**VIDEO TRANSCRIPT**

**Working with Radio Avails or Rate Cards**

The purpose of this lesson is to study and understand radio and the concept of working with radio avails or rate cards. Part of this lesson is the topic of the agency commission model, gross rates vs net rates.

After you finish this video lesson, you will be able to:

* Define the concept of the agency media commission model
* Recognize the difference between gross rates and net rates
* Calculate a rate from net to gross and from gross to net
* Recognize a radio rate card and how to read the terms and conditions
* Apply the radio rate card or avails to develop a radio schedule
* Report the results when developing a radio schedule

Let’s start with the basic terminology you need to understand in this lesson.

Agency media commission is a system of compensating the advertising agency for the work of negotiating, placing and stewardship or monitoring a schedule at an industry standard of 15%. Rates extended by media to advertising agencies may or may not include the industry standard 15% commission.

Gross rates are the media rates with the 15% agency commission already added.

Net Rates are the media rates without the 15% agency commission.

Avails or availabilities is a report extended to the advertiser and the advertising agency that is a list of the costs or rates charged for the insertion of commercial units in various lengths, measured in seconds. In radio, the most common commercial unit lengths are 60 seconds and 30 seconds. Unit rates can also be extended in a rate card format and can include other opportunities and sponsorships.

Let me give you a little more background about how this works. Advertising agencies started to develop in the late 1800’s, and around 1920, the concept of agency commissions for their work in placing media was starting to be recognized by the media industry and finally settled at 15%. This represented an accommodation between the media and advertising agencies for the creative and other services the agencies provided to advertisers. The commission of 15% was recognized only to ad agencies. If advertisers bought space (or later airtime) directly from the media, they were charged at the gross or undiscounted rate. Today, few, if any, agency compensation arrangements are exactly alike, but other alternatives to the traditional 15% media commission system have evolved. Before we get into the agency compensation variations, let’s examine how the agency commission of 15% works. Let’s say that the client approved a media budget of $1,000 gross. The key word here is gross. The advertising agency is given the $1,000 gross budget to negotiate with media. The media submits gross rates to the advertising agency and the negotiation starts for the $1,000 gross budget for media placement. Once the negotiation is done, the advertising agency places a media schedule using gross rates which become a contract between station and advertising agency in representation of an advertiser. When the schedule runs, the advertising agency pays the media $750 for the commercial airtime or space and keeps $150 or 15% of the $1,000 budget for their services. Again, the client – agency compensation models have evolved, but the gross rates assume a 15% markup and the net rate is the “naked” rate without the 15% agency commission. This 15% is also an industry standard. Other media compensation models for a client to “pay” their advertising agency for services may include the flat-rate commission at less than 15%. Another is a downward-sliding scale commission system, in which an advertiser might, for example, pay the agency 14% on the first $10 million in media billings, 12.5% on the next $10 million of media billings and 10% on all billings in excess of $20 million, etc. There are other models, but that’s another discussion of client – advertising agency compensation. By the way, the greatest advantage of commission systems of agency compensation is that they are simple to administer. The greatest weakness of commission systems is that the basis of agency compensation (media space/time) has no relation to either the quantity or the quality of the creative work and other services that are provided to the advertiser client by its advertising agency. But again, that’s a separate discussion.

In this lesson, we will discuss the gross and net rates, as recognized by media on a 15% agency commission model.

Let me clarify that regardless of how the client compensates their agency, a gross rate means a 15% markup. A Net rate is without the 15% markup. This 15% markup industry standard recognition by the media bears no weight on how the client compensates the agency. If the rate is gross, the agency will pay the rate less 15%. Whether they get to keep the 15% or less, is between the client and the advertising agency.

In the rate card or avails, certain information lets the media buyer know what the rates really mean. For example, the stipulations (or the fine print) of the rate card will tell you if the rates are gross or net, and if the rates reflected are 30 second units, 60 second units, etc., The example that we will use in the media math problem, will present a 60 second unit length and will also tell you how to calculate another unit length using the 60 second rate as the base. You calculate a 30 second or 10 second commercial units from what the rate card tells you. You have to read the fine print.

OK, let’s start. For this media math problem, we will use a simple rate card. Refer to the video lesson PPT on Working with Radio Avails or Rate Cards to study the chart. Always remember that this example is an illustration but media management reserves the right to set pricing and outline the hours of their dayparts and other factors to run their business. In radio generally, the money makers are morning and afternoon drivetime just like in television it is Primetime. That’s where the biggest audiences can be found. Think about it, mornings and afternoons are when people are in their cars driving to work and from work. Understanding people’s media habits sometimes lies in observation and common sense. Not all the time, but you have to become a student of people’s behaviors.

STEP ONE: Understanding the numbers

* Radio Media Schedule to be placed is as follows.
* Use the rate card shown:
* Total Budget $5,000 gross
* 30% Morning Drive / 30 second units
* 25% Midday / 30 second units
* 35% Afternoon Drive / 30 second units
* 10% ROS / 10 second units

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| --- | --- |
| Daypart | Rate |
| M-F 6-10am / Morning Drive | $145.00 |
| M-F 10am-3pm / Midday | $125.00 |
| M-F 3-7pm / Afternoon Drive | $135.00 |
| M-F 7pm – 12 mid / Evening | $81.00 |
| Rate Card stipulations | All Rates are NetRates reflected are for 60 second commercial units30 second commercial units are 75% of a 60 second rate10 second commercial unit are 40% of a 60 second rate |

This rate card is reflecting rates for several dayparts, and it is also telling you that the rates reflected are net, they are for 60 second commercial units and that, if you are placing 30 second commercial units or 10 second commercial units, you have to apply the % stipulated in the rate card to calculate the correct rate. The budget is gross but the rates are net.

Let me use this step to help you understand the concept of gross and net rate calculation.

Going from gross to net, you multiply the gross rate by .15 (15 divided by 100) and subtract the resulting amount from the gross rate to produce the net rate.

Going from net to gross, you multiply the net rate by 1.1765 which magically produces a gross rate with a 15% markup. Let’s practice:

Gross to Net: $100 gross rate multiply by .15 = $15, $100 gross rate minus $15 = $85 net rate

Net to Gross: $85 net rate x 1.1765 = $100

STEP TWO BUDGET: Calculating the Budget Allocation by Daypart

To find how much money to spend in each daypart

Formula:

Budget

Multiplied by

Budget allocation % divided by 100 (or move the decimal points two places)

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| --- | --- | --- | --- |
| Budget Allocation | Calculation | Unit Length | Daypart Budget |
| 30% budget allocation in Morning Drive | $5,000 gross multiplied times .30 =$1,500 gross | 30 sec | $1,500 gross |
| 25% budget allocation in Midday | $5,000 gross multiplied times .25 =$1,250 gross | 30 sec | $1,250 gross |
| 35% budget allocation in Afternoon Drive | $5,000 gross multiplied times .35 =$1,750 | 30 sec | $1,750 gross |
| 10% budget allocation in Evening | $5,000 gross multiplied times .10 =$500 gross | 10 sec | $500 gross |
|  |  |  | $5,000 gross |

Step THREE RATE: Finding the correct rate

Keep in mind that the rate card reflects 60 second commercial units in net rates. There are two calculations we need to apply to the rate shown in the rate card in order to get to the correct rate we can work with:

1. Calculate a 30 second rate or a 10 second rate from the 60 second unit rate shown in the rate card. The percentage allocation is not standard, and only used for this illustration. Divide the percentage shown by 100 or move the decimal point over two spaces.

Formula: 60 Second Net Rate multiplied times percentage shown (divided by 100) for a 30 second unit (75%) or a 10 second unit (40%)

1. Calculate the rate from net to gross: to calculate from net to gross, multiply the net rate times 1.1765 (memorize this number which adds the 15% agency standard commission)

Formula: Net rate multiplied times 1.1765 = gross rate

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| Daypart | Unit Rate | From 60 Second Net Rate to a 30 second net rate or a 10 second net rate | From Net 30 second or 10 second rate to gross rate  |
| M-F 6-10am / Morning Drive | 30 second | $145.00 multiplied times .75 = $108.75 | $108.75 x 1.1765=$127.94 |
| M-F 10am-3pm / Midday | 30 second | $125.00 multiplied times .75= $93.75 | $93.75 x 1.1765 = $110.30  |
| M-F 3-7pm / Afternoon Drive | 30 second | $135.00 multiplied times .75 = $101.25 | $101.25 x 1.1765= $119.12 |
| M-F 7pm – 12 mid / Evening | 10 second  | $81.00 multiplied by .40 = $32.40 | $32.40 x 1.1765= $38.12 |

Step FOUR SCHEDULE: Putting the schedule together

Now that you calculated the gross budget allocation by daypart AND the correct gross rate, now we can putt the radio buy together. There are three steps:

1. Divide the gross Budget allocation by the gross unit rate for each daypart to calculate how many of units to buy in each daypart
2. Remultiply the resulting number of units times the unit rate to find out the total spent per daypart. This step is done so we can adjust the number of units we can buy or place in each daypart and spend as close to 100% if the budget as possible.
3. “Tweak” the schedule until you have spent the total budget without going over budget. Going over budget within the allocated daypart budget is ok, but do not go over budget in the bottom-line

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| --- | --- | --- | --- | --- | --- | --- |
| Daypart | Unit Length | Unit Rate | # units | Re-multiply #units x rate | Daypart Allocated Budget | Daypart Totals |
| Morning Drive | 30 seconds | $127.94 gross | $1,500 divided by $127.94 = 12x units | 12 units x $127.94 | $1,500 gross | $1,535.28 gross |
| Midday | 30 seconds | $110.30 gross | $1,250 divided by $110.30 =11x units | 11 units x $110.30 | $1,250 gross | $1,213.30 gross |
| Afternoon Drive | 30 seconds | $119.12 gross | $1,750 divided by $119.12 = 15 units | 15 units x $119.12 | $1,750 gross | $1,786.80 gross |
| Evening | 10 seconds | $38.12gross | $500 divided by $38.12 = 12x units | 12 units x $38.12 | $500 gross | $457.44 gross |

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| --- | --- |
| Total Gross Buy | $4,992.82 |
| 15% Agency Comm | $748.92 |
| Total Net Buy | $4,243.90 |

1. The Total Gross Buy for this Media Schedule is $4,992.82 gross, which is as close as you can get from the $5,000 without going overbudget.
	1. The Agency Commission, which means going from Gross to Net, is calculated as follows:
		* $4,992 x .15 (15 percent agency commission industry standard divided by 100) = $748.92 15% Agency Commission
	2. The Net Budget is calculated by subtracting the 15% Agency Commission from the $4,992 Gross Budget = $4,243.90 Net Budget

Step FIVE Understanding and Reporting the Results

In this radio schedule, we are buying a combination of 30 second and 10 second units across various dayparts. We worked out the schedule using a rate card that was provided by the station using 60 second net rates as a base rate, and had to covert each rate to 30 second and 10 second gross rates using the parameters provided in the rate card.

The Radio schedule buy consist of the following:

Morning Drivetime 12x 30 second units @$127.94 gross each Daypart Total $1,535.28

Midday 11x 30 second units @110.30 gross each Daypart Total $1,213.30

Afternoon Drivetime 15x 30 second units @$119.12 gross each Daypart Total $1,786.80

Evening 13x 10 second units @$38.12 gross each Daypart Total $457.44

**Total Gross Radio Investment $4,992.82**

**15% Agency Commission $748.92**

**Total Net Radio Investment $4,243.90**

The client approved $5000 gross for this radio schedule, the advertising agency placed $4,992.82 gross, the radio station invoices the advertising agency for the full amount with the 15% agency commission recognized, the advertising agency pays the radio station $4,243.90 net. The 15% amount of $748.92 is subject to the client – agency compensation agreement, if the agency gets to keep the full amount.

In closing, suffice to say that if the media rate card or avail shows that a rate is gross, regardless of the client – advertising agency compensation, the rate has a 15% markup added. The advertising agency can request net rates or the station can submit net rates, but as a rule of thumb, always clarify what you are working with to avoid misunderstandings. Another important consideration is that the media will always have to acknowledge that the advertising agency requesting rates is a legitimate advertising agency to honor the 15% agency commission. When a new advertising agency approaches the media (radio station, television station, outdoor company, etc.) to request rates, before the media placement, they request what it is called a “credit application” and proof of buying for other clients before the new advertising agency is recognized as such. There are several ways that media works with payments for their airtime or ad space, extending credit to pay after the schedule airs, cash in advance if the client has not a proven credit history or if they have defaulted the media before, or in barter where the advertiser and the media exchange “values”. Values can be, for example, in the example of a concert promoter, radio station logo, presence and mentions at the concert event in exchange for airtime and concert tickets for on-air giveaways, all designed to promote the event. This exchange can be a combination of cash and barter, all subject to negotiation, and it is a win-win for both parties.

One last and important recommendation, when a client approves a budget, try to spend as close to 100% as possible. Find value added opportunities Value added or added value are terms used for opportunities negotiated within the schedule that are a “bonus” to incentivize the investment. Become a skilled negotiator. Bottom-line, the client approved the budget to be spent in order to achieve their business goals. Never, ever go over budget. Underpromise and overdeliver, always.

Now continue practicing with the given radio schedule and rate card example in the video lesson PPT and always remember that you will find the answer in the full lesson PPT.

See you in the next video lesson.