HOUSE OF LORDS

Select Committee on Communications

Corrected oral evidence: The advertising industry

Tuesday 12 September 2017

4.35 pm

Watch the meeting

Members present: Lord Henley (The Chairman); Baroness Benjamin; Baroness Bertin; Baroness Bonham-Carter of Yarnbury; The Lord Bishop of Chelmsford.

Evidence Session No. 1 Heard in Public Questions 1 - 7

Witnesses

I: Stephen Woodford, Chief Executive Officer, the Advertising Association.

USE OF THE TRANSCRIPT

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Examination of Witness

Stephen Woodford.

Q1 **The Chairman:** Good afternoon and welcome to what will, in fact, be the first formal evidence session of this Committee on this report on advertising. Can I ask you, Mr Woodford, to formally introduce yourself for the sake of the record and say who you represent? If you could say a few words of general introduction, or however you prefer to do it, it will then be for the Committee to put a number of questions to you. We have a bit over an hour. I hope that suits you.

Stephen Woodford: Very much so. My name is Stephen Woodford. I am chief executive of the Advertising Association, and relatively new to that role. Most of my career has been in advertising agencies, so I know the advertising business from the agency side, particularly very well. Thank you for the opportunity to be the kick-off session in this programme; I am delighted to be here.

I will say a few words of introduction and then am very happy to take questions. The first thing to say is that advertising is a very important contributor to UK economic growth. Our research shows that, domestically, the £21 billion worth of spend in 2016 contributed about £120 billion worth of GDP, and that supports about 1 million jobs. In its own right, it is an important industry; it supports more jobs—way beyond the sector itself—and, importantly, it has all sorts of other impacts on the economy. It drives innovation and competition and reduces prices, so it has a lot of very positive impacts on the economy as a whole.

Globally, the UK is a world leader in advertising. We generate about £4.3 billion worth of exports, and that rate of export growth is about twice the rate of the UK's general export performance. We attract many of the world's best people to our sector to come to work and live here. It is that combination, that virtuous circle, which I am sure we will talk more about, of the world's best talent coming here and helping us create some of the world's best advertising. This is what has helped to fuel that export performance.

This is a very good time for your inquiry. The industry is at an absolutely pivotal point. Like many, many industries, the impact of Brexit on the landscape we work in but particularly on the environment around talent, is absolutely critical to us. There are huge changes going on that have accelerated in recent years in the way consumers use media, and you will be very familiar with the changing media landscape. As a result, our business is going through enormous changes, probably the most profound changes in decades. We need lots of new skills coming into the industry as well as the traditional skills, particularly in the areas of technology. It is also at a time when, no doubt, Brexit is sharpening the competitive instincts of other countries and cities. The rest of the world sees the UK's performance and would like to take some share from that. We already see evidence of other cities in Europe and particularly

Amsterdam, being very quick out of the blocks, looking to gain share from the UK as a result of Brexit.

We work together as an industry to address those issues. For those who do not know it, the Advertising Association was formed in 1926 to bring together all the different components of the industry to act, if you like, for the good of the industry as a whole. We represent the advertisers, obviously—the people who are spending their money promoting their brands and businesses—and we represent the agencies. For those not familiar with the agency landscape, there are two broad types of agencies: the creative agencies that create the content that goes into the advertising media and the media agencies that plan and buy the media. We also represent the commercial media, which is all the media that depend on advertising for all or part of their existence.

In addition, there is the whole supply chain that supports that. There is a huge supply chain, for instance, in production. Advertising can be seen to have fuelled a world-class production industry, particularly in post-production and visual effects. There is the production infrastructure and the market research infrastructure that supports that and British market research, again, it could be argued, leads the world. Plus, increasingly, all the ad technology businesses that support the whole supply chain. So there is a very complex ecosystem that has grown up in the UK that is important to our domestic economy and as an export performer, and in some ways an exporter of soft power for the UK.

This is an interesting time, because traditionally our industry has been self-regulating and has not asked much of government; there has not been that much interaction between the industry and government, except on high-profile areas such as HFSS foods or alcohol. Now is a very good time for this inquiry and a good time for us to work very closely with government. Top of our list of priorities is ensuring that we continue to have access to the world's best talent, both domestically and internationally. It is not an either/or; it is absolutely both, and I am sure we will talk more about that later.

We want to promote the UK as a global hub for advertising. Although London is very, very important within that, it is a UK-wide phenomenon. We think there is a big opportunity in the industrial strategy to use advertising as a growth lever. Firms advertise to grow their businesses and we think there is a really exciting opportunity, particularly to get growth in the regions and nations outside London and the south-east, to encourage SMEs to advertise more. As part of our industrial strategy submission, we have put forward the idea of an SME tax credit—again, I am sure we can talk about that later—to encourage SMEs to invest in advertising and to get high growth, create more jobs and create more wealth all around the country.

Finally, we are very interested, obviously, in the Brexit negotiations, as is every industry, but there are two big pillars for our business that are critical. One is the AVMS—audio-visual media services—directive, which I am sure you have heard about through broadcasters, and so on. The second is the GDPR, the General Data Protection Regulation, on data and privacy. Those two things are incredibly important for the ongoing success of our business. With that I ought to hand over. Thank you very much.

The Chairman: Thank you very much. I quite agree with you when you say that we want access to the world's best and the world's best talents. Equally, we want to make sure that we can grow our own best talents at home. I wonder whether you could explore a little further what we ought to be doing, what specific skills UK plc should be employing to encourage growth here on both the production and distribution sides of advertising, and what should universities be doing? Is there more between the universities and government that needs to be co-ordinated on the training required so that we are not just recruiting the world's best but growing the best here?

Stephen Woodford: That is an incredibly important question. I will answer it in summary with two short phrases. The first is magic and logic. Our business is absolutely about the fusion of magic when it comes to creativity, and logic when it comes to analytical skills, the strategic skills, technology, data and so on. It is the combination of magic and logic that makes advertising the success it is. We have a huge breadth of skills in our industry, from the creative skills everyone thinks of in a creative team in a creative agency making up the ads. If you think about the production and supply chain, there is a huge range of skills there: the market research skills, the data and analytics, the strategists, the people who run the business, and so on. We require a very diverse set of skills.

The second thing I would say is, again, a soundbite. The answer to that is STEAM not STEM. When we are looking at education, as a lot of the creative industries, we are absolutely committed to seeing that blend of the arts and sciences. Our best recruits and our best businesses have that blend of arts and sciences. It is not either/or, it is both. Magic and logic, and STEAM not STEM.

The Chairman: STEAM not STEM?

Stephen Woodford: Science, technology, engineering, as well as the arts and mathematics. There has been a lot of emphasis in education about STEM subjects and growing science, technology, engineering and mathematics, but our business is about the blend of the two. In fact, when you look at most technology companies, they are looking for the blend of creativity and technology. The future economy, in a sense, depends on that blend, and it is something we are very good at as a country. It is one of the things that underpins our industry. The important question underlying this that, in a sense, Brexit throws into relief is that about blend of global and domestic talent. We would take the view that the UK is very, very good at attracting the world's best talent. If you are a Polish data programmer, a German creative or a Brazilian strategist and you choose to come to London, it is probably because you are one of the best in the business in your home market and you are coming to work in the UK to improve your CV and career and work on global business. We attract the world's best talent in that sense.

That also raises the game for British talent. We have demonstrably better British talent as a result of being globally competitive. You could talk to advertisers all over the world; they do not come to the UK just for British talent, although British talent is very important to them—they do rate our home-grown skills very highly—but they come to the UK for that blend of talent. If you are Samsung, as an example, and you are looking to develop your advertising, you want that blend of international skills; you want that global cultural perspective. Time and again, studies shows that diverse groups and cultures create better outcomes. That is certainly something our business has thrived on.

The important point is what more can we do with that British talent? There is a lot going on already. We have tended to be a university entry business for many of the roles, but in the last I would say 10 years there has been much more emphasis on more diverse recruitment; encouraging people to join at apprentice level and encouraging people from wider, more diverse backgrounds to join the business. There is a huge amount going on at the moment. We have a list of the various initiatives which we can supply, and I think it is worth delving into. Undoubtedly, there is more we can do.

Q2 **Baroness Bonham-Carter of Yarnbury:** I was about to say STEAM not STEM, which the Victorians understood. They had a department of science and the arts, and that is what fuelled the first industrial revolution.

Stephen Woodford: Absolutely, and it will fuel the next industrial revolution as well.

Baroness Bonham-Carter of Yarnbury: Exactly. You have answered my first question, which is: to what extent does advertising require talent from outside as well as, as the Chairman says, developing it here. What is the split here, and between the EU and the rest of world? You mentioned Brazilians, for instance.

Stephen Woodford: Yes. We survey our industry and look at the composition of the workforce. We have invited this Committee to come to the launch of a report on 17 October, where we will have by far the most detailed analysis of the make-up of our workforce. We are also planning to do an ad-land tour as well for those who do not know the industry to go and visit some of the firms in the industry.

On the make-up of the workforce, we see EU talent as very important to the UK workforce. On all the statistics, it tends to be more so in London, but it is not a London-exclusive thing. If it is 20% of the workforce in London, it might be 12% outside London. We see that sort of diversity. It is a UK-wide phenomenon. The other important thing about our business is that less than 50% of the workforce is in London. Perceptions might be that it is very, very London-centric, but it is a UK-wide business and a conurbation-based business. Most of our industry is in the conurbations, and for most of them the EU workforce is an important component of the workforce. Again, we have lots of detailed figures we can supply to the Committee.

Baroness Bonham-Carter of Yarnbury: Trying to be positive for this report to help in the future, how can future immigration policy help with the skills needs you require, while agreeing very much with the Chairman that we have to build up our skills here? I used to work in the television business and I know that there are companies, such as Framestore, for instance, that are British but very, very successful in the United States. That is not a European element, so there must be some information, some past experience, we have of being able to get British people into America and American people into Britain. It is not just a European story.

Stephen Woodford: No, it is not. The UK has done very well by having talent from all four corners of the globe. Obviously, we have done exceptionally well by having free movement of EU labour. Whatever the future immigration policy is, we would like it to be as near to the status quo as it is currently, as I am sure you will hear most industries say, because it has worked very, very well for us. It does not seem to be displacing British jobs. We have a bigger industry because of the global performance of the industry. Framestore is a fantastic example; arguably the world's best visual effects company now with 1,000 people in the UK and 1,000 in America, that started out 30-odd years ago as an advertising post-production company with about 20 people. That is a really good example of a world-class company that has grown in our industry.

What do we want from the future immigration system? Something as close to the current easiness with which business is able to hire and attract talent as is possible. If anything, we would also like that globally. Obviously, it is very easy to hire EU talent; it is slightly more cumbersome and bureaucratic to hire an American, an Indian or a Chinese person. We would like to see less bureaucracy about hiring the right sort of talent across the board. Particularly if our strategy is about a global Britain, obviously we want strong relationships with the EU but we want to grow our non-EU trade, we want to be as open as possible to the best of the talent from the rest of the world. It is paradoxical to think we are going to have a much more restrictive immigration policy and, at the same time, go global. The best way we can secure our future is to be as open as possible.

Q3 **Baroness Benjamin:** Matt Hancock, the Minister of State for digital and culture said that the creative industry "will be absolutely central to the post-Brexit future". Advertising, of course, is a major part of our creative industries. You mentioned in your opening remarks that the Dutch are already out of the blocks looking at how they can encroach upon the UK's business. What are your main concerns for the advertising industry regarding continued access to international markets? What approach should the Government be taking to develop new relationships with the

EU and other trading partners to support the advertising industry?

Stephen Woodford: Thank you. There are so many important issues in that. If I start with the new markets, we have been very encouraged by how proactive the Department for International Trade is being in engaging with our industry to promote British advertising abroad. We are working on that and will be working in partnership with them to build on that strength and to make sure that we go out and promote it. Ironically, we have done very little promotion; we have relied, if you like, on the reputation of British advertising to attract the business. We cannot be complacent in the future. We will do our best to partner with government to promote.

Baroness Benjamin: Have the Dutch been successful in their efforts so far?

Stephen Woodford: The Dutch are doing their best to attract the talent, and that is what they see as their key to success. Amsterdam, particularly, is a very nice place to live. They offer personal tax breaks for skills that are in demand; they are looking to attract the talent that will attract the advertisers. If you have the best people in the world choosing to go to, say, Amsterdam—and Berlin is another city which is doing very well and will probably do better in the future—then the business will follow. They have a website, for instance, to promote Holland as an alternative base for advertisers, so they can see that opportunity for themselves. Undoubtedly, some business and some people will move, but such is the scale of the UK—and our report on the 17th will show the scale of the UK versus other markets in Europe—that London and New York are the dominant cities in our industry globally.

We have to think aggressively about this; not just what can we do to hold what we have but what can we do to grow our business. We will be promoting much more aggressively than we have done in the past, in partnership with DIT. Having access to those markets and, particularly, the regulatory equivalence around AVMS and GDPR are very, very important. France, Germany and the US are our biggest export markets. When we ask our industry what are the future markets likely to be, they reply France, Germany and the US. Of the top 10 markets for our exports, six are in the EU, so it is absolutely vital that we have the right frameworks around that.

There is also a sentiment thing, which is incredibly important in a people-business like ours: that we have that sense of openness. We still want talent to come and work in the UK. We have anecdotal evidence of EU citizens working in our industry thinking their time is up and it might be time to return, and all that sort of thing. The language around this is very, very unhelpful. The top priority for both domestic and international performance is that we are still open and welcoming to talent.

Q4 **The Lord Bishop of Chelmsford:** I want to talk about business clusters and creative clusters. First, what do you understand by them? What relevance do you think they have for advertising? Also, "cluster" is normally thought of geographically, but of course one is increasingly aware that a cluster could be a virtual cluster.

Stephen Woodford: Again, that is a really interesting theme and a big opportunity for government and industry to work more closely. I mentioned before our business tends to be conurbation based, and the talent will tend often to collocate in those conurbations. Advertising can often be one of those 'anchor tenants' for creating or sustaining a cluster because it draws on lots of other creative industries. Around advertising you will find technology people, web design people, photographers and film-makers, and so on and so forth. It tends to have an ecosystem around it that supports a much broader breadth of the creative industries.

More can be done to encourage those. You could envisage a really successful Brexit strategy and industrial strategy in 10 years' time where London is even more important as a global centre for the business and more and more domestic business goes to Manchester, Birmingham, Newcastle, Edinburgh, Leeds. What we can do to encourage businesses to locate outside London is about creating the right work spaces and environments. Creative businesses love old industrial spaces. If you think about even a cluster in London; our business was traditionally very West End-based; it has moved east quite dramatically. Framestore, for instance, are in Chancery Lane, the heart of the legal profession, because the West End was too expensive and did not have big enough floor plates for their business. Shoreditch was first championed by artists because the rest of London was too expensive, and an amazing, iconoclastic British agency called Mother moved to the Tea building about 20 years ago and were the first big business to move there. Now Shoreditch has been transformed out of all recognition. Often creative industries, generally, but advertising, can be a pathfinder to creating new creative clusters.

The Lord Bishop of Chelmsford: To interrupt you for a moment, obviously a key thing for us in our inquiry is what, if anything, government can do either to assist this or indeed perhaps to get out of the way. It would be interesting to have your reflections upon what role you think government might have in this post-Brexit environment and in the need to create this economy. What do you think we could be doing or should not be doing?

Stephen Woodford: I think that is a really good point. I do not think it needs that much. It is space and environment. One of the ways that government can help is in an indirect way. Often creative clusters form around great cultural institutions. A great art gallery, museum or theatre space, and so on, can create the sort of environment where creative businesses cluster around. Generally, they need cheap space and very fast broadband. They tend to like old industrial sites. The Custard Factory in Birmingham is a good example of an old industrial building now absolutely thriving with creative businesses.

The Chairman: Following on from what the Bishop was saying, it is a fairly dynamic industry with a constant succession of new, small and medium-sized enterprises coming forward.

Stephen Woodford: That is right, yes.

The Chairman: Do government get in the way of this? Do employment practices get in the way of this?

Stephen Woodford: Our business is one of the easiest to start a business in. Two or three people in a room and a computer can start a business. It is not capital intensive. It does need nice space, ideally, that is in a city centre and good technology. Other than that, not much else. Access to talent is one of the key criteria. You can imagine, if the immigration solution goes the wrong way and we see a massive drain of talent and a stopping of the flow of talent, talent will be the scarce resource to stop growth. This is a business that is constantly renewing itself, constantly starting again with new entrants that tend to start up. What, perhaps, we are not so good at—and I think it is true of SMEs across the UK—we are third in the world at start-ups, and the OECD says we are 13^{th} in the world when it comes to scaling up businesses. I think it is a British phenomenon that we are very innovative and entrepreneurial but perhaps do not scale in the way that American and German businesses do.

The Chairman: You are talking wider than the whole advertising industry—all industry. Do you think that is the fault of our employment practices? Is it something that governments get in the way of?

Stephen Woodford: There are probably issues around access to finance and the capital to grow businesses. People tend to start businesses and sell up earlier than, perhaps, overseas businesses would do. Also, when you think about where they sell, they often sell to overseas buyers. We are a marketplace that is very attractive for innovation, creativity, and so on, so often they are absorbed. As an example, Framestore, our earlier reference point, now 50% Chinese-owned.

The Lord Bishop of Chelmsford: I guess, as well, a lot of the very small start-up businesses do the advertising themselves; they do not come to anybody else.

Stephen Woodford: I think this is one of the interesting things. Where there is a real opportunity around the industrial strategy our research would tend to show that SMEs across the whole economy tend to under-advertise relative to the rest of the economy. Advertising fundamentally fuels growth and increases profit and employment. The more firms we can help advertise the better that would be for the overall economy. We have put a proposal forward to, in effect, partner with government, where the industry helps SMEs access advertising more cost-effectively and helps them access information and expertise. We are also asking for a tax credit to help reduce the cost, because cost is a major barrier. These are often very cash-constrained businesses.

Q5 **Baroness Bertin:** Moving on to diversity, which you mentioned in your opening remarks, I think the industry is pretty good on gender balance—you are approaching 50:50—but on BAME and disability the figures are much, much worse. What you are putting in place to try and solve that in the industry? Are there any obvious obstacles you can think of as to why those figures are particularly low?

Stephen Woodford: This is an issue that the industry takes incredibly seriously. Many years ago—probably 15 years ago—I chaired the industry's first ethnic diversity initiative, and we did some research to find out why we were not recruiting more from BAME backgrounds. One of the big issues we found, a surprising one to us, at least, was it was the attitude of the parents of the kids that might go into our industry. They tended to be much more oriented towards going into the classic professions, such as law and accountancy or being doctors, engineers, and so on. Perceptions of the creative industry, and advertising particularly, amongst the parents of people who might want to go into our business were not as good as they could be. Moving forward to where we are now, the industry has a whole slew of initiatives to try and improve this. When you look at the numbers, they have improved but they are still at quite a low base.

Baroness Bertin: You talk about working well with government on, obviously, the issues we have spoken about before, but do you think you are working well enough with government to try and improve that, particularly, as you say, at a grass roots level—education, and so on and so forth?

Stephen Woodford: There is a whole plethora of different initiatives going on at the moment, mainly run by the industry. Apprenticeships are a great opportunity because that can get different people into the industry, and across the country as well. We have made progress. I think something like 8% of the senior management in agencies are non-white, which compares to about 3.5% in the FTSE 100 companies. Although we are not happy with where we are at, we are probably better than a lot of the rest of the industry, and we want to improve on that. We can supply the detail of what we are doing. When I started with the first diversity initiative there was nothing in place, and we put the first steps in place to encourage more employment, and not just employment overall as a number but, particularly, employment in what I would call the front-line departments, the account management, the creative departments, the production departments.

Baroness Bertin: Have you set a target as an industry?

Stephen Woodford: We have set a target. There is a group called "We will make the leap" and they have set a target of 40% of female representation in senior positions by 2020 and 15% BAME representation in senior positions by 2020.

Baroness Bertin: Nothing on disability, though?

Stephen Woodford: There is also work on disability, and I will supply the data on that. I think that is a really good point, because we have focused for many years, primarily, on sexual diversity in the sense of getting more women into senior positions; BAME has been the next focus and disability is also an important initiative. I know you have had Channel 4 here before. Channel 4 in particular has done a terrific job promoting disability, such as in relation to the Paralympics. Again, we have a long way to go, but we have made some great strides in recent years.

The Chairman: In your opening remarks you touched on the industrial strategy and the Government's Green Paper, which came out last December. With that we also had the Government announcing various sector deals, including Sir Peter Bazalgette's on the creative industry. I think that is due to come out at the end of September.

Stephen Woodford: Yes.

The Chairman: I just wonder whether you want to say anything more at this stage.

Stephen Woodford: We have not seen Sir Peter Bazalgette's report. There is the Creative Industries Council, which is an industry/government committee chaired by Karen Bradley, Greg Clark, and Nicola Mendelsohn from Facebook. Underneath that there is a whole representation of the different creative industries, and we are on that. There is a lot of work going on in trying to find the high-level solutions that will work for all the creative industries. We contribute to that, and we have put our advertising-specific recommendations into that mix. We also sit on the Professional and Business Services Council, for the services that primarily supply business, such as lawyers, accountants, architects, and so on. We have a foot in both those camps.

We have a relatively simple twin track, if you like, to the industrial strategy. One is working to promote and grow the global business that I talked about earlier, which we have never done before. That will be a big step forward, and we will partner with the DIT on that. The second is to encourage SMEs to use advertising more quickly in their life than they would otherwise. Positioning-wise, we see that as the twin sister of the R&D tax credit. The R&D tax credit has been tremendously successful in encouraging firms to invest in IP. In fact, I have an interest in a fintech business based in Sheffield. We have had really good payments back from the R&D tax credit. The natural twin sister is that if you create the IP you have to exploit the IP. We are saying that the advertising tax credit is the twin sister of the R&D tax credit. Going back to my 3rd and 13th figures, where we are great at innovation and perhaps less good at growing businesses than we might otherwise be, that is a solution to try to address that issue.

Q6 **Baroness Benjamin:** It has been noted that Google, Facebook, YouTube and Amazon are now spending billions on digital advertising, and the conventional television companies are feeling the pinch. Channel 4 has told us this and we have heard it. Research has been done, but this is the case. What do you believe is the future of television, print and radio and other forms of non-digital advertising? How is the UK advertising industry adapting to the shift to digital advertising? How does this compare with other countries and other industries? There are many questions there, but they are all connected.

Stephen Woodford: There are many questions, but they are very profound and all connected. I mentioned earlier on the UK is the leading country in terms of the share of advertisers' money going into digital, but I think there is a broader point. In a sense, all advertising is becoming digital. If we think about where all growth is in the market, it is in digital formats, both traditional broadcasters—the press and posters, and so on—and the new digital platforms. The whole market is moving into digital formats. In the end, this is a demand-driven marketplace; it is where advertisers choose to spend their money. They are very rational entities; they spend their money where it works. The advertising market in effect reflects the performance of advertising for the big advertisers. They have invested more and more of their money in digital channels because it works for their businesses. The traditional media, if we can use that umbrella term, have adapted their businesses to become more digitally-centric.

Where is the overall benefit to the economy? The price of advertising has come down as the supply has grown; the ability to target audiences has gone up dramatically, and the ability to learn and have smart feedback loops to make advertising more effective has gone up dramatically, but that has its impacts. In 2016 we had a record level of spend across the whole market. Television had a very good 2016. In a way, the Brexit effects are coming home to roost in 2017. Our market depends on the confidence that businesses have in the consumer. Consumers act rationally. They are seeing their real incomes being squeezed this year so they are cutting back on their expenditure and, therefore, advertisers that are advertising in the consumer market rationally start thinking about their plans and start scaling back. These are all normal patterns of behaviour. The big differences are, in a sense, that massive shift into the big digital platforms that has, primarily, been driven by their efficiency and their effectiveness. Therefore, that has sparked a competitive response, if you like, from the traditional media owners to make their media more effective and efficient.

Baroness Benjamin: You are saying Brexit has affected the income that conventional television companies have made through advertising but not Google, Amazon and Facebook?

Stephen Woodford: It has affected the whole market. The whole market will grow less strongly than it did in 2016. It will probably grow 1% this year, whereas in 2016 I think the number was about 6% overall. It will affect the whole market as spends go down. One of the interesting dynamics in a sense is these things are not either/or; they work better together. When people talk about television being under pressure, nothing still rivals the power of television to build a brand, to build fame and an emotional connection or an understanding. TV is still the preeminent media. You might consume that TV advertising on your phone, or you might consume it on a catch-up service. You might not consume it in a linear broadcast.

The Lord Bishop of Chelmsford: Could I interrupt at that point? I think we have a bit of time. Undoubtedly that is the case, but is there any kind of existential fear in advertising that as the technology develops so does the consumer ability to avoid it develop? I am very much aware of that myself, watching catch-up TV where we all—well, I—fast forward through the adverts. There is technology available on my phone to prevent me having to see the adverts. There must be this anxiety that somehow the whole ability for it to work as it has worked is going to fall over the cliff.

Stephen Woodford: One of the challenges that the technology that allows you to block advertising or allows you to skip the ads, or whatever, requires of the advertisers is to make more engaging, useful and valuable advertising. We will tend to fast-forward over the stuff we do not like and will tend to stop and watch stuff that we do like.

Baroness Bonham-Carter of Yarnbury: Is that relevant?

The Lord Bishop of Chelmsford: I know that, yes. I am speaking optimistically.

Stephen Woodford: It is an interesting point. It works in all sorts of ways. There is a whole body of work about something called low-involvement processing, which is where you think you are not paying attention, but at the subliminal level, in your subconscious, you are absorbing these things. There is huge complexity around the issue. We feel that the industry has to respond by making sure that advertising is both enjoyable and useful to people in their lives so that they do not screen it out. If advertising is irritating, intrusive and bombarding people, they will screen it out. I think it was David Ogilvy, who was one of the great thinkers in our business, who said about advertising, “Remember you’re a guest in somebody’s living room”. It was probably 50 or 60 years ago that he said that about television advertising. That has never been truer, but you are also a guest on somebody’s phone or screen. As an industry, we have to be a good guest and a good citizen, in that sense.

Baroness Benjamin: Have other countries been affected at all by the influx of digital advertising rather than the conventional?

Stephen Woodford: Every country has, although the UK has probably been more affected than any other. We do not know why. My personal view is that because the UK is a very sophisticated buyer of advertising with a very well-developed industry, the advertisers have probably been more alert to the opportunities of this changing technology than advertisers in other countries might have been. There are various cultural reasons why. As an example, the penetration of digital advertising in Germany is only about 30%, but one of the big cultural differences is that the Germans are very private. They do not transact online. They do not like giving their credit card details away. British consumers are remarkably casual about these things. We as a country do like transacting online; we do more e-commerce than any other country in the world. All these things tend to be interlinked. We are much more relaxed about giving our credit card details to buy something on Amazon for instance, than perhaps the average German.

Baroness Benjamin: What about Instagram? More and more people are being attracted to Instagram to get big companies—whether jewellery, handbags, whatever it is—to advertise on their sites. A lot of people are encouraged to have thousands if not millions of followers, so that is a form of advertising too. Is that impacting on the industry at all?

Stephen Woodford: All these digital channels are impacting and making a difference. I come back to the point I made earlier on, which is you can be very successful as an advertiser just going on Instagram, Facebook or Google. You will be more successful as an advertiser if you use a blend of media. Research would show that between four and five channels is the optimum for long-term profitable growth. Thousands of cases over the years have demonstrated that. It was always the case pre-digital and it even more the case now. They are fantastically powerful together. Google and Thinkbox, which is the television marketing organisation, have just put out, via the IPA, an absolutely brilliant piece of work about the combined effectiveness of the new media landscape. It shows some of the eternal rules that we have always worked to, such as that 60% of your budget should be spent building your brand and 40% closing the sale. That 60:40 ratio holds true across time and markets. Despite all the change in the marketplace, it still seems to hold true.

Baroness Bertin: With the changing digital market and digital platforms and the different ways that we do consume, do you think the quality of content has declined a bit, or not?

Stephen Woodford: There is a lot more content.

Baroness Bertin: Yes. I read an article that suggested that because there are so many other places that you can put your content into, sometimes there has almost been incontinence, which has meant that the actual quality has gone downhill.

Stephen Woodford: There has been a huge displacement of ads that would have been in classifieds that have now gone into things like search and other digital channels. There have been big shifts in where the content has gone. If you look at the best of advertising, it is as good as it has ever been. At the top level, I think our advertising is as engaging and as impactful as the Halcyon days that generally we remember when we were younger. There is a lot more of it, and that in itself has an impact. You cannot necessarily sustain the quality across 50% more output.

Some advertising is created and constantly optimised around the different media channels. All these things are driven, ultimately, by advertisers trying to reach their customers more cost-efficiently and in a more profitable way. Experience will always show that if you engage your customers in your content, give them information that is helpful and valuable to them and do it in a respectful and engaging manner, you will get better returns. The best creative work tends to be the award-winning work that gets the creative awards. It also correlates with fantastically better commercial performance. Creative award winners have about 11 times the impact of non-creative award winners in terms of their commercial performance. Creativity is not an end in itself; it is a very good commercial strategy. Advertisers realise that, so they generally strive to do the most creative and interesting work.

Q7 **The Chairman:** Finally, are you satisfied that the market—particularly the digital market—is open, free, fair and competitive? If it is not, what is it in need of?

Stephen Woodford: It is open, yes, and competitive—ultra-competitive. If you believe in competition and in a sense allowing the market to function and determine winners and losers, you can say that the market is functioning very, very well on that basis. There is an interesting initiative from the Government around the digital charter. As an industry, we are supportive of that ambition to make the UK the best and safest place to both transact online and conduct business online, which is a very worth-while objective. We have been talking to DCMS, and Matt Hancock in particular, about that and about what we do. We have a working group across our industry involving the newspapers, the broadcasters, the magazine publishers and the digital platforms all working together on what we can jointly agree to put forward on the digital charter.

Something that would make the UK a better place, and one of the best places in the world, would be a particular focus on ad fraud, which is a big issue globally. I am sure you know what ad fraud is. In effect, it is rogue sites set up to attract advertising money. Where the funding of that goes nobody knows, but a lot of underworld funding comes from that. How does the UK do that? This is a global phenomenon. The UK will have to make that part of a global initiative, but this is one of the areas where I know the Government are keen to lead the world, and we are in that position where we could lead the world. That would make a massive improvement. Ad fraud would be top of our list of areas of focus in a digital charter.

The Chairman: I said "finally", but can I, also finally, go back to my original questions on skills and training? Are you training those who you are recruiting within the UK? Are the universities providing the appropriate skills for people coming forward? Do you need more from the universities?

Stephen Woodford: There are lots of marketing and advertising courses out there. Some are very good. The quality is variable. There are schemes to ensure accredited courses. Creative Skillset is an organisation that I know very well. It has a tick system that accredits courses on the basis of the quality of the teaching and the employability of the graduates. That tends to be more TV and production-centric rather than advertising-centric. There are schemes like that all the time in which industry, government and employers partner to ensure that the skills being taught in universities are as relevant as possible to the market. We do a fair amount of that, but undoubtedly we could do more. That is a big opportunity. Apprenticeships are a big opportunity, and certainly the IPA, which is the agency trade body, is doing a lot of work on ensuring that the industry can access apprenticeships. It is probably overly cumbersome for an ad agency to set up its own apprenticeship scheme, but we can do these things as an industry. There is a lot going on, but I am sure that there is more we can do. It is that triumvirate, that partnership—government, industry and the education sector—that works.

The Chairman: Many thanks indeed for giving up your time to come here.

Stephen Woodford: It is a pleasure.

The Chairman: You promised to provide some extra figures, I think, to Lady Bonham-Carter.

Baroness Bonham-Carter of Yarnbury: Yes, on Europe’s standing in the world versus the rest of the world.

The Chairman: I think Lady Bertin wanted some more on diversity in all its forms. If there is anything else you would wish to send to us, we would be more than happy to receive it.

Stephen Woodford: Particularly relevant to the talent issues will be the report that comes out on the 17th. We have supplied quite a number of our reports. This is the one about export value. For anybody particularly interested in Scotland, we did a report on the advertising industry in Scotland, which is the first time this has been done, showing the jobs and the GDP in Scotland, and obviously our industrial strategy. The clerk has a lot of this material already, but we will follow up with more data as and when it comes.

The Chairman: I look forward to seeing you again on the 17th with as many members of the Committee who can make it. Thank you very much indeed.

Stephen Woodford: It has been my pleasure. Thank you very much.