

# THE PARADOX OF THE AGGREGATE

**Why this upfront was a shock to buyers and a gift to sellers.**

Lord Maynard Keynes, the economist who invented deficit spending, would have understood this past TV upfront.

Keynes once described a market where each person by trying to win, creates a situation where everyone loses. He called it "the paradox of the aggregate." Yogi Berra pinned it describing a restaurant "so popular, no one goes there anymore."



This TV upfront was a paradox of the aggregate, although a little more complicated than eating out. Mega-shops, clout and concept deals pushed up prices. But we get ahead of our story.

## **An unfair contest**

If the Upfront is seen as a competition between buyer and seller (*which the word, "negotiation" and the claim, "clout" strongly imply*), sellers have stacked the deck.

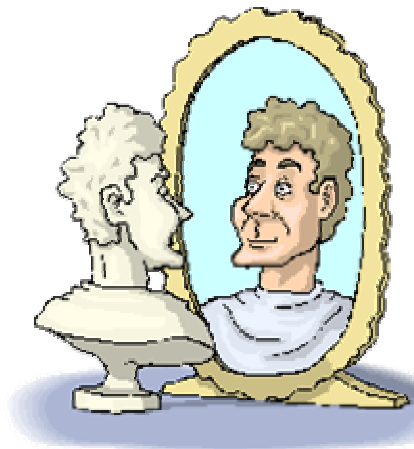
Consider that the Upfront spans two years (4th through 3rd quarters), forcing advertisers to budget almost a year ahead. Long before they've thought much about other media options or pricing.

Consider that sellers take risks with supply -- how much they sell upfront and how much they hold for scatter -- in order to get the higher price. While buyers go upfront at almost any price.

Even cancellation options, which would seem to favor the buyer, have a boomerang effect on pricing -- they overstate the sell-out rate, pushing prices higher. A fully sold network is 31% cancelable.

But perhaps the biggest mismatch is the difference in objectives. Sellers want the highest price. Buyers are happy buying better than the market.

### **Big, bigger, biggest**



This year it was all supposed to change. Magna Global, MindShare and OMD each went to market with consolidated TV billings in the billions. It was said this clout would shift the balance from seller to buyer and by extension, produce a more orderly market. It didn't happen. This first round went to the sellers. No contest.

Buyers had forecast primetime CPM increases of up to three percent. CPM's actually went up five-to-15. Why the surprise? The explanations seemed unconvincing.

*Demand was greater than anticipated. Unexpected dollars from autos and more new product introductions from packaged goods pushed up prices. But we might ask, aren't these your clients. Didn't they tell you?*

Then we heard *buyers took advantage of the lower CPM-bases negotiated last year. And more dollars than expected were moved upfront because some buyers were burned in the scatter market.* But who are these anonymous buyers? Aren't they the very buyers that claim to control most of the money?

It's an elaboration of Jon Mandel's observation, "*It's hard to buy below the market when you are the market.*" It's also hard to play dumb about the market.

But, back to Maynard Keynes, Yogi and the paradox of the aggregate. The nature of the upfront buying process -- and consolidation itself -- may explain part of the higher than expected cost increase.

### **The concept buy**

Average CPMs are meaningless in TV. Each advertiser has its own CPM-base with a seller from last year's buy. The price negotiation is on the size of the increase (or decrease) from that base CPM. Because of the complexity of negotiating the specific schedule needs of many clients in a short upfront, the only practical way a mega-buyer can use clout is by making a dollars-for-discount deal with the seller.

It's called a "concept buy." In sim-



ple terms the buyer agrees to commit dollars in exchange for a cost-per-thousand increase that's a point or two below the market. The market increase to be determined after the network closes its other upfront deals.

This works fine when the buyer contributes a small part of the seller's total dollars, because then the average CPM increase is still an open market price. It works less well when the buyer accounts for a lot of inventory, because the buyer is taking that inventory out of sale without establishing a price.

This encourages the seller to hang tough on pricing the remaining inventory -- if only to recapture the discount it just gave away. In this scenario, average CPM increases will be greater, because they are based on a smaller volume of sales at the margin.

A concept deal sells out the market. It rewards the buyer for giving the sellers a dollar base that allows them to reach for higher prices. If a number of mega-buyers play this game, the ratcheting-up effect on price can be substantial.

Keynes would describe this situation -- individual buyers trying to buy better than the competition, creating a market where everyone pays more -- as "a paradox of the aggregate." It happens in advertising today because buying better than the competition is more important than paying less for clients.

It's the same old upfront.

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