HOUSE OF LORDS

Select Committee on Communications

Corrected oral evidence: The Advertising Industry

Tuesday 14 November 2017

3.30 pm

Watch the meeting

Members present: Lord Gilbert of Panteg (Chairman); Lord Allen of Kensington; Baroness Bertin; The Lord Bishop of Chelmsford; Viscount Colville of Culross; Lord Goodlad; Lord Gordon of Strathblane; Baroness Kidron; Baroness McIntosh of Hudnall; Baroness Quin; Baroness Stowell of Beeston.

Evidence Session No. 5 Heard in Public Questions 42 - 51

Witnesses

I: James Murphy, Chief Executive Officer, adam&eveDDB; Leo Rayman, Chief Executive Officer, Grey Advertising London.

USE OF THE TRANSCRIPT

This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

James Murphy, Leo Rayman.

Q42 **The Chairman:** Welcome to our witnesses for this session on our inquiry into skills and the advertising industry. In our first evidence session today, we are hearing from James Murphy and Leo Rayman from two of the leading creative agencies. Can I ask you briefly to introduce yourselves? In so doing, perhaps you would comment initially on what specific skills you think are required to support the advertising industry, where there are current skills gaps that need to be addressed and how the industry is changing to meet these challenges, and any other general points you would like to make before we open the floor to questions from colleagues.

James Murphy: My name is James Murphy. I am the founder and chief exec of an agency, adam&eveDDB, which is nine years old. We do a plethora of different business with probably 70% of our income coming from international clients and 30% from domestic business. There are some fundamental changes happening within our industry where, for example, five years ago, we might have looked at the split of our business and said that 60% of it is what you would call communications on behalf of clients and 40% is digital products and services, such as web design and build, building apps, microsites and that kind of thing. That balance is shifting and there will be some clients now, particularly large multinational clients, where 80% of that work might be in digital products and services and only 20% is what you would traditionally call advertising. In terms of the output, it is all considered to be communications on behalf of the brand because it is about the customer experience, but it is a shift in emphasis away from communication towards digital tools.

The skills that we are very dependent on will be at the traditional communications end, so perhaps more academic skills of business strategy, communications strategy, writing and copywriting, art direction and design. Where the spectrum has moved is across the much more technology-related skills such as programming and coding and the very detailed technical elements of project management, where you could have a five-year web design and build programme with a budget of tens of millions of pounds that needs extremely detailed project management from people who have an entirely different skills background from those traditionally required in creative agencies, and then you have specific deliverables of programming, coding, user experience design and user interface design.

The Chairman: Thank you. Leo Rayman, would you like to add anything?

Leo Rayman: My name is Leo. I am the chief executive of Grey Advertising. We are based in London, about 450 people. We are also part of a global company of about 8,000 people headquartered in New York, but ultimately reporting in to WPP, the British business.

I have prepared some statements in relation to your questions which we will go through, and I would like to focus on the gaps. We have a very similar business profile to the one that James has outlined. In our case, our business is about 60% international and 40% domestic, which will have a bearing on the answers that we give to some of the questions later on in the session today. There are classic skills of communications, which will remain strong going forward; copywriting, the ability to write good text, art direction and visual power are as strong as ever in the world today, and there are colleges which prepare people for that. There are more technical skills emerging, particularly in audiovisual production, and James touched on digital, as well as data analytics and the management of the platforms that enable us to reach people, so not only reaching out via ITV, as in the good old days, but working also with Facebook, Google and beyond.

There are some specific skills gaps, and an area I would like to draw your attention to is what is called "adtech", which I am sure you have heard of. It is an umbrella term—advertising technology—which explains the software and tools that help agencies such as ours, and the brands that we work for to target, deliver and analyse their digital advertising efforts. It is a very fragmented landscape which is enormously complicated with lots of players involved and very fast-changing; in fact, we often see that the people working in that sector cannot themselves fully understand what is happening around them. From a skills point of view, it requires a really front-foot attitude to how you can learn about what is happening next.

Another aspect to that is the challenge of finding the right sort of talent—which gives an indication for where the UK might go in the future—in the interpretation of data. You will read in every mainstream title about how important data is today. The challenge is how to get the right hypotheses and imaginative leaps around that data. Data in its own right is dull and dead; it is what you do with it that becomes important, which requires the right sort of brain. We talk about, and look for, the polymath-type mindset, someone who can be both imaginative and analytical in equal measure, which is a skill that a country such as the UK should be dominant and pre-eminent in in the future if we want to succeed.

For me, the emergent skills gap now, and therefore tomorrow, is specifically in the blend between these creative skills and computer science. The killer combination, which James touched on, is art and code, and there is a documentary of a similar name, so the people we call creative technologists, which is where future revenue will come for us—so poets and engineers, designers and analysts and mixing those things together. If we can find ways to encourage that in our economy, that will be to the benefit of us and our clients.

Q43 **Baroness Bertin:** My question was to pick up on the adtech and the software. In terms of the role that apprenticeships could play in the skills gap and encouraging the education that you need, what experience have you had of the Government's scheme at the moment on apprenticeships, and do you think it is up to speed with the skills you need?

Leo Rayman: That is an interesting question.

James Murphy: We are obviously involved in the apprenticeship levy and we have four apprentices who have started recently with the agency, two of whom are in the adtech part of the business. Our view of our responsibility in that situation is that they are within the business to learn from us and to gain experience within the organisation. What is good about the adtech part of the business is that it does not rely on classical-type subjects and academic achievements and we can bring in people from much more diverse backgrounds in the expectation of giving them the experience and training them up.

Baroness Bertin: To build on that a little and the co-operation that your industry and the Government have with universities in making sure that the courses and how they come out at the other end are relevant to what you need, could a lot more be done in that area?

James Murphy: It could be. I have been struck on some occasions, when I have gone to do talks at universities and colleges about some of the real-world work we would be doing, that some of the questions that come in are slightly otherworldly because they are to do with perhaps academic theories which I, as a practitioner, have never heard of. There is a sense in which you look at some of the academic endeavours, thinking, "This is definitely very high-class post-rationalisation going on", and it would be good for practitioners to bring some of the real practicality. One thing that would characterise the core skills in the communications business is that they are extremely reductive; you are trying to create very simple messaging and experiences to cut through a lot of noise and clutter. Sometimes, exposure to academia on the subject of marketing is anything but reductive; it can be quite a complex theory or it might not sound that applicable.

Leo Rayman: We have had six apprentices over the last two years. There is a massive upside for us in that these guys are well-versed in the technology we are interested in and they can help us understand that in a simple way, and it assists us with the diversity challenge, which we might talk about later on. The investment for us is less about the money and more about the time and making sure that they and we get the best value out of that experience, and there may be ways in which we would find it easier, or there may be more frameworks we could use to develop those people through that system while they are with us. One or two have stayed on since their apprenticeships, but they do not always do so.

On the issue and your comment about universities, I was reflecting on my own academic background and thinking that, in 20 years or so of working in marketing and communications, I have only run into universities outside of selection processes or graduate recruitment twice. One was doing something with music with Goldsmiths and one recently was with the Oxford Business School on something we are trying to do on technology. It is rather difficult to find an easy connection point with those organisations, and it would be interesting to see if there is a way in which the Government or universities could provide a simpler interaction between the industry and the universities. We do not have a tap we can turn which says that these people are coming out perfectly suitable for the roles that are emerging in the business now or in two years' time. There are the creative schools that teach you how to write and make ads, but they have been around a long time. There could definitely be a tighter connection between us and the university environment.

Lord Gordon of Strathblane: I have a point on your role as chairman of the IPA Strategy Committee.

Leo Rayman: An old role.

Lord Gordon of Strathblane: Sorry, I may be being unfair to you, but I understand that the IPA has come out as mildly critical of the Government's apprenticeship scheme as an unwelcome tax on business.

Leo Rayman: I do not feel prepared to comment on that. James, maybe you have a view as the AA chair.

James Murphy: I do not think the AA has a view on it.

Lord Gordon of Strathblane: Well, you are either for it or against it.

Leo Rayman: I am pro apprenticeships.

Lord Gordon of Strathblane: Are you pro the government scheme?

Leo Rayman: We are working with the government levy for 2018, so we will be using it, yes, this year or next year.

James Murphy: There is definitely a structural issue that needs to be addressed within the industry. I do not want to be too anecdotal about this, but I came into agencies through the post room, which was the traditional way into many agencies. There are not post rooms any more because there is email now, which dates me, and that funnel which brought people from all kinds of backgrounds into agencies is no longer there. We have defaulted to two streams of people coming in, one of which is the very classical, high-quality academic background, a small number of universities and, in many cases, a small number of schools, I am sad to say, and work experience on the other hand. As probably everyone knows, work experience favours people with contacts, so one of the things we hope to get from the apprenticeship scheme is that we will draw on a much wider and much healthier gene pool ultimately.

Baroness McIntosh of Hudnall: Can I pull that thread out a bit because the question which seems to hang in the air around contact with universities, who is coming into the industry and how they get there is whether it is an area in which conventional academic credentials matter all that much at all? Can you comment on that and, if that is the case or could become the case, is there anything that the Government could be doing in the way they think about education as a whole, because they are very focused on higher education and getting everybody into higher education, if they possibly can? You appear to be saying, "Yes, well, maybe, but probably not so much".

Leo Rayman: There is a balance, so there are some core skills which make you successful in our industry, wherever you come from, which are around entrepreneurialism, flair, risk-taking and your ability to be a charismatic, confident person, frankly, to convince brands and consumers to buy what you are doing. At the moment, there is a real growth in technical literacy required, which has not been here before now, and that is changing the shape of the sort of people we need to hire. We perhaps managed to get away with not hiring that many statisticians five or 10 years ago, although James's company has done, but it was an area you could not get too heavily involved in and it is going to become much more required in the future. There is always going to be a split of hardcore technical literacy around technology, computer science and data analytics as well as the core things of being a great writer, a great presenter or a charismatic person.

Baroness McIntosh of Hudnall: But they may not come in the same package.

Leo Rayman: Quite right. Ideally, you would find them perfectly blended in everyone, but that is not usually the case. We definitely do not think that the university is our only source of recruitment, far from it, and we have been working quite hard on our application process to remove both names and academic background from the CV to enable a broader range of people to come into the industry, which is a challenge we perhaps should be talking about. What I do not know, referring to your question, is what it means to have a way of entering the industry which is not via academic qualifications but is somehow government-supported. I guess that is your area of expertise, not mine.

James Murphy: There probably is a need to have a more relevant emphasis on vocational preparation for the industry in that, as I said, traditionally, you would draw from classical degrees—English, economics, politics and things such as that—on the basis that you have been to the gym for your brain, you are clever enough, you are articulate and you can come in. Many of the degrees which would have been seen as vocational such as media and business studies are seen as much less favoured in the industry and, in many ways, it is almost moving beyond that to saying, "What are the vocational skills that we need now going forward?", and those are in areas such as computer science, data and statistics and in some of the very practical elements of the sort of detailed multi-level multi-stage project management that you would traditionally have in very sophisticated engineering businesses.

Baroness Kidron: I am interested in that comment about media studies and that area. Is it because they never fulfilled your needs, or is it because your world has changed?

James Murphy: It was a sense in which some of the things learned on those courses did not feel relevant to a business that is not terribly theoretical in the way that it works. It is much more about taking, often, a lot of information, be it about consumers, or a lot of data and market behaviour and boiling it down to these very reductive ideas. It did not seem that those courses prepared people in that way of thinking in the way that some of the more traditional subjects appeared to.

Baroness Kidron: I do not want to put words in your mouth, but are you talking about critical thinking as an essential component of any of the skill set?

James Murphy: Yes. Funnily enough, Leo talked about the polymath, and there is no doubt that the new generation of people in our industry are required to be much more multi-faceted because they are trying to blend strategic, creative and reductive communication skills with an understanding of technology and technical channels that was not required before.

Q44 **The Lord Bishop of Chelmsford:** James, to take you back to your last answer but two, I think, which was refreshingly honest but fantastically depressing, that certain well-connected, well-heeled people who come from swanky schools are the ones who make it, how do you increase diversity from underrepresented groups? There is evidence to show that BAME people are reasonably well represented in the industry, but in the higher positions are definitely not. What are you doing to address those very specific issues of BAME people and other underrepresented groups who do not go to the schools you mentioned?

James Murphy: Most agencies are very proactively and energetically involved in trying to broaden their intakes. Certainly Leo’s agency is involved in a cross-industry initiative on that basis. It is worth pointing out, particularly on the BAME issue, that the proportion of people in the agency workforce from those backgrounds is increasing, but it is increasing because of the broadening of the skill base that is moving into more technical subjects where we are recruiting people with degrees and backgrounds in electronics, computer science and so on, where we are able to have more people from those backgrounds coming in. The interesting question is that, if you looked at people who achieve great distinction academically in traditional academic subjects who come from BAME backgrounds, they would not choose our industry as a destination because they are probably looking to industries which might be seen as less dilettante and more like the professions, if I can put it that way.

The Lord Bishop of Chelmsford: So what can you do about that?

Leo Rayman: We have spent a lot of time, energy and money thinking and worrying about this over the last couple of years really, which is true for all of us. I have outlined where the access barriers are, and there are some initiatives which are currently under way in agencies such as James’s and mine trying to fix that. It is improving, but it is a significant barrier still and quite a cultural issue about what is perceived to be, as you say, a good career. It is improving and the good news is that people like us who work in the environment are quite good at attitude and behaviour change, so you would think we will be able to solve this problem. The barrier, critically, is a total lack of familiarity among some communities with what we do, and that is because it is seen as not a good career prospect versus a consultancy job, a financial services job or a medicine job. Who wants to work in advertising? It sounds a bit perhaps like a middle-class white person's game, which perhaps historically it has been.

There is also a lack of role models, which is a genuine challenge. If you walk into a lot of the companies that are in our sector, and we are not bad, relatively speaking, you will not necessarily see a proportion of BAME people working in the office, which has an impact on how you feel about being in that environment, so we have to get people in to start making that change.

There is a lack of financial support. Internships, which James touched on, and the work experience system have historically favoured kids with middle-class parents who can provide funding for them to live in London and float around various companies like ours until they find an in. That is not entirely fair in terms of getting genuine access, so clamping down on that is a big part of it. Historically, some of the self-selection bias that goes on in the submission of CVs or graduate intake days had been a problem, hence why we and others are taking some of those things off the CV. In some ways, it is easier to get younger people in different types of skill sets and it has been more difficult at the more senior level.

Grey London has convened with a bunch of other people, a cross-agency task force, to try to tackle this, and there are couple of things that I would put on your radar as you go through this inquiry to know about activities which are under way to try to make change, which will take four years to take effect, I think. The first is being much better at sharing best practice among ourselves, so to explain to each other what it is that works. The industry bodies are doing that, but maybe we could find a way to catalyse it a bit. There is very poor-quality data capture within the industry, so there is some, but it is often gained by people who want to be seen to be in not an overly white, middle-class agency, so what is the quality of the baseline data we are using to build from? We did a very big survey in March this year, which was quite revealing in a way I had not realised about my own workforce, and now 14 other companies are buying into a similar process to get proper baseline data, and then we will know how we are doing against a specific target. It worries me, and it should do, because what will it be like next spring when we run the survey again: will we have moved forward or not and what is the outcome? That is how it is supposed to work.

We are working to develop an ambassador panel—and this is my point about role models in companies—so finding BAME people and those social mobility ambassadors who can be present and go out and speak on behalf of an association, the IPA or individual companies. We also need mentoring programmes. Even if you get into these industries, we often see people plateau, so they come in and there is not someone there to help them manage their own career development. Perhaps they do not have someone who is a white-collar worker who navigated the office politics that we all know about, so how do we provide those people with someone who can give them mentorship as they go through that process?

There are a couple more, which I will touch on, if you do not mind. One is being prepared to pay people a London living wage, when you are living in London, so that you can get into those industries in the first place, and again that helps in dealing with some of the middle-class bias that we have. The final bit that we are working on is around an onscreen, any screen, audit of what we produce, which we have been dealing with some challenges on this week in relation to our Christmas advertising. It is how much you present modern Britain in the work that you are putting out into the world, not just onscreen but thinking about behind the screen and whether the camera crews and those behind are a diverse workforce as well. Strong, concerted pressure on that aspect is important. It is trying to make sure that people's attitudes towards our industry are not just driven by their watching "The Apprentice", where people have an advertising task every month, which presents a very jaded view and not a very fair view of what we do. What I am trying to outline to you is that there is a lot of work going on to try, at a very significant and quite detailed level, to make a change to the way in which we are dealing with the diversity challenge.

The Lord Bishop of Chelmsford: I am tempted to say, with tongue in cheek, have you thought about employing an advertising agency to help you get this message over, but the serious question behind that is that, if you cannot do it—

Leo Rayman: Who can?

The Lord Bishop of Chelmsford: Yes, and what worries me is that there appears to be the will, but you cannot get this message over.

Leo Rayman: You are entirely right.

James Murphy: That is probably the most fundamental challenge, which is to ensure that we can make an entire generation of potential recruits realise what they could do in an industry such as ours, and that it is relevant for them. What you will find with a lot of the businesses in our sector is that they are now engaged in much more active outreach in their immediate communities and schools to do case studies, to explain what they do and to show the relevance. We could certainly do with some support from government across higher education to say, "You might be studying data science, statistics, electronics or computer science, but did you know that marketing services is a potential industry for you, not the industries that you might automatically default to?" That is important in bringing in apprentices, and there are initiatives such as the Ideas Foundation where we work with clients to take briefs out to schools and talk to them about real-world challenges on a particular brand or a particular client and say, "How would you answer that? This is how we answer it". It is trying to open that black box so that people see that it is not some incredible science and that a lot of it is practical common sense, which most people have.

Baroness Quin: Do you have access to government, either directly or through an association, to put some of your concerns you have put to us about apprentices and recruiting? It seems to me that some of the things you have said are quite similar to things that we have heard from other industries, particularly when we were looking at skills in the theatre industry and they were talking about how difficult it was to attract people from outside London because of the cost-of-living issues that you raised, for example.

James Murphy: Yes, we have. The Advertising Association represents the broad industry of agencies, the media owners, the clients and their brands, and that is the organisation that faces into government and departments such as DCMS and so on, so there are a number of initiatives that they will be pushing with government.

Baroness Quin: Do you concur with that in terms of trying to influence government?

Leo Rayman: I have never been that exposed to it until today. I know that there are bodies that exist to help us, but I have not thought, "This is a brilliant solution to my problem". It would help because getting concerted effort together is required. We are doing it in a sort of voluntary way, which is good, but any facilitation would be good.

James Murphy: The other thing that the IPA—the Institute of Practitioners in Advertising—is doing with our own internal industry media is an annual census of the demographic make-up of the agencies, so we now submit data on the make-up of our workforce and our management teams and explicitly in terms of gender and ethnic background. In a sense, that is a very clear spur to us to make change happen because there is nothing worse in the agency world than looking like you are the laggard, and you want to be at the leading edge of this change, so it is self-interest, but enlightened self-interest.

Q45 **Baroness Quin:** Could I go on to the question I was going to ask, which is about access to talent, whether from the UK, the EU or internationally? Is there any kind of skills gap between UK students and graduates and those from the EU or internationally, and what particular skills do you look for if you are recruiting from Europe or overseas?

Leo Rayman: My perspective on it is that there is not a significant skills gap between the UK and the EU or otherwise in general terms. In fact, and it is probably well known or maybe you do not know, the people from this market who are trained in the advertising industry in the UK are often exported abroad, so are working in Asia and a significant proportion of American companies will be using British people, which I guess is testament to the value that we can bring here.

James Murphy: I would slightly differ on that to say that it is our experience that the people we need for the evolving part of what we do, which is in digital technologies, adtech and data, are in incredibly short supply. We are competing with lots of other industries, many of which have wider margins and higher salaries than we can offer. We have definitely benefited from being able to bring in people from other countries, particularly some EU countries, Germany and Poland notably, where we have had success in recruiting people who have brought a great deal of value to the business. There is no doubt that we are looking at the months and immediate years ahead with a lot of interest as to what happens there.

Leo Rayman: Do not get me wrong; I am not saying that we do not need access to international talent in my answer. Similar to James, we have a number of international accounts that we run from London, and having someone from Italy, Spain or Germany who speaks the language and understands the cultural nuances in that market for how we are going to roll out something that we develop centrally is absolutely critical. If we were suddenly not able to have those people, that would be a big challenge for us.

James Murphy: There is data that the Advertising Association has pulled together very much with the purpose of talking to Government about the approach to Brexit and the Industrial Strategy. The data was put together with LinkedIn and was an analysis of about 328,000 LinkedIn members in the UK which, based on their data on LinkedIn, shows that they are in the advertising and marketing services industry, so it is a large and very robust sample. It would appear that about 20% of the industry are coming from non-UK and, within that, approximately two-thirds are EU and a third are the rest of world.

Having said that, you can look at certain countries such as the US and say that there are more people from the US working in this industry than any other non-UK country. What is important is not just the fact that we need access to those technical skills but I cannot overemphasise how important it is for this industry to have cultural credibility in its dealings with international clients. There are two centres for advertising in the world, one of which is New York and the other is the UK, particularly London, but the difference is that London is a global hub, whereas New York is a hub for North America much more than it is an international hub. We are undoubtedly the most powerful global hub in marketing services.

To give you an anecdotal example, when we go out to pitch for a multinational client, we might pitch for a large food brand and it might be a brand where eastern Europe, Russia and the Gulf are particularly important, and we may choose to bring in someone from Russia and from a Gulf state to work on the team in London. We can win that contract and that might provide 15 to 20 full-time jobs, so there would be two people coming in from outside the UK, but potentially with a multiplier effect of creating more UK jobs. That is not discussed in the debate about the value of immigration, particularly skilled labour. These are not people taking jobs from British people; they are allowing us to win huge contracts and create jobs.

Leo Rayman: The fact that Grey, which is headquartered in New York but operates in London, has its second-biggest office network in London is exactly because of that reason, particularly as American businesses come here to access the continent. We act as that stepping stone for them, which is absolutely critical for us.

Baroness Quin: I was glad that you did not flag up a skills gap between UK and non-UK workers, but one of the witnesses last week specifically mentioned the lack of language skills as being a problem. Have either of you found that in your own businesses in terms of UK workers?

James Murphy: I would say—perhaps slightly shamingly—that most of the business that we do internationally is conducted in English. We work with some very large clients, particularly on the continent, who feel they need to come to the UK to source their services, because we are the best in the world, and that business is done in English. Perhaps that makes us lazy linguistically.

If I can go back to your point about the skills gap, there is a relevance gap that we suffer from in that there are probably many people with the requisite skills who will help us to evolve our industry in the way it needs to evolve, but we are not seen as a relevant destination for them in the way that we seem to be able to sometimes bring in people from countries such as Germany or Poland who think, "Marketing services is absolutely a natural destination for someone with my technology-based skills", whereas in this country we have not yet been able to communicate and say, "Look, engineering is fantastic and data management is fantastic, but what about doing it in marketing services?"

Baroness Kidron: I was going to ask a tiny, detailed question about what you have said about Germany and Poland: are they producing people with the skills in vaster numbers than other places, is their education system more appropriate to this new mix of skills, or was it perhaps the answer you just gave about it being a good destination?

James Murphy: I do not know enough about their education systems. I would observe that there are people with the relevant skills who consider our industry relevant, and it feels that way. It is an interesting discussion about having access to skilled people from overseas markets because we benefit in this country from the fact that there are people with those skills in our country and we do not have to go to their countries to hire them specifically for a job. They are here and in the ecosystem, which again may or may not be the case once we exit.

Leo Rayman: Yes, I can imagine a scenario where I have to go to find someone and bring them in from Poland, Spain or Germany in the future, whereas right now they are available to me readymade, as it were. That would slow down our ability to win business, convert it and make it work, which also has a long-term impact.

Q46 **Baroness McIntosh of Hudnall:** I want to ask you about the impact of that accessibility to overseas talent being reduced or turned off altogether for your business. I was particularly interested, when you pulled up the example of how you had created the multiplier effect, that you did not choose European countries as your exemplars and you said Russia and the Gulf states. Can I ask you specifically about the impact of exiting the European Union and, therefore, not having access to Poland and Germany in the same way and, beyond that, whether immigration policy, as it currently stands and as it may be amended, will have an effect on whether you can hire from Russia, the Gulf states, Japan, China or wherever? What is your take on immigration policy from here and how can it be tweaked to help your industry?

James Murphy: To put this in context, the Russia/Gulf thing is an anecdotal effect and is purely the example I chose.

Baroness McIntosh of Hudnall: Yes, it is a real-world example.

James Murphy: Two of our biggest customers are huge German businesses which choose to source their work here and, funnily enough, a very large French business. I would class those as strategic businesses within those countries, yet they choose to source their services in the UK. If you look at the marketing services industry and the advertising industry, we run a huge trade surplus in our services; we export £4.3 billion of services every year. If you look at the growth, even in and around the time of the referendum, our exports were growing at 14%. That is three times the creative industries' average and four times the broader economy average. Speaking personally from running an agency, we have not seen the uncertainty around Brexit dent our ability to grow our business abroad yet, but we have to be absolutely clear that, if we are to push through Brexit with our best foot forward, we need what you would call a "buccaneering Brexit" and to say that, in the way that we are open to talent and skills within the EU, we need to do that globally and we need to be prepared to be more open, more competitive and more creative. I appreciate that that does not resonate with some of the sentiment around the way people may have voted for Brexit, but, if we want a positive, entrepreneurial, buccaneering Brexit, that is what we will do. The idea that Europe would switch to the tier 2 system that we have with the rest of the world is not a good development because it is a time-consuming and, in many cases, almost a cosmetic process that businesses have to go through.

Leo Rayman: Thinking about the impact, our loss, if we see a departure of business through Brexit, will be Amsterdam's gain, Berlin's gain, Paris's gain and New York's gain. I have a quote for you which someone based in Amsterdam has written: "Brexit is a unicorn walking around Amsterdam"—and I will use the polite English—"dropping gold". That is an interesting perspective because I think they are seeing—and we are not seeing it yet in our business—a slight inkling of "I wonder…", and there are people keeping their eyes on what that might mean. My regional HQ, so my regional boss who runs Europe, is based in London, which has always been the case, and it is looking at what it would mean to move our offices to Amsterdam. What effect might that have for a business like mine? In the short term nothing because we are the biggest profit hub and so on, but being near to that person means that more senior clients are going there, more briefs are going there and there is the ability for my business to get access to resources and the preferential treatment will change. That is my two or three-year worst prognosis, that there will be a gentle and subtle shift towards somewhere such as Amsterdam or Berlin and we see in four, five, six or 10 years' time that we are not the powerhouse that we are now.

Baroness McIntosh of Hudnall: You talked earlier about London being the second centre, but that it is a global hub as opposed to a North American hub. At what point, as you perceive it, did London start to develop that strong additional weight in the industry? I am not going to lead you, but I would be interested to know what you think and why.

James Murphy: I would say that it feels that way. Funnily enough, the UK industry always had a very strong global reputation for creativity, but it did not have the global reach that it has, and it feels like that is in the last 10 to 15 years. It is partly to do with geography, the fact that we have clients in Hong Kong and Korea whom we start the day with and then we have clients in California whom we end a long day with, and the UK is very well positioned on the map in that sense.

Baroness McIntosh of Hudnall: But Amsterdam is not that far away.

James Murphy: The other thing to say about Amsterdam is that they are offering specifically the first 30% of salary tax-free to anyone who leaves our industry to relocate to Amsterdam.

Leo Rayman: On an English-language website, of course.

James Murphy: Yes, on an English website that helps you relocate your business and find accommodation and things like that. We should not underestimate that fact. Also, the French are in the process of making taxation changes and trying to make themselves much less stodgy, if you like, to businesses and start-ups. You cannot underestimate the fact that it is not easy for very large industrial fabric-of-the-nation clients in Germany or France and they do not just come to London willy-nilly but they come to London and the UK because they have to; there is no greater critical mass of technological, creative and strategic talent gathered probably anywhere on the planet. New York is the only place that comes close, but it cannot project itself as globally as London can. It is worth thinking about the numbers because this is an industry, based on Deloitte figures, which employs nearly a million people across the UK, and I would say that 57% of those are outside London, before we are accused of being too metropolitan, so this is a bigger and more powerful industry than perhaps is perceived.

Q47 **Lord Allen of Kensington:** I should declare a number of interests as I am chairman of Global Media & Entertainment, I am advisory chair of Moelis & Company, which is an advisory bank that advises advertising and media companies, and I have shares in ITV. I would like to explore the impact of digital versus analogue. I would be very interested in your views on what UK companies are doing to exploit the benefits of digital and overcome the drawbacks of digital. On the other side of the coin, what impact does that have on the traditional media—television, print, radio, out-of-home and other non-digital advertising?

Leo Rayman: One of the benefits of being in London has been that people such as Google and Facebook are present with us and have their big offices in this market—so, again, we would hate to move somewhere else such as Paris or Amsterdam—which creates a pressure and an excitement in our industry. London generally would be seen to be close to the cutting edge in terms of how we are employing technology to do digital marketing effectively and how we are bringing that to bear for our brands and our clients.

There is an opportunity provided to us in the reach that we can give to the brands that we work with and in the relevance of when we send messages and so on. There is a huge excitement in the market, some might say too much perhaps, around performance marketing, so very precisely targeted and conversion-driving activity—in other words, supply, selling to customers there and then, for which there is a huge level of excitement in our industry at the moment. There is a lot of opportunity, a lot of pressure and a good centre of attention and thinking around it and a lot of trade press and so on in various environments writing about those things, which helps create a beneficial environment for us. There are some drawbacks, but perhaps you would like to talk about any other benefits that you see for digital advertising for UK companies first.

James Murphy: There has not been the brutal trade-off between the traditional media channels and the new media channels. What has emerged in the last two or three years is a much more holistic industry where businesses like ours would be creating—and I do not want to use too many buzzwords—what we would call "total customer journeys" for clients. While, traditionally, we may have just done advertising which starts that customer journey, you are creating the apps that people would then react with on their mobile phone or the website, digitising the retail environments that people would walk into and creating digital tools which allow brands, once someone has bought from them, to continue that relationship. It is becoming a much broader church and, frankly, a very exciting and dynamic one, but one which absolutely relies on that critical mass of talent and technology and an approach to education and the bringing together of skills. There is a buzzphrase in our industry of "STEAM not STEM", which is the idea of art and science being brought together and us putting an emphasis on that.

Lord Gordon of Strathblane: Is there any future for print media, and local print media in particular, bearing in mind the forecast that revenue is going to halve between 2015 and 2019 and that the revenue from digital is very small compared to revenue from traditional print?

Leo Rayman: There are a couple of things going on. One is that the decline in print media is almost entirely offset by the rise in online spending, and you can see an exact parallel in that. Magazines and press print will still survive because people like to consume certain things in those environments but perhaps in smaller, more niche, more high-end products than perhaps before, so *Daily Mail Online* is an enormous brand and the real *Daily Mail* might be more challenged in the future. High-end magazines around fashion such as *Vogue* might still do quite well in the future.

Q48 **Viscount Colville of Culross:** We have heard a lot about complaints about the complexity in the digital supply network and the fact that it is not transparent enough and that there is not enough accountability, particularly for advertisers, that there is too much collusion between the agencies and the publishers. Do you think that is a real concern and that there ought to be more transparency and accountability?

James Murphy: There can never be enough transparency, but that particular subject is not one I feel especially qualified to answer because, as a creative agency as opposed to a media agency, that is not really our skill set.

Leo Rayman: We all know about the issues of where ad placements are happening, and it would be hard not to see that. The fact that so many British businesses and organisations have fallen victim to it is indicative of a wider problem overall. It is possible to avoid putting your stuff in bad places, but it requires the publisher, the brand and everyone making a decision about how much they are prepared to pay per eyeball they are buying, which is what happens. If you go cheap, no one is putting many filters in place and that is why you end up in dark places, as it were. If you are specific about it, there are controls you can put in place to prevent that happening. What I am going to get on to, and I am sure we will go down this road, is that we think people should self-regulate rather than have some big regulation imposed upon them, and it is incumbent on every party in the value chain to be involved in making that decision.

James Murphy: It definitely is a function of an industry that is changing so rapidly in the fact that there could be fake views and very bad misplacement of advertising copy. Partly, that is to do with an industry which has this incredible rate of growth and technological change and, as in a self-regulatory environment, it is catching up very quickly to police those things.

Viscount Colville of Culross: You talk about fake ads and things such as that, and we have been told by Thinkbox that the ad fraud online could be predicted to be £16.4 billion this year. Is it all right to self-regulate that, or should more be done?

James Murphy: All I can tell you is that there is a lot of work being done, from what I understand, between the major media owners and the major advertisers and their agencies and the trade bodies to get the right level of transparency and regulation because, otherwise, it is an existential issue because those channels rely on advertising spend and, if that advertising spend melts away because those channels cannot be trusted, those channels will not exist in the same way.

Leo Rayman: The biggest driver of the change that is currently sweeping the industry in terms of being much more careful about it and on top of it is driven by client budgets and client budget holders, who are the ones who spend the money in the first place and are saying, "Right, guys, I need to see a change in transparency". Proctor & Gamble are leaders in that area, as you probably know, and that has driven it and begun to get it on people's radars to think more deeply about it. The client has a great opportunity to drive change through the market in that way. We usually follow the money, frankly, which is what we are built to do.

Baroness Kidron: We had a very specific recommendation in written evidence that it is time for an appropriate regulator such as the Competition and Markets Authority to come in and do a review to see where the money is going, where the eyeballs are and how real that is. Are you sympathetic to that view?

James Murphy: You would have to look at this industry. It is held up globally as probably having the best self-regulatory environment of any marketing services industry anywhere in the world. When you look at Ofcom and the ASA and their working practices and standards, those are taken into many other markets in many other equally developed economies as a gold standard.

Baroness Kidron: But Ofcom specifically does not work in the digital platform arena, so that is why I am asking.

James Murphy: The ASA works in the digital area, and one of the important things about the ASA and the digital sphere is to ensure that that self-regulatory mechanism is funded properly. It is important for the media owners to ensure that they are funding self-regulation for it to work properly.

Q49 **Lord Goodlad:** I declare an interest as a member of the advisory board of GovNet Communications Limited. To go down a gear, we have been talking about quite big companies such as yours, but what role is there for start-up companies, entrepreneurs and small and medium-sized enterprises, the people with creative skills in the industry today, or do you think that is all in the past?

Leo Rayman: No.

James Murphy: We were a start-up nine years ago. Our industry has a uniquely Darwinian dynamic, which is that start-ups launch and they generally have a huge appeal because they are deemed to be energetic, entrepreneurial and at the leading edge in terms of creativity and technical innovation, so they attract business. The larger agencies are classically seen as being slightly slower and slower to catch up. You get this cycle where agencies start, they grow and then they slow down and the talented people often bail out of the large agencies to do start-ups, and it is an endless cycle. It is an industry where, unlike law or banking, being established since 1795 carries no kudos in our industry, for better or worse, so it is entirely fuelled by a start-up culture.

The other important question for the industry though is what the industry can do to fuel the broader start-up economy in the UK. The Advertising Association has made some very specific recommendations in its response on the Government's industrial strategy about how tax support should be given to SMEs in the region to take that step into marketing and promotion, which would then fuel the regional marketing services industry and create a virtuous circle.

Leo Rayman: For someone like me, who runs a reasonably-sized company in our sector, probably in the top 10 or 20 of those in the UK, we see the start-up environment as somewhere where we can find new skills and bring them into our business. We are constantly on the lookout for potential acquisitions, which is good for the owners of those businesses and our own, so we try to fuel and look after that part of the economy.

We do an awful lot of work with start-up technology companies particularly, to help them find someone who is appropriate for the technology they are trying to push. We will try to put together a product owner and a brand. One of the things that we are really good at, because it is what we spend our time doing, is helping them sharpen and sell their story. There is a great role to play for us to help the start-up part of the economy to thrive and do well. We can help them pitch well.

Q50 **Lord Gordon of Strathblane:** This follows on the points that James Murphy was making. I do not think anyone wants to damage the global hub that is London. Can we encourage growth in the regions without damaging the critical mass that London has?

James Murphy: Absolutely, because, when you look at the geographical spread and competitor countries, the US and Germany, one of their Achilles heels is that their industry is dispersed geographically across major cities. What is interesting in the UK is that you have London, but you have very vibrant marketing services centres in Manchester and up in Edinburgh and Glasgow. It feels to me that those things are mutually reinforcing because the geographical distances involved are not that great and digital asset management systems reduce those distances even further.

Lord Gordon of Strathblane: Does the digital process itself not, in fact, make distance almost irrelevant? Physical contiguity is not necessary to create a virtual hub, as it were.

James Murphy: There are two things here. Digital technology means that we can be dealing with Seoul at seven in the morning and Cupertino in California at 10 at night, but it is possible to do something on a much more domestic scale. We have an operation in Leeds which deals with high volumes of print material for clients that we have in the north of England. Ten years ago, you would have been sending people on trains with files and things such as that, but it just happens instantly now.

Lord Gordon of Strathblane: One of you mentioned earlier that you had written a paper to the Government encouraging them to do more in the regions. Would you like to expand a little on what you think the Government could do?

James Murphy: The Advertising Association proposal to the Government is to say that SMEs of a certain size should be given a tax encouragement to take the step to start promoting their businesses by having some kind of tax break on marketing expenditure to get them over that threshold. That would feed into the local marketing services economy and allow those brands to grow. It is also incumbent on us, as an industry, to help those smaller businesses understand the potential of marketing in various channels. It is not just saying, "Can we have something from government?"; as an industry, we are very prepared to step forward and say to smaller businesses, "Here's how we can help you understand the potential of marketing". There is also no question that the broadening of the ecosystem of marketing from major traditional channels to more socially driven channels means the threshold to entry is lower for those businesses now.

Q51 **The Chairman:** Can you give us any comments on any issues that we have not raised and, in doing so, tell us what your fears are and what the Government need to do to get the best possible Brexit for the industry? In particular, do you have any concerns about access to international markets post Brexit and are there any other issues you would like to put on our radar?

Leo Rayman: Thank you, because you have given us a good chance to go through a number of the issues that are on our mind at the moment. I have written six things down in order of what we would like from the Government. The first is to not cut us out of the global talent market because we will compete with someone who is always after the best talent possible, and that is fundamental. As soon as someone else gets better talent than us, we are at risk of losing to them, so I always want to be able to have access to the very best people in any field from whatever background they come, the UK or otherwise.

There is an opportunity for the Government to bring more clients and more of the spenders—the tech companies and so on—into the UK to access this hub. It is a question of how else government can help facilitate a flow of more business coming in on our behalf, and make sure it is easy and advantageous for them to trade from the UK, which is a wider economic policy, I guess.

There is the question of what else can be done to support and promote UK trade fairs and creative festivals and what else we can do to create those moments of coming together to focus on what we do. It is interesting that the pre-eminent advertising festival is in the south of France—for now, but let us see what happens with that—and the pre-eminent creative technology festivals are usually in Lisbon, Barcelona or in Austin, Texas. Finding ways to create more small hubs like that in the UK would be good for us. Anything that you can do to help support inward investment in our business as we go into this future world and to prevent limitations on the talent that we can access would be most important to us.

James Murphy: Talent is the absolute key to this. London and the UK have thrived and been probably this most powerful of global hubs because we have had an unfair share of talent, which has to be the priority going forward, probably not just for our industry but some others as well. That would be about remaining more open, more dynamic and more competitive than we are now, not less, and not crawling under a stone because we are taking a different view of the world as we go forward, and that is the main priority for us.

The Chairman: Thank you, Mr Rayman and Mr Murphy, for giving us evidence; it has been a very interesting session for the Committee. Thank you.