewed." Nielsen now considers an ad viewed if it is watched within three days of the initial airing.

Nielsen's efforts to track the viewing habits of the 23 percent of U.S. households who use a DVR have confirmed something that advertising executives have long suspected: Many people don't watch ads. According to a Nielsen report released in February, about 3 percent to 15 percent of an audience either changes the channel during commercials or fast-forwards through them. Teens and older people tend to skip commercials slightly less than viewers aged 18 to 34. In general, the closer someone views a show to its original airtime the more likely he or she is to watch the ads. Understanding these trends is key to assessing whether or not a company is receiving the actual value it paid for.

The convergence of broadcast and online content may bring some of the accuracy of counting online advertising to television. Last fall, NBC Universal became the first major network to use ratings data and other advertising products from TiVo. This will allow companies to insert an interactive component into their commercials and let viewers click on an icon when watching an ad to obtain more information about a product. If this feature catches on with viewers, it would provide very detailed information about an ad's efficacy and, of course, proof that the ad had actually run.

In addition, say sources we interviewed for this study, this combination of measurement and interactivity may well alter the underlying economics of advertising. Rather than simply paying for the right to appear amid TV programs, advertisers may eventually pay broadcasters for actual engagement with customers. Michael Kelley, a partner at PriceWaterhouseCoopers, says, "I think it's not just a culture of measurement but a culture of equitable distribution. That is, if I'm watching a network show and an ad appears for a car company and I click on the ad, shouldn't the network get rewarded for that engagement just as Google does? In other words, we are starting to move from pure CPM to CPM plus CPA—cost per action."

The increasing popularity of TiVo and other digital video recorders is just one factor that has forced Nielsen, the primary TV ratings tracker, to redefine how and when an ad is "viewed." Nielsen now considers an ad viewed if it is watched within three days of the initial airing.

Last year, Google and Nielsen announced a partnership that seeks to eventually provide information on who is viewing commercials on a second-by-second basis. Since May, the internet search giant has been selling ads on the 125 national satellite channels distributed by EchoStar Communications' Dish Network. Google then analyzes data from set-top boxes to determine which ads were watched or skipped, with a second-by-second breakdown. The partnership with Nielsen allows Google to combine that information with sampling-based ratings and add demographic data to the raw numbers that EchoStar provides.

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Why doesn't finance pay closer attention to ad verification?

One reason that ad verification is seldom discretely examined by finance executives is that it hasn't been an acute pain point for them. With so many other things to be concerned about, it's the rare auditor who has the time or resources to examine an issue that few suggest is a compelling problem. Although there are clear correlations between accurate ad verification and the efficacy of ad spending, the ROI on examining this just isn't that big for some companies. But verification of ad delivery is a critical part—indeed, the first part—of a sound ad measurement program.

If you're in a business with high growth and generous margins—like Verizon Wireless—there is less impetus to increase the strict controls over TV ad spending and delivery.

"We're still in the fast-growth mode," says Glenn Fernandes at Verizon Wireless. "Our subscriber growth is still 10 to 20 percent a year. Our revenue growth is close to 15 percent a year also, so we're still in that high-growth mode, and we're very profitable. Because of this, there's occasionally a greater focus on growth and less on efficiency. There's more focus on, 'Let's continue this growth and put the money in the right places.'"

The need to maximize ad spend efficiency increases as profit margins are put under pressure, according to Mr. Fernandes. "As long as we have this profitability—our low cost structure is best in class, best in the industry—some of the changes and mistakes that you see that the media companies might make seem like they're still minutiae... They're not going to affect us in any material way. For other companies that are probably tighter on their margins, I think it would be more of an impact."

One Fortune 100 finance executive we interviewed sees a great deal of room for improvement in how the company manages the "minutiae" cited by Mr. Fernandes. Like others we spoke with, this executive needs better, more timely information for making decisions and monitoring performance. Says this finance executive (who asked not to be mentioned by name), "I wish I had the contract of agreement between my agency and every network that they negotiate with on my behalf because then I'd see the provisions that allowed for wiggle room—that is, if they didn't deliver the desired purchase within a specified timeframe, they might have plus or minus two hours of that timeframe to deliver it." She continues, "I would like to have a real-time view of being able to see—on an exception basis—what has not aired that was supposed to air, but also to be able to manipulate that system to show the agreements that give the network flexibility to move whatever they have to move with respect to advertising."

> "Finance's natural fiduciary instinct is to act retrospectively and challenge whether they are getting what they pay for. However, one can argue that the time and money associated with post-delivery audits would be better spent on working with the agencies to set up real-time reporting mechanisms," says a partner at PriceWaterhouseCoopers.

This level of information would allow this finance executive and her team to monitor performance more closely, to be sure. But she says it would also allow her to engage more closely with broadcasters and strike better deals with broadcasters. "This is kind of 'pie in the sky'—I would actually like to do the negotiation, to kick the agency out" of the commercial negotiations with broadcasters, she says. "I don't know if I've ever heard anywhere in my life that the best negotiators are the people that work at advertising agencies or that work at media agencies. That's not really their strength. To me, the people who are paid the least amount of money in the agency—and this has been benchmarked—people who are paid the least amount of money in the agency are the people who are responsible for the buy and the RFP. If everything is riding on making sure we get the best price at the utmost value without compromising our value, then why would you put some of the most lowly paid people in that position to negotiate that deal for you?"

It seems clear that finance does indeed pay attention to ad verification, but it does so in the context of supporting marketing's efforts to build brands and sell merchandise in ways that are cost effective. Russ Sapienza, a partner at PriceWaterhouseCoopers, characterizes the finance function's role as follows: "Finance can make an impact throughout the entire lifecycle of brand development. It has core competencies such as financial discipline (can we afford it?), audit and control (did we get what we paid for?), and modeling (can we create a compensation model that optimizes ROI?)." The finance function, says Mr. Sapienza, "has the ability to be a valuable member of the brand management team by coaching marketing on how to design and implement performance measures in a 'soft' area such as branding. Finance's natural fiduciary instinct is to act retrospectively and challenge whether they are getting what they pay for. However, one can argue that the time and money associated with post-delivery audits would be better spent on working with the agencies to set up real-time reporting mechanisms. It's 2008 after all, and there are many enabling technologies that can be adapted to this type of application."

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"Google has sort of ushered in that era that's a finance person's dream," says Mr. Kelley of PriceWaterhouseCoopers. "Now you're beginning to move to digital technology where you know exactly how many households were watching for how long and what they were watching, what they were skipping on DVR, etc. It's all now ones and zeros that are very, very trackable." These and other developments suggest that a new culture of measurement and transparency is emerging in traditional broadcast media.

A failure to increase accuracy by broadcasters will likely mean a further movement of ad dollars into new media. "The fact that the digital platforms have better measurement capabilities is a big factor in encouraging the shift of ad spend," says PriceWaterhouseCooper's Mr. Sapienza. "People are saying, 'All right, I'm ready to underwrite an advertising trial on an IPTV platform because I know I'm going to get some good measurement off of it.'"

In the past, broadcasters have been nervous about gathering and providing this level of information. There has been fear that more accurate numbers would also mean lower numbers, which would in turn lower advertising rates. However, broadcasters may have no choice. A recent study by the Association of National Advertisers found that 62 percent of marketers feel TV advertising has decreased in effectiveness over the past several years. The study, released in February 2008, also showed that 72 percent of the marketers surveyed want ratings information on individual commercials instead of the average commercial rating that is now available.

Amid this call from marketers for better information, broadcasters and data providers are moving toward providing more detailed, timely, and transparent information. Says Mr. Geller of the American Association of Ad Agencies, "People know it's a problem. The role of a media buyer is not so much media buying; it's media stewardship. They spend a third of their time buying media and the other two-thirds of their time in stewardship—in managing preemptions, make-goods and invoicing discrepancies."

A question remains, however, about bearing the cost of better information on ad delivery. "Clearly it's a problem," says Mr. Geller, "but who pays for the solution? Broadcasters aren't willing to pay for it. Advertisers and agencies aren't sure if they want to pay for it." While companies continue with their traditional affidavit-via-ad-agency system, broadcasters and agencies should be "doing more in an e-business type of environment where we're sending electronic invoices more frequently into the stewardship systems… Is it more viable to be looking at a model that looks at media value and a third-party verification, or is it more an issue of we need invoicing to happen on a more timely basis, maybe next-day log times available to agencies and advertisers? I think the jury is still out on these issues, but there's no question that agencies need to spend less time on stewardship."

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Sponsor's Perspective

The broadcast advertising industry has experienced remarkable change over the past 30 years. Once a marketplace where advertisers had but a few select mass broadcast outlets over which they could reach most consumers, today's communications world is highly fragmented through an expanding array of media outlets driven by technological advances.

In 1984, TV ad spend in the U.S. was $20.2 billion. There were three broadcast networks and 13 cable networks. Today, there are seven broadcast networks, over 60 cable networks and the TV ad spend is more than $65 billion.

The splintering of networks improves the ability to target audiences by specific demographics, but requires that advertisers execute highly complex campaigns to deliver more ad spots through a more diversified array of channels. As the methods of reaching audiences have fragmented and changed, and spending and complexity have increased, so too have error risks since media outlets and buyers have not had the corresponding transaction systems, control environments, and tools to monitor, validate, and audit the increasingly complex process of media purchasing.

Media purchasing and stewardship, affidavit reporting, invoicing processes, overall business communications practices, and the legacy systems that handle these processes have remained, and still are, largely unchanged. While consumer electronic media options flourish, and media outlets continue to expand opportunities to reach more narrowly-defined market segments in addition to mass audiences, advertisers annually waste important sums of money on television ads they have purchased that never reach their intended audience. There is a consensus that hundreds of millions of dollars, if not billions, are wasted.

Commercial time is a volatile "perishable" commodity with schedules changing daily. The process of selling and buying advertising time is still a manual, labor-intensive business. Media buyers, under significant cost and time pressures, focus on the next negotiations often to the detriment of the campaigns currently on the air. Advertisers seek greater accountability of their ever-growing investment in broadcast advertising.

Flaws in media execution exist across all types of TV media—network, cable and local (spot)—and error rates increase with volume and complexity. Some errors are caught and resolved in-flight. Most are caught a month or more later, during the invoice reconciliation process, and resolved as "make-goods" or credits, but that translates to lost advertising pressure. Some are never caught at all. The media buy administration systems in place are simply not designed to manage the media buy process from planning, through contracting, to execution, to contract compliance and, finally, in-flight management.

In the age of Sarbanes-Oxley corporate accountability, the advertising industry acknowledges the need to find more accountable processes through electronic solutions. In our meetings with advertisers and agencies, there is an increasing acceptance that advertising expenditures should be accounted for through accurate monitoring and verification to ensure that what was bought was actually delivered. Advertisers are learning that delivery of advertising campaigns is measurable and can be executed much more efficiently using solutions such as Eloda's.

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But SOX does not speak, directly or indirectly, to any elements of the media industry or its existing business transaction processes. However, its requirements and best procurement practices far exceed the antiquated broadcast advertising affidavit and reconciliation policy processes.

Innovative technology solutions, such as Eloda Protocol, will allow advertisers to execute efficiently ad campaigns by providing real-time data and validating instantly their media purchases. By doing so, companies will be able to validate the occurrence of advertisements and also guarantee their strategic value.

About Eloda

Eloda Corporation (TSX-V:ELA) is a third party providing a suite of innovative, effective and user-friendly measurement and validation tools for the advertising industry. Eloda offers Eloda Protocol™, a television advertising discrepancy management solution, to advertisers and their agencies in both Canada and the United States. Competitive intelligence services are currently provided for the Canadian market. The company is headquartered in Montreal, with an office in New York City. For more information, visit www.eloda.com.

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