WHITE PAPER

Cautious Optimism

Media Agency and Supplier Trends for 2023

INTRODUCTION

Nailing Down Priorities in a Shifting Economy

After a year full of ever-changing advertising forecasts, media agencies and suppliers had to shift their plans during the last quarter of 2022 and rethink their priorities for 2023. To better understand how the industry shifted plans, FastPay partnered with third-party research firm, Prodege to capture a holistic perspective of the current media landscape.

Here's what we found.

Q4 2022 WRAP UP

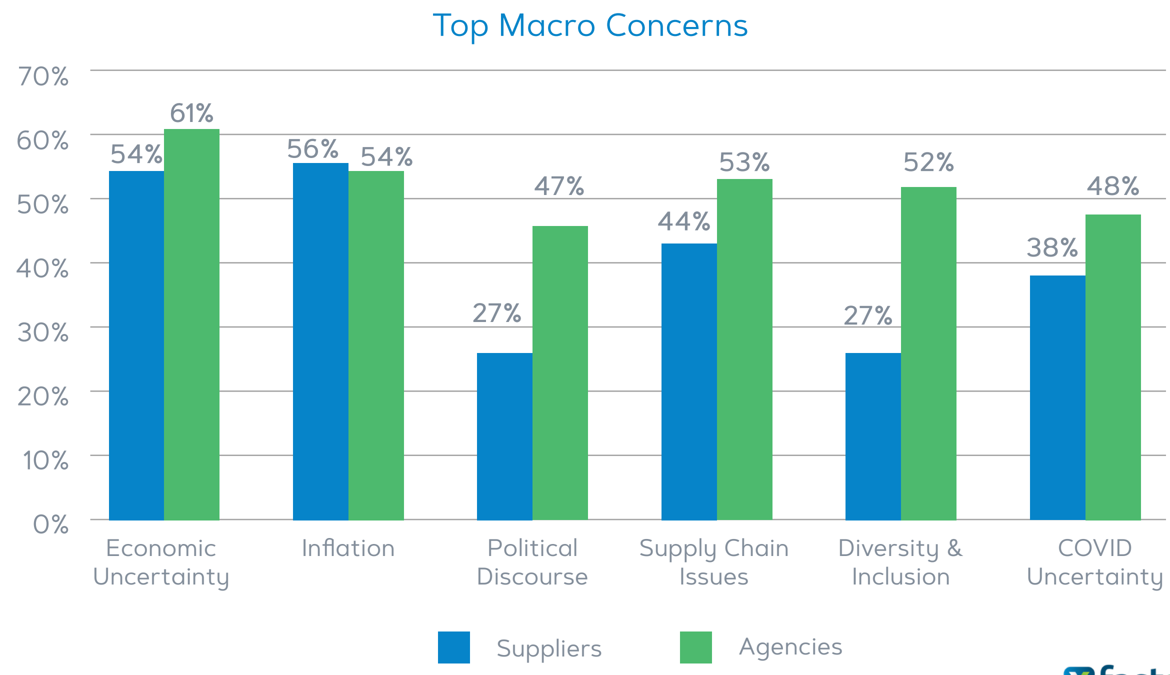
Inflation Concerns Grew in Q4 2022

In early 2022, we surveyed over 150 media agencies in our second annual Agency Financial Health Report. Agencies' main concerns were inflation, continued closures from COVID-19, and supply chain issues.

With mass vaccination campaigns, mask mandates lifted, and kids back in school, COVID-19 is no longer the top concern it was back in Q2 2022. However, both agencies and suppliers are being kept up at night by economic uncertainty, inflation and never-ending supply chain disruptions.

When it comes to inflation specifically, media has not been immune simply because it's an intangible good. The World Federation of Advertisers predicted a +2% increase in overall traditional media costs YoY in 2022 with an +18% on linear television alone. Suppliers are upping their pricing causing media buyers to pay more (and in many cases much more) for the same placements they bought in 2021 and there is no sign of relief coming anytime soon.

Back in mid- December 2022, we dove into the Federal Reserve's meeting minutes when they made the decision to raise rates 0.5 percentage-points. While their attempts to cool the economy are making some headway, according to the minutes, "no participants anticipated that it would be appropriate to begin reducing the federal funds rate target in 2023."



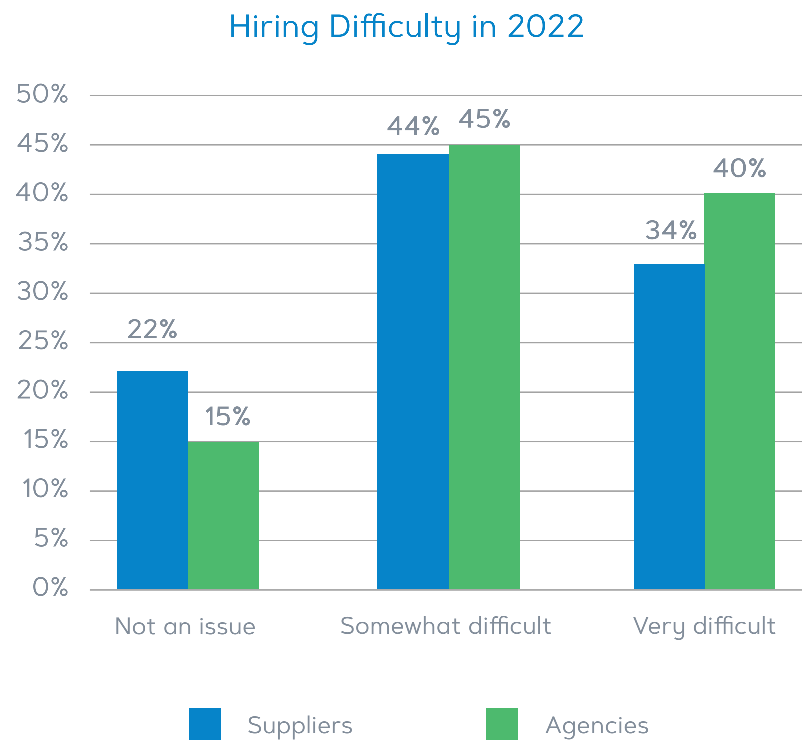
Q4 2022 WRAP UP

The Great Resignation has yet to Resign

As for employment trends, despite the influx of tech and media layoffs at the beginning of Q4 2022, agencies and suppliers agree that hiring remained 'somewhat' or 'very' difficult. So, was this the season of "Loud Layoffs" or the "Great Resignation"?

As of January 2023, unemployment is down to 3.5% and with over 10 million jobs available, it looks like the "Great Resignation" stuck around through the end of Q4 and will continue to be an issue in early 2023. While the outlook differs depending on the labor sector, 85% of agencies surveyed rated employee retention and hiring as challenging in Q4. Media suppliers, while slightly lower at 77% also dealt with hiring shortages.

Overall, it was and remains a very confusing labor market. We continue to see major Silicon Valley players like Salesforce and Vimeo cut their headcount. Only time will tell if hiring will continue to pose a major concern for agencies and suppliers or if more layoffs are looming.



Q4 2022 WRAP UP

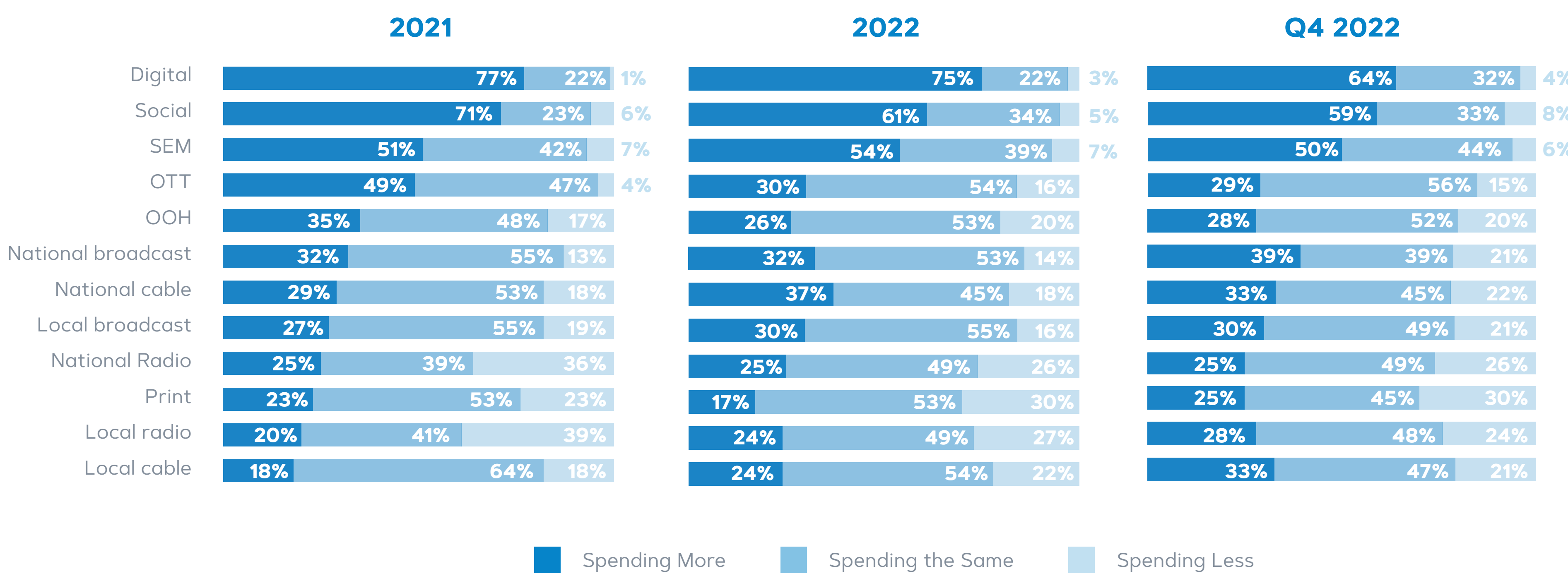
Mixing up the Media Mix

When it comes to how agencies allocated advertiser dollars, we can provide a YoY, Post-COVID lockdown analysis.

From Q2 to Q4 2002, advertisers' media breakouts remained relatively similar. However, there were some surprises.

In Q4, National TV Broadcast saw more dollars than in Q2. This can be attributed to an extended election season with a heated Georgia Runoff generating an estimated $100 to $125 million in additional ad revenue and an unseasonal World Cup. But it's also likely due to the rising cost of linear television as mentioned earlier in this report.

Another surprise…print saw an uptick in investment in Q4, while digital spend decreased largely due to Google and Meta losses. For the first time in nearly a decade, the tech giants accounted for less than 50% of total digital ad revenue in 2022.



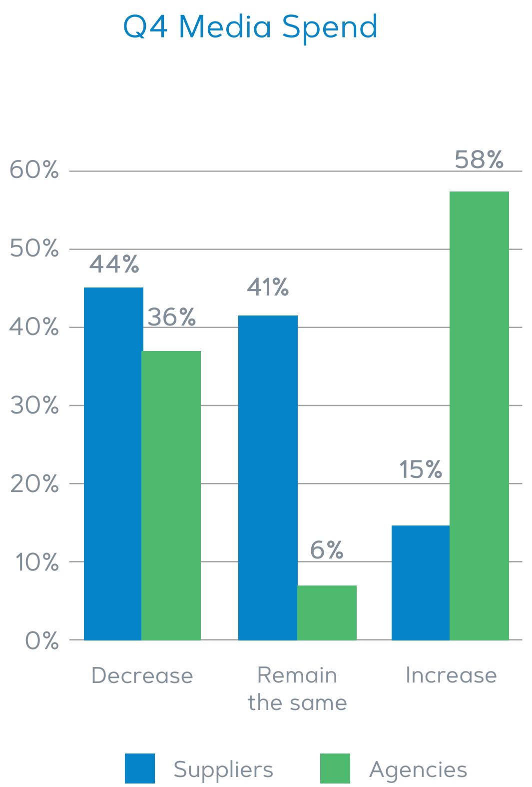
Q4 2022 WRAP UP

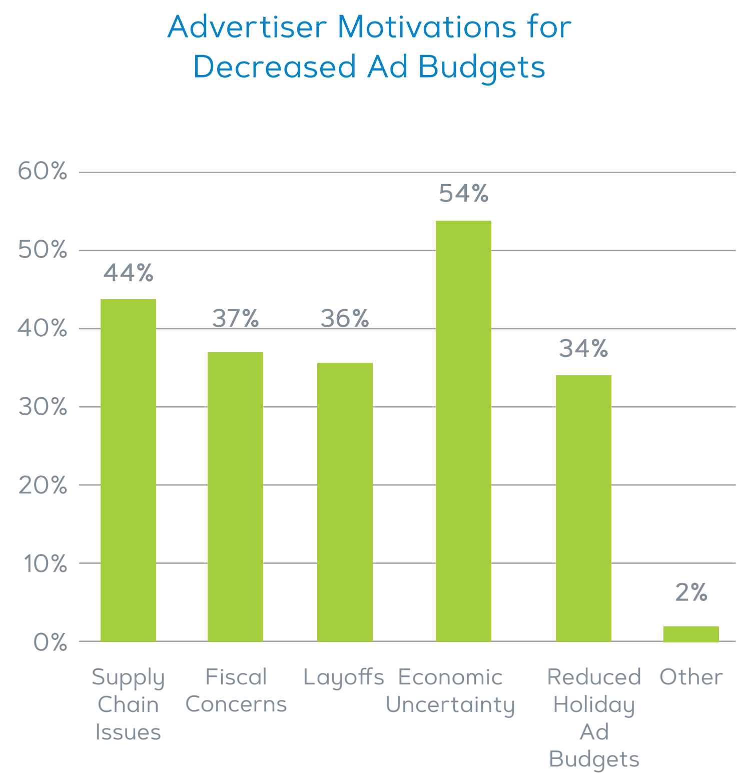
Media Organizations are Forced to Revise Forecasts

Nail-biting might be the understatement of the year to describe the anticipation behind 2022's media spend. Were forecasts going to be met? Exceeded? Or was 2022 going to be a big flop?

According to our survey, 57% of agency respondents saw increases in media budgets in Q4 2022 as opposed to reductions, while 44% of suppliers witnessed decreased revenue earned on media.

For the agencies and suppliers that experienced a loss of dollars, brands cited supply chain breaches and economic uncertainty as the reasoning behind sequestering their ad budgets. With nearly all COVID-19 restrictions lifted toward the end of 2022, supply chain challenges may ease.





2023 TRENDS

Inflation hits Media Costs

Budgets for Q1 are holding steady.

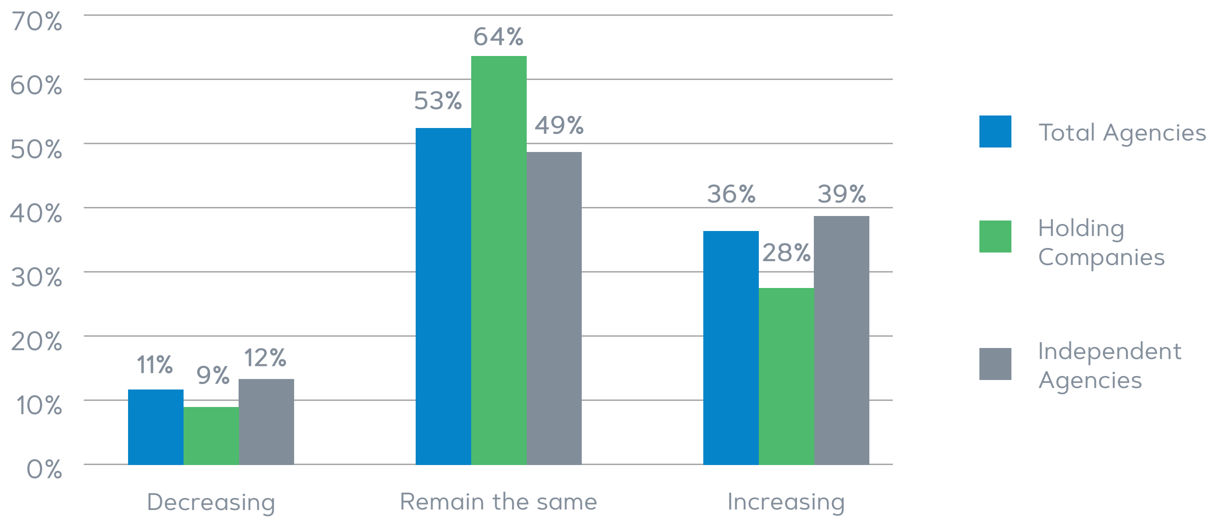
Only 11% of the agencies we surveyed reported reduced budgets for Q1 2023. Over a third of those agencies (39%) are forecasting more spend in the first quarter of 2023 than they did in 2022.

When we broke this figure out by holding companies compared to independent agencies, we saw that fewer holding companies expect increased ad revenue. Only 28% of holding companies expect increased ad revenue in Q1 2023 versus 39% of independent agencies.

While we can appreciate growth, some of this upward trajectory can be linked to media inflation especially in traditional broadcast according to Dentsu's latest Ad Spend Report. This lends to the thinking that media budgets are simply growing to keep up with the rising cost of media buys.

MAGNA's 2023 forecast also shows that despite a weakened economy total ad revenue is expected to grow 4.8% in 2023 and attribute the growth less to inflation but more so to the rise of retail ad networks.

Total Agencies Surveyed - Budget Outlook Q1 2023



2023 TRENDS

More Agencies are Under Review

Even the most established agencies constantly think about their next venture. That hustle is proving to be more vital now than ever before.

Over half of the agencies we surveyed reported being placed on review in 2023. A third have already lost new business in the pitching cycle.

This is in line with marketing trends, where 41% percent of CMOs conducted a media agency review in 2022. Advertisers want more than just media mix recommendations from their agency of record. They want guidance on how they should navigate everything from increased government led data privacy restrictions to consumer consumption on platforms like TikTok, and a highly fragmented CTV ecosystem. Brands are demanding granular expertise and agencies need to keep up.

Anticipated Agency Challenges in 2023

16%
Losing current business to a competitor

33%
Losing out on new business to a competitor

51%
Client / brand placing your agency on review

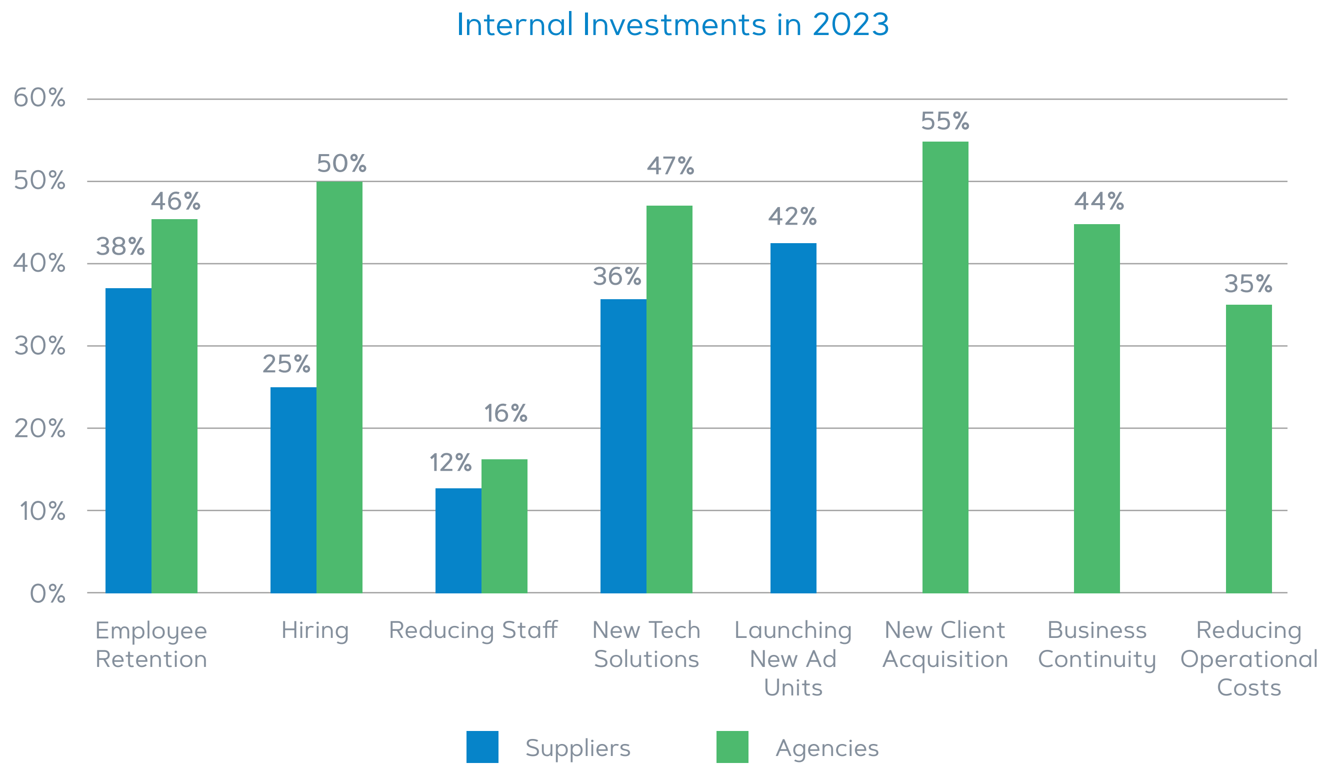
2023 TRENDS

Increasing Internal Investments on Tech

Thanks largely in part to the fear of being put on review, agencies are doubling down on new client acquisitions. Conversely, media suppliers want to maintain relevance in a sea of new and aging publishers and view launching new ad units as vital to their success.

When it comes to employment trends for 2023, half of the agencies we surveyed are still battling the "Great Resignation," and are prioritizing hiring to meet advertiser demands. On the other hand, suppliers aren't as concerned about filling headcount. Only a quarter of suppliers are focusing on hiring this year.

In line with employee retention (46%), agencies cite business continuity as a top investment (44%). One way they are looking to achieve this is by working with tech partners to reduce DSO and innovate the media invoice process. Remote work is lending to difficulties on both the agency and supply sides when it comes to the media payment cycle. In 2023, both suppliers and agencies will focus on implementing new tech solutions to streamline media finance operations.



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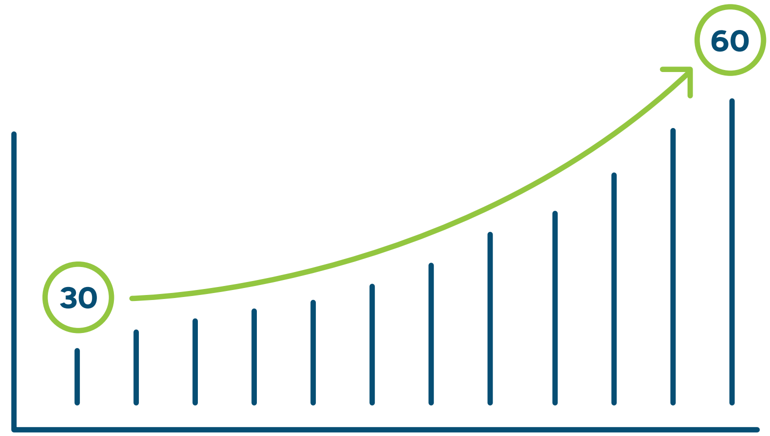
2023 TRENDS

An Industry Call to Improve DSO

The average DSO has increased from 30 days to 60 days.



When Keurig Dr Pepper's RFP for a US public relations agency hit the pages of AdAge last year, it was met with a ton of criticism. Along with the usual jargon you find in most RFPs, Keurig stated that the winning agency would have to agree to 360-day payment terms or obtain financing from a third-party bank. While agencies have been struggling with increased DSO from 30 days to now an average of 60 days according to a survey conducted by the World Federation of Advertisers (WFA), many ad industry leaders agree 360-days is setting an unhealthy precedent.

Long payment terms create a system by which agencies are forced to function as banks and suppliers are left waiting and waiting for payment. When properly executed and with savvy partners, fintech can provide a major relief in making cash flow more accessible. For instance, FastPay Network allows for quick payments with varying payment types like ACH and virtual card helping suppliers and agencies work together to streamline the payments cycle.

Behind the commercials we see sit thousands of media agency and supplier teams who deserve to work in an environment where their company's ability to pay them isn't restricted by unreasonable payment terms.

2023 TRENDS

Greeting 2023 with Cautious Optimism

Agencies and suppliers are carefully watching to see what Inflation and the rising costs of everything from household items to air travel will do to consumer confidence. Both stakeholder groups see it as a main threat to advertising in 2023 (50% vs 60% respectively).

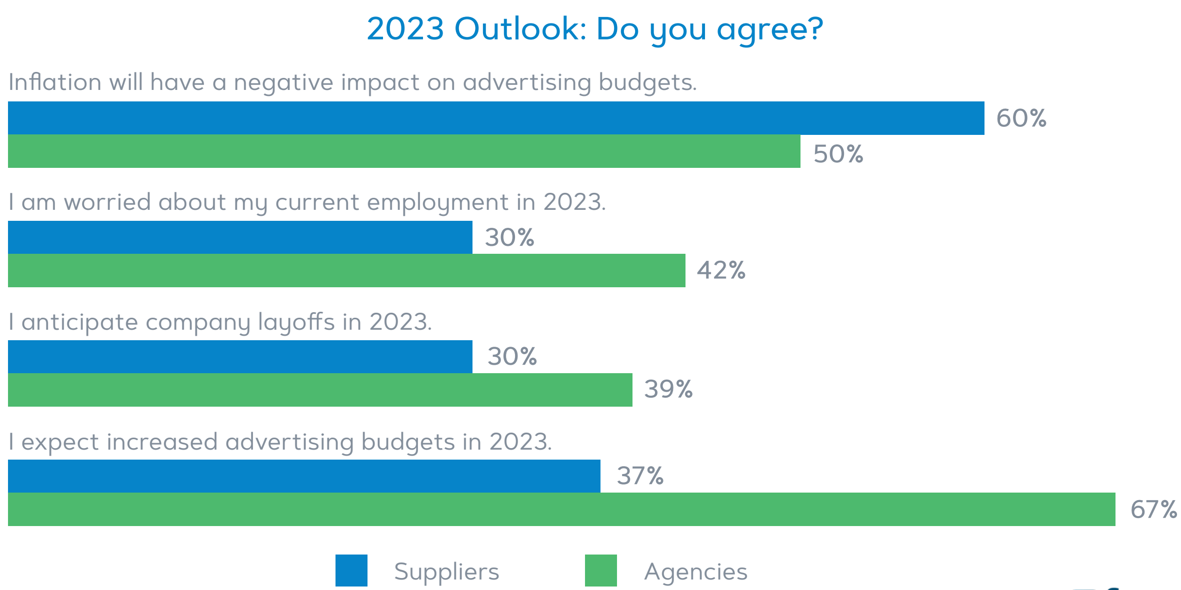
Nevertheless, sentiments of job security seem to be strong. Sort of.

Yes, 42% of agency respondents are worried about their employment but at the time this survey was fielded, we were at the height of "Loud Layoffs." We anticipated this number being close to three quarter of respondents and were surprised when we saw the data.

On the supplier side, less than a third of respondents expressed concern over the state of their jobs. This was surprising considering the struggles media suppliers have historically encountered.

As for ad budgets, 67% of agencies expect increased advertising budgets compared to 2022 while suppliers are more conservative with only 37% expecting ad revenue to rise. This is likely due to their limited visibility into brand budgets which agencies have a stronger pulse on.

If past economic downturns are any indicator, brands know that reducing advertising dollars can have detrimental effects to their longevity. As the popular adage goes, "When times are good you should advertise. When times are bad, you must advertise." It will be up to agencies and suppliers in 2023 to work collaboratively to convince brands of the need to maintain or increase their media spend in 2023.



CONCLUSION

The Power of Partnership

Many of us have grown tired of recession talk, but while some financial media experts may rely on rose-colored glasses to view the current market, most media suppliers and agencies are using trends to remain cautiously optimistic.

At FastPay, we know your job is tough and we're here to help. We work tirelessly with thousands of suppliers and hundreds of agencies to process billions of dollars in payments and alleviate the biggest pain points in the media payments process. In addition to our media expertise, we bring the power of AvidXchange's commitment to innovation working with the best engineers to build solutions that meet the needs of media agencies and suppliers in the US and Canada.

To learn more about how we can help you achieve your 2023 goals, please reach out to us at fastpaysales@avidxchange.com.

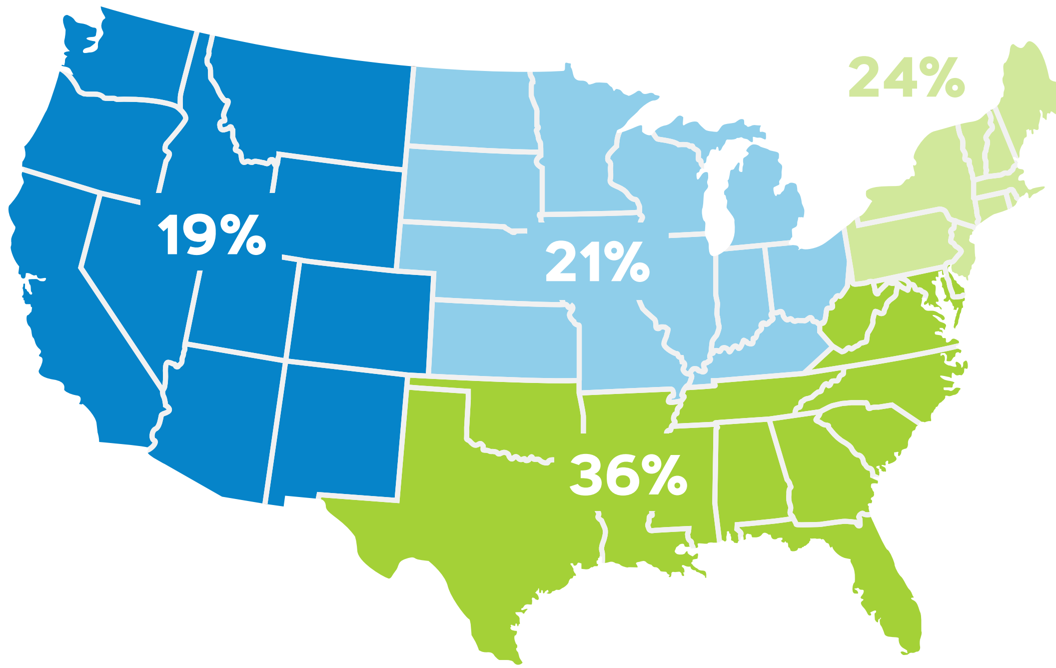
ABOUT FASTPAY

Since its founding in 2009, FastPay, an AvidXchange Company, has reimagined the complex advertising financial landscape to help both media buyers and sellers. Leveraging proprietary data and technology, we offer solutions that streamline and automate the media buying process to help eliminate friction across the media supply chain.

APPENDIX

FIELDING CONDUCTED
OCT 2022

Sample Demographics



166 SUPPLIERS

19%	11%	5%	4%	7%	15%	39%
Digital Publisher	Print Publisher	Local TV Broadcaster	Local Radio Broadcaster	Outdoor Media	Other Media Supplier	Cable / National TV

107 AGENCIES