

The Myth of Gross and Net Rates in Media Buying

Written by Admin Web

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By definition, the **Gross Rate** is what an agency charges the client for their advertising media. The **Net Rate** is what the agency pays for the media.

Historically, the difference between the gross and net rate in media buying has been agency revenue. Putting it simply, *if the gross rate from media outlet A is \$100, and the client pays an agency commission of 10%, the net rate would be \$90.*

As an agency I would owe the media outlet \$90 when my client pays me \$100, and I would keep \$10.

Gross and net rates are simple, right? There's nothing mystical about them. The question is, could a small business that buys their own media request a net rate? Do media outlets increase the price of their inventory to make up for the margin that agencies try to make?

Just like retail clothing sales, do inventory prices change week-to-week, or month-to-month, for the same inventory? Do agencies actually know if their rates are the best? After all, in order for the net and gross rate ROI to work, they would need to ensure they're getting the same or better rate that the media outlet is selling directly in the market or to another agency.

The fact is the same rate can be grossed up or netted down or otherwise changed, at any time. This is why the whole pitch about an agency not charging for their media buying services is being questioned and agencies who continue to use that selling point may be discredited in the future.

Media outlets can and do sell the same rates, in many cases, whether gross or net directly to businesses. In this case an agency is grossing a rate up to the buying, so there is a charge.

How Agencies Make Money or Don't

An agency has to get its money from someone, while the media outlets are going to maximize

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the revenue they generate from the inventory that's available to sell. Therefore, a media outlet will mark the "gross" rate up as much as they need to in order to ensure they are getting the maximum amount of revenue for the inventory they are selling.

The fact is that agency clients are paying a fee, a commission, or something in exchange for knowledge and advice. Low rates can be good, but more importantly, having the right media mix, message, and placement is worth more.

Agencies that say they charge nothing for these services discredit the industry and their agency. It is worth something. So tell your clients you take a small percentage of the buy to represent their interests in the ever-complicated world of media buying, not that you charge them nothing.

Every business person knows about wholesale and retail prices, and your clients are no different. They also know an agency has to charge for their services to stay in business. Don't talk down to them or they may not be your client for long.

Tell them what rate you pay the media outlet and what the client pays you. Don't confuse the issue with the discussion of net and gross rates.