



Select Committee on Communications

Corrected oral evidence: The Advertising Industry

Tuesday 21 November 2017

2.30 pm

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

Evidence Session No. 7

Heard in Public

Questions 60 - 70

Witness

I: Sir Martin Sorrell, Chief Executive Officer, WPP.

USE OF THE TRANSCRIPT

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

Examination of witness

Sir Martin Sorrell.

Q60 **The Chairman:** It is my pleasure to thank you and welcome you to the committee.

Sir Martin Sorrell: It is a pleasure—I can say “pleasure” before, but I do not know whether I will say it afterwards.

The Chairman: Exactly. We would love to know at the end of your evidence whether it was a pleasure. It would be great to have that on the record. A bit of housekeeping: this meeting is broadcast and a transcript will be taken. Lord Gilbert, our normal chair, has decided not to participate in this meeting because he has an interest that he has declared in writing. Because time is limited I may occasionally have to rush colleagues along, so please forgive me in advance.

Sir Martin Sorrell: Including me.

The Chairman: Including you. May I first invite you to introduce yourself and say a little about WPP, and perhaps go straight on to talk a little about the global nature of the business? We are very aware that you absolutely anticipated the global nature of advertising, and we are curious to know what you think.

Sir Martin Sorrell: That is flattering but probably untrue. That might be the perception. I am Martin Sorrell, CEO of WPP. I guess I am CEO and founder of it. It was a wire basket manufacturer—a little industrial company that still exists in Hythe in Folkestone. For what it is worth, the company is the largest advertising and marketing services company in the world. We have audited billings, which is unusual, because few if any of our competitors refer to the throughput of the media billings and billings they have through the organisation. It is about \$70 billion, and of that about \$50 billion is in media. We have 135,000 people in companies of which we have more than 50%, or 50.1%-plus: companies that we effectively control. There are another approximately 70,000 or 75,000 people in companies that are associates. That is companies that we own 20% to 49% of, which we do not control but have some influence on.

We do advertising, media investment management, data investment management—data is a significant part of our business—public relations and public affairs, branding and identity, healthcare communications and, last but not least, digital, which we sometimes refer to as direct or interactive. Our geographical spread is about a third in the US, or North America, a third in western Europe, including the UK, and a third in what I hate to refer to as the other parts of the world—Asia, Latin America, Africa and the Middle East and central and eastern Europe. So it is quite diverse. By function, the media part of it is about \$5 billion out of the \$20 billion, and data is about \$5 billion. So half of our business revenue comes from media and data. The rest is in creative, other digital activities, branding identity, public relations and public affairs, and other areas such as healthcare which I referred to.

In terms of markets, our biggest market is the US and our second biggest is the UK. If I include our associates—the companies I referred to which we own 20% to 49% of—that will give you a better idea of the spread, and it would take our revenues up to about \$23 billion or \$24 billion. Of that, about \$6 billion or \$6.5 billion is the US and North America. Our second-biggest market is the UK, which, including associates, is worth about \$3 billion. Our third-biggest market is greater China, which includes Hong Kong and Taiwan in addition to mainland China, and which is worth about \$1.7 billion. Our fourth-largest market is Germany, which is worth roughly the same as China. Our fifth is Australia and New Zealand, and our sixth is France. I will come on to that, because it is important in terms of the disposition of our markets in relation to the EU and the Brexit decision.

That is roughly where we are. In the UK, we have 16,000 people in our businesses, including associates—about 14,000 excluding associates. As I said, we have about \$3 billion of revenue; excluding associates, it is about \$2.5 billion of revenue. We have a significant and important business here in the UK, largely for historical reasons, because if you look at the UK as a proportion of the world advertising and marketing services environment, the UK would probably not be your second-largest market; that would probably be greater China.

Q61 The Chairman: That picture is very interesting. The Government have suggested that Brexit is an opportunity for the UK advertising world to show its colours to a global market. You seem to be describing something that is already doing that. Perhaps you could respond first to that assertion.

Sir Martin Sorrell: To be blunt, I am worried about the impact of Brexit on our business, irrespective of whether is no deal, a deal, a transition period or whatever. The reason, which I just touched on, is that four of our top 10 markets are key EU markets. Germany is number four, France is number six, Italy is number nine and Spain is number 10. There is another market, Brussels, which is an important source of opportunity and which increasingly will be a source of challenge as we try to expand our business. You are right that whether we anticipated things or not, we saw the growth of Asia, Latin America, Africa, the Middle East and central and eastern Europe. The best way of putting it is to say that a number of our clients would say that the next billion consumers will not come from North America and western Europe, whether the UK is in western Europe or not. They will come from Asia, Latin America, Africa, the Middle East and central and eastern Europe.

Whether we predicted this or whether it was an accident of history, we have ended up with very significant market positions. On the BRIC markets—we worked with Lord O'Neill when he was at Goldman on the concept and the development of that—we will need the Brazilian market. Looking at the whole of our business, it would be a similar position in Russia. India is one of our biggest market shares. We are the largest factor in China by quite some distance, whether domestic or

international. Whether anticipated or not, de facto we are in those markets to a significant degree.

Then there is what Jim called the next 11: markets such as Indonesia, Vietnam, the Philippines, Mexico, Colombia, Peru, Nigeria, Egypt or South Africa. Again, we have very strong market positions because we took the view early on that it was very important to expand. If you wanted to be a major multinational marketing services company, which is what we stated in our very first circular when a colleague and I took control of what was then called Wire and Plastic Products, your future was not going to be determined by success in and of itself in the UK market, or indeed the US market or western European markets. It was going to be determined by success on a global stage, to put it grandly.

So when the Government talk about Brexit and the need to expand beyond our traditional trading relationships, whatever you think about Brexit, the simple fact is that if we come out of the EU, as we will do, we will have to build British trading relationships with the EU on a global basis. I worry about one major thing: we as an organisation, because we are British-based, will lose influence in French, German, Italian and Spanish markets, where a lot of major multinationals are based. There is a risk that we will lose influence, however you define that word, or standing in Brussels. That will disadvantage us, as I said, in four of our top 10 markets. I have not mentioned places such as Scandinavia or other parts of the EU in central and eastern Europe that are really important to us and that we need to develop.

The irony is that as a result of Brexit the growth of our operations in numbers of people in Germany, France, Italy and Spain will be faster than if we had stayed in the EU. That does not mean that the UK part will reduce; I hope we will still grow in the UK. Although life is difficult the UK continues to be a strong market for whatever reason; we can explore that if you wish. Those key European markets are important to us. I worry that we will be disadvantaged.

Q62 **Baroness Stowell of Beeston:** Bearing in mind what you said about the impact of Brexit causing you concern and knowing you have at your disposal research from different businesses in your group, have you at WPP spent much time reflecting on the motivations of some ordinary voters voting to leave the European Union and whether the advertising industry as a whole or your own organisation have played any part in causing this dissatisfaction that has led some people to feel the solution for them is for the UK to come out of the European Union?

Sir Martin Sorrell: I do not know that one surmises what the reasons are. There is the situation we see with Chancellor Merkel, for example, who I regard as one of the strongest forces and certainly one of the strongest political figures in Europe. In the last 48 hours she has been unable to form a coalition, which I found surprising. That is another surprise.

Baroness Stowell of Beeston: Because these surprises are popping up

continually around the place, is this something you have had any reflections on?

Sir Martin Sorrell: Do I think the advertising industry was the cause of that? No. Was that the drift of your question?

Baroness Stowell of Beeston: No, but it is interesting to know how much reflection there is in the corporate world about its role in this unsettled state.

Sir Martin Sorrell: You can diagnose it, and I can give you a view. There was the banking crisis in 2008—that weekend in September, the Lehman crisis—and the sub-prime crisis that preceded it, involving the real estate industry and its funding in America in 2007. The impact of that, low interest rates and loose central bank policy, had major implications. That is one set of things.

The other thing relevant to what we may talk about later is the disruption taking place in all parts of the production, media and distribution chain. I am not an engineer—I am meant to be an economist, although I struggled with economics at university—but, looking at production, robots and 3D printing have caused tremendous disruption to the manufacturing process.

If you look at the media, Google and Facebook, sometimes referred to as the duopoly, have a share of probably 75% of digital, which is 30% of the worldwide market to get it in perspective. The global advertising and marketing services market is worth about \$1 trillion. About \$500 billion of that is in traditional TV, newspapers and printed magazines, and about \$500 billion is in digital, public relations, public affairs, healthcare and the like, to give you an idea of market size. Google and Facebook therefore have 75% of 30%, so they have about 22% to 23% of the worldwide market between them. They have caused tremendous disruption. Look at the plight of traditional newspapers, not just in the UK but generally around the world. I find this interesting. If you had asked me what proportion of media spend is accounted for by traditional print about a year or so ago I would have intuitively reacted by saying 25% or a third. It is now 9%. When I started in the industry, which is a long time ago, it was 40%.

In distribution you have Amazon, Alibaba, Flipkart in India and other lookalikes causing tremendous disruption. This causes tremendous disruption in people's minds. This debate as to whether new technology in all those aspects creates or destroys jobs is the critical issue.

The Chairman: I know we will come back to that issue, so I will ask Baroness McIntosh to come in.

Baroness McIntosh of Hudnall: These things are all connected. I was quite surprised when you said the UK was the second-biggest bit of your business. I imagine that is partly historical.

Sir Martin Sorrell: It is where we started. Then we went into the US, which of course has the biggest scale.

Baroness McIntosh of Hudnall: Yes, but when you think about the UK, and building on what you said earlier about the impact of leaving the EU, can you tell us a bit about the nature of your workforce here: how international it is, what range of people you look for, where you bring them from and what you think immigration policy has done and can do in the future to help that? Perhaps you could also talk a bit—going back to what you were saying earlier—about building new trading relationships in the wake of whatever is left when all the negotiation is done.

Sir Martin Sorrell: We do not have precise data on the proportion of non-UK people among our 14,000 people—or 16,000 people if you include our associates. Of EU citizens, it is probably around 15%; we have some pretty good data on that. We think that the proportion of non-UK citizens in that 14,000 or 16,000 is considerably higher than the 15%, and in some cases would be as high as half. The 15% is the average for EU citizens, but there is tremendous variation by individual unit. I did not refer to the structure of WPP but, for example, one of my colleagues—Leo Rayman, who gave evidence to this Committee—runs Grey, which is one of our agencies here. In addition to Grey, there is J Walter Thompson, Ogilvy & Mather and Young & Rubicam. Those are the four largest, but there are other agencies as well.

If you look at some of the digital businesses and ad-tech businesses, they have higher proportions of EU people. Rather than 15%, they might have 25%, 30% or 40%. Of course, there are obviously some businesses that have less than 15%, in order to have the average of 15%. Because of their demand for technological ad-tech, software engineers and people who have more mathematical, scientific, STEM-like skills, the proportion is higher. They go to places such as eastern Europe or Germany or France.

Baroness McIntosh of Hudnall: Could you clarify whether the reason for that, as you perceive it, is that those skills are more readily available elsewhere in the EU than here?

Sir Martin Sorrell: Yes. If I can extrapolate, it is something that I feel very strongly about. It was reinforced by an interview that James Dyson gave on Andrew Marr's programme the Sunday before last. Dyson, I am proud to say, is a client of ours. It was really interesting when he said that, because of the shortage of appropriate people for his needs—which are different from ours—he had started a university. Part of the programme was about that university.

I reflected on our own experience. They are not universities, they are not as grand as that; they are more technical colleges. The interesting thing is that we have these schools in three markets: in China, in Shanghai; in India, in Mumbai; and in South Africa, in Cape Town. In each case, we are probably putting about 200, 300 or 400 students a year through

courses who we specifically train, or engage with, and in each case we develop the curriculum.

The deal, if I can put it that way, with the Shanghai municipality—which is fascinating—when they rang to ask us if we would be prepared to set up a WPP advertising school in Shanghai, was that we provide the curriculum and the teachers and we get the naming rights. They provided us with a campus, which was part of an existing facility, and then they moved us to the centre of Shanghai into a super-duper facility. The point of the story is that I looked at James Dyson's initiative and thought, "My gosh, why don't we do that in the UK?" I would be very surprised if a municipal authority would call us, as happened in the case of Shanghai, and said, "Set this up". In the case of Mumbai, we took the initiative with the Parsons school, a quite famous American-based design school, to do a similar thing. These are tech programmes that are more like the German apprenticeship programmes than a university.

In China, we are applying to turn our school from a tech college into a university, because Chinese parents want their kids to go to university rather than just tech school. In South Africa, it is slightly different because it is a diversity effort. We are putting about 300 or 400 people through—these are young kids in design and art, so it is more basic, but it is in relation to diversity programmes as well.

The Chairman: Before I hand over to Viscount Colville can I ask a very narrow question about the government immigration policy? Do you want to see anything in that very narrow area about access to the workforce? I take your point about growing one's own.

Sir Martin Sorrell: Freedom is the answer. That might not resonate with people. Going back to Baroness Stowell's question about the fundamental causes of populism, it may not resonate well with certain parts of the community. We recently ran a multiracial advertisement for one of our major clients here and our agency and people in it were subject to a torrent of abuse.

The Chairman: We might come back to that, too.

Sir Martin Sorrell: We are getting into difficult areas but, in answer to your question, I would look more and more to our ability to access the talent that we have been able to. My fear about the Brexit negotiations is that we do not have clarity on what is going to happen.

Q63 Viscount Colville of Culross:

I would like to talk about digital advertising. You talked about the huge increase in spending on digital advertising. Last week, we heard from John Kearon of the System 1 Group that he thought that advertising agencies had overestimated the power of digital advertising. He pointed to Procter & Gamble reducing its spend on digital advertising by 30% without any adverse effect on its revenue.

Sir Martin Sorrell: Let me correct you; I do not think that Procter & Gamble has said that it has reduced its digital advertising by 30%. The figure that I have heard quoted is that it reduced its digital budget by \$140 million. I have never heard that it was—I have to be very careful, because Procter & Gamble is our third-largest client and therefore I would like to abstract from that; I will get flayed if I am specific about it.

Viscount Colville of Culross: So it has reduced its digital advertising spend. Do you think that there has been too much emphasis on digital advertising by the advertising agencies?

Sir Martin Sorrell: It is interesting that you say that. I am trying to look at this dispassionately, and I have no axe to grind. Basically, if the market is \$1 trillion, or \$500 billion in traditional and \$500 billion in digital, WPP is agnostic about it. We manage \$70 billion of billings and we want to make sure that that \$70 billion is invested in the best possible way.

We call it media investment management because it is like running an investment portfolio. If we think about it being one client, should the \$70 billion be \$75 billion or \$65 billion, and how should it be deployed? That is the key issue.

I am somewhat amused or perplexed—those are the wrong words—by your suggestion, because we have a situation where, in America, people are saying that online activity influenced the result of an election; we have people saying the same thing about the Brexit vote, one way or the other, and maybe the general election, maybe the German election, maybe even the French election, before the result was declared—if I remember rightly. And you are asking me, has anybody overegged it? It may be that they have underegged it. There is a measurement problem.

Our second-largest client is Unilever. Its CMO, Keith Weed, has referred to the three Vs: value, validation and viewability. He raised the question—it is not a matter of public record how much Unilever spends of its budget, but let us assume it is the average, which is 30%—do I get value for that 30%? On viewability, if you talked to Robert Thompson or Rupert Murdoch about engagement with the *Times* newspaper, I think that the average reader of the *Times*, whether digital or physical, spends 42 or 43 minutes, on average, with the newspaper. That, surely, must be of more value to our clients than a three-second, two-second or one-second view. Remember that the Facebook stats have been corrected three times in the past six or 12 months—so that is viewability and validation.

These are very powerful media. I am 72; I never thought I would watch a cricket match or a soccer game on a mobile phone, but I do. So even my habits—I am an elderly man—have changed dramatically and markedly. Habits have changed. Social media and search are immensely powerful. We are at the beginnings of it. It is 30% of the market and 40% of our business. If you asked me what it was going to be in five years' time, I

would say that it will be considerably more, both for the market and for ourselves.

If you think about the changes that have taken place with Amazon and Alibaba, you are talking about very considerable changes in consumer habits. Just to emphasise this: the five most valuable companies on the planet are what we call the fearsome five—Apple, Amazon, Microsoft, Google and Facebook, not in that order—and are all worth over \$500 billion each. The big question is which will be the first to get to \$1 trillion.

This morning, coming here, I noticed an article saying that Tencent—there are two big Chinese companies, Tencent and Alibaba—has just crossed \$535 billion and is more valuable than Facebook. I call those seven the Seven Sisters, and I call them that for deliberate and historical reasons. Over the weekend, one of our clients said to me that he had said to Jeff Bezos two years ago that Bezos would be the John D Rockefeller of the 21st century. Bezos pooh-poohed that two years ago, but now he is the richest man in the world.

The Chairman: This is a very good time to bring in Lord Gordon.

Q64 Lord Gordon of Strathblane: I am staying on the same theme of the importance of digital. Earlier on, you gave an overview of the world percentages. The percentage of advertising that is digital is a lot higher in the UK. I think it is over 50%, compared with 30% in the US. Why do you think there is this difference? It is not usual for us to lead the way, as it were.

Sir Martin Sorrell: I think you short-change us. You have heard evidence from other people in our industry. Maybe it would be too strong to say that we are the leader—I would claim that we are—but we are certainly one of the leaders, and this is with a population of 60 million, rather than 1.3 billion or 1.4 billion in China and 300 million in the US. I would say that we do very well. I think we have become attuned to the digital economy far more rapidly. E-commerce plays a very strong role in our lives and in consumers' lives and, in my view, will play an increasingly important role.

The problem in part is that legislation, and the reaction of legislators and parliaments of all types, is by definition likely to be slower in terms of dealing with the new technologies than the old. The Department of Justice in America is going to litigate and go against the AT&T merger with Time Warner. In a way, AT&T is part of the new economy, so it is a mixed deal between old and new, to some extent. It seems emblematic of this issue. Nobody challenged the Google-DoubleClick acquisition, which was fundamental in the US a few years ago. If Google and DoubleClick came up today, maybe it would be slightly different. The Sky review in 2011 had a very different background to now, as to whether Murdoch should have acquired Sky in 2011 as opposed to 2017, in my view.

Things have moved on very rapidly, but of course laws and regulations do not adapt quickly enough in what is a very fast-moving case. In the UK we move very quickly and we are attuned to digital and e-commerce.

Lord Gordon of Strathblane: May I just pick you up on one of three Vs that you talked about—validation? One of our witnesses last week was quite blunt about it: he hoped that the advertising agencies would start using their wallet power to force Google to justify the audiences that it claims. You have called for some degree of validation.

Sir Martin Sorrell: Yes. I referred to our \$20 billion of revenue; of that, \$5 billion is in media. We measure media in, I think, 52 or 53 countries around the world: not in the US, but we do it here and in many markets in Latin America, Asia, China, India, Russia—the Government expropriated our media-measurement business in Russia—and Brazil. We do a lot of measurement and we think it is critical, because our clients are continuously asking, and this goes to your point, what is the return on investment, how can we measure the return, how can we refine the portfolio, should we spend 30% more or 30% less, or whatever it happens to be.

We certainly have a measurement business that focuses on traditional media and, increasingly, new media. This is a somewhat competitive comment, but Nielsen in America probably has not gone fast enough in the eyes of media owners and clients to measure the new media. It is making efforts, to be fair, but they are probably not strong enough. We bought 20% of a company called comScore, which specialises in online measuring, because we think it is critical for improving measurement.

To come back to what you said about Google and Facebook, I should just declare that we have a very big mutual relationship: Google is a client and we invest in it. The same thing applies to Facebook and some others of the fearsome five—and the Seven Sisters, in fact. So there is a mutual relationship. Google is making big efforts—as is Facebook, although not as much as Google, but it is pushing that way—to co-operate more and make its data more and more available. But it is not enough; it needs to be more. They are getting there, and we are starting to see changes in their attitude.

You kindly sent me some of the questions that you might or might not ask me, and you referred to Google and Facebook as media owners. They say they are not media owners; we believe that they are media owners, but they say that they are technology companies. Until they admit that they are media owners, we have a problem.

The Lord Bishop of Chelmsford: Some of us think of them as the Seven Samurai rather than the Seven Sisters.

Sir Martin Sorrell: Yes.

Q65 **Lord Goodlad:** I declare an interest as a member of the advisory board of GovNet Communications Ltd. I have two questions for Sir Martin. First,

do you think that this country should maintain the standards of EU regulation, such as the General Data Protection Regulation?

Sir Martin Sorrell: Yes.

Lord Goodlad: Secondly, what impact would a failure to agree a legal mechanism for the transfer of personal data from the EU to the UK after Brexit have on the British advertising industry?

Sir Martin Sorrell: I think it would make life very difficult for us. I do not know what the flows are numerically between ourselves and France, Germany, Italy and Spain—to take the four key markets as examples—but they are considerable. Any difference between the countries will cause a major problem, so equivalence is a key issue here. We have to get a balance between the two. Let us say that after we have Brexited, their legislation changes. Whichever way it changes, it poses issues for us. It is almost like the immigration issue, if you like, but in relation to data. I would encourage a free flow, or as free a flow as possible, subject to the issues that we touched on. I would encourage a free flow of data, with consumers understanding what they are letting themselves in for. Opt-in is important, because at least in that way you can be assured that consumers will have gone through some mental process which says, “This is what I’m letting myself in for”.

Q66 **Lord Allen of Kensington:** I would like to zoom out and ask a different question. Before I do, I declare my registered interests. I am the chairman of Global Media & Entertainment Limited, chairman of Moelis & Company, which is an advisory M&A bank that works with media and advertising companies, and I am a shareholder in ITV. The big picture, before we get into the detail of skills and training, is: if you were advising this committee, what are the top three things you would think that industry could do to make sure that we continue to have the talent we need to grow the industry, and what would be the top three things you would want the Government to do?

Sir Martin Sorrell: We have touched on immigration and the free flow of people and related consistency in data, so I will put those as one for a minute. On the training side—to put it crudely, the supply of talent, which is absolutely critical—I come back to what I said with regard to China, India and South Africa and what I saw on Andrew Marr’s programme with Dyson. Do universities in this country, or indeed elsewhere, provide us with the right sources of talent? Yes—there are bright young people who are digitally savvy; languages are not a strong forte of the UK. I speak English and a little bit of what I call restaurant French, but nothing beyond that, whereas my wife is Italian and speaks five languages. On the mental attitude, I am looking at some of the evidence that has been given by others, and one person said, “We conduct most of our business in English”. Yes, that is fine, but on the other hand, you are not going to understand the Chinese psyche unless you speak Chinese or learn it, and that is similar everywhere else. To put it simply, when someone asks me what they should do and I proffer any advice, I would concentrate on two languages: code and Chinese. That is the training side.

Then I would say incentives. On the apprenticeship levy, which is on the agenda and has not been asked about yet, this morning we were trying to calculate how much we pay for the levy in the UK. It is probably around \$5 million or \$6 million. We get about £15,000 in contributions—colleagues will correct me if I am wrong. One of the questions that was asked in a previous session was, “Is the apprentice levy a tax?”—to which I would say, yes, it is. Coming back to your question, we have to have a better apprenticeship programme.

The other question is what we should ask the Government to do. I would focus on one thing: I would ask the Government, at a national and indeed local level—a lot of conversations are going on about how much power local mayors should have as well—to look at the Shanghai example. It is remarkable that it initiated a process with us to create a school. I point out that it is tremendously motivational to our people; they construct and teach a curriculum. We are all trying to find ways of motivating and keeping people, which is a big issue, and in China the turnover rates can be as high as one-third. That means that one-third of your people turn over, and we have 15,000 people in China. They turn over all the time.

Q67 Baroness Benjamin: I was interested to hear you talking about setting up advertising schools abroad—it is an interesting idea. Some may say that there is a wide gap between UK universities and marketing courses and agency requirements—the real world, some people might call it. What role should universities play—you have already touched on this a little, but I would like to know a bit more—in providing skills for the advertising industry, and do you think that the moral and ethical aspects of advertising should be included in courses?

Sir Martin Sorrell: The answer to the last part of the question is yes.

Baroness Benjamin: In what way?

Sir Martin Sorrell: We touched on some of the issues that concern people as a result of the changes in technology. We can talk about marketing programmes in elections—we have touched on that. However, we have not talked about marketing programmes in certain categories. All those issues should be aired during those courses, whether they are done at university or tech. Unfortunately, university education has a cachet or a premium attached to it. I even refer to China in that context. We want our tech school to become a university because Chinese parents attach a greater value to university education than they do to a tech school education. In Germany, as I understand it, an apprenticeship programme in engineering or whatever it happens to be is not looked down on or regarded in a different light from a university education.

I did two degrees. One was highly theoretical—economics, which I struggled with—and then I had a business school education, which was what I would call a trade school. I felt that what I learned at business school was much more directly applicable, not to what I have done in the advertising industry or related industries but to data-led business. Thereby hangs the issue. While we might be very strong on the internet

and digital in the UK, the practical application of the education we receive may not be as strong. That is controversial, because some people say that you study economics, English, French or whatever it happens to be, and it makes you into a better person, with better judgment of some of those issues that you have raised, and that you do not have to go through with direct detail technical application. You probably have to do both. The missing link here is that, as a business with 14,000 or 16,000 people here in the UK, we would like to have as highly trained a group of people coming into our agencies as possible. I do not think that university education as I understand it—it is a long time since I was at university—delivers that. It is not just schools.

We created the WPP fellowship programme. It is worth going into this. This is a three-year programme for which we recruit undergraduates and postgraduates. We will recruit 21 year-olds after their first degree and then we might have 26 or 27 year-olds after they have done postgraduate law, business or whatever. It is over three years, in three different jurisdictions, on three different continents. You might start with Ogilvy in advertising in New York, come to London to work with AKQA in digital and then go to Shanghai to work with our data business, Millward Brown. The idea was to build multifunctional multispecialists—people who understood all aspects of our industries. Increasingly, there is a need for people to understand the whole continuum, online and offline, of advertising, media, design, branding, public relations and all that. I do not think that you get that exposure at university. So we take this natural talent and try to mould it to our three-year programme. We take about 15 or 20 fellows at the WPP level. In the UK, for example, we have 6,000 apprentices in one way or another. We are doing a lot at that level, but I am talking about the holding company level. It is harder to get into than Harvard Business School.

The Chairman: We took some fantastic evidence from one of your fellows. He was a fantastic young man.

Sir Martin Sorrell: That is something that we have done. It is not something that came out of a university or tech college saying, "Let's co-author a programme".

Baroness Benjamin: I have one other question to put to you. I used to be chancellor of Exeter University. I used to tell the students to go out and change the world. Many of them said that when they did go out to change the world there was not the support in the workplace to do so. Do you think the advertising industry gives that kind of support to people who want to do things morally and ethically?

Sir Martin Sorrell: That is the second question that you have laced with the moral and ethical. That implies to me that you do not think the industry is moral and ethical. I think it is.

Baroness Benjamin: Not necessarily. I am just asking you a question.

Sir Martin Sorrell: Maybe I am being oversensitive. You can go out and change the world coming out of Exeter or anywhere else for that matter. It is a question of how much application and commitment, hard work and focus you have. It is still possible. Do we support our people? Before Lehman and 2008 it was more difficult for us as an industry to compete with Goldman and McKinsey. Post Lehman, Goldman and maybe even McKinsey—I use them as emblems, not specifics, meaning the financial services industry and the consulting industry—became relatively less attractive, although they were still very attractive. That is partly because of the importance of digital. The growth of digital has made our industry more attractive to people: software engineers, engineers, or people who had left-brain and right-brain capabilities—Mad men, maths men, Mad women, maths women. Not Don Draper, but whoever is the opposite of him in data and tech. It has become much more balanced and our industry is much more attractive. That is the good thing about Google, Facebook, Snap, Snapchat, Oath and Twitter. These are modern media. Social media and search are modern phenomena that young people are attracted to. The more our industry is rooted in those areas, the more attractive it is to people.

Q68 **Baroness Bertin:** Before I ask my question, I declare that I work for BT Group. To bring it back to the government apprenticeship scheme, I do not want to put words in your mouth but I get the impression that you do not think it is in good shape at all. Do you think it needs tweaking or an overhaul?

Sir Martin Sorrell: One of you asked whether it is a tax, de facto. It is. If I look at it very crudely, it is costing us \$4 million, \$5 million or \$6 million, whatever it is. The pure financial benefit we get in making a contribution to an apprenticeship programme is very small.

Baroness Bertin: Is that because what they are offering is not what you need?

Sir Martin Sorrell: I do not know why the return does not come back to us in any way, shape or form—but it does not. If after taxing us that amount the money gets deployed in the context of the UK economy to building skills, training people, employing people and getting people to change the world, that is fine. If that is the cost of doing business here, so be it—but if you are asking me narrowly whether it has resulted in us building apprenticeship programmes that are of value to us or our industry, the answer is no.

Baroness Bertin: You do not think it is a case of liaising more with the Government?

Sir Martin Sorrell: The Government have their hands full with other, more important issues at this time. It is rather difficult. Look, in our experience public/private partnerships, for want of a better phrase, have been very valuable in the educational process or the development of apprenticeships and whatever. I find it remarkable that the three countries in the world in which we have done this are those countries, not

here. Logically, you would think it would be the US, the UK and China. Those would be the three biggest markets; that is where you would think it is. I am a big China bull. That may not find favour with everybody on the committee but I am. I still believe that China will become even more significant with the online education there. Take the teaching of English in the Chinese economy. It is quite incredible. You see these companies that specialise in teaching languages, English in particular. It is extraordinary.

Baroness Bertin: You made a point earlier about who will and who will not be employed and that being critical with automation and technology. How do companies such as yours and industry generally make those decisions around what is a good business case and what is good for society?

Sir Martin Sorrell: In relation to?

Baroness Bertin: Automation and job creation.

Sir Martin Sorrell: I am of the view that these developments in technology will destroy jobs. The social issues we touched on before will become more of an issue. Looking at the disruption taking place in production, media and distribution, if I remember rightly in 1929 John Maynard Keynes implied in his *General Theory* that there would be more leisure time and that we would just take more holidays. That has not been a fact, so maybe he will be wrong again.

My feeling is that some of the changes taking place are so fundamental. We go to a conference at Allen & Company every year in Sun Valley. On the Saturday they do these elevator pitches. They bring in three or four new technology companies. There was a restaurant company, the concept of which was just like the diners you used to see in New York in the 1950s and 1960s, such as Horn & Hardart, if you remember them. You used to go in and you would get a meal in a cubbyhole. In this case, you walked into the restaurant and made an iPad order. They had developed a robot that filled the bowl with healthy food. The initial robot produced a pretty unappetising bowl; the beans and the kale were all mixed up and looked pretty grotty. Now they have a fourth-generation robot, or whatever it is, that produces a beautifully prepared bowl. There is nobody in the restaurant. You key into your iPad. You go to the cubbyhole, you open it up however you do that electronically, pull out your bowl and that is it. Just think of the implications that small example has for employment in the fast food industry.

The Chairman: That makes a good segue.

Q69 **Baroness Stowell of Beeston:** I have a question about diversity. We are keen to understand what you think works best to have a diverse workforce. Before you answer that, I am curious to know, particularly because your business is ultimately all about people, understanding the market you are selling to and everything else, when you say “diversity”—it is one of those words that can conjure up a different reaction from different people—what does it mean to you in your business? If you were

looking to have a diverse business, what would that mean?

Sir Martin Sorrell: The best possible mixture of views, colour, religion, gender: that is what diversity means. One example: we initiated with Ban Ki-moon, when he was Secretary-General of the United Nations, a common ground initiative around his SDGs. Within each of those goals—maybe not all 17, but I think 13 of them or so—diversity was a core issue. We are a highly competitive industry. We are always at each other's throats, at least metaphorically and competitively, but we thought we would use the Cannes festival not this year but the year before to bring it together. We all got together on stage with the Secretary-General. That embodies a lot of the diversity objectives you refer to. That is about getting as many diverse views, attitudes and inputs as possible. Coming back to immigration, if as a result of Brexit we cut ourselves off from a supply of those people, to put it crudely, from those markets, we will be disadvantaged in producing the creative and technical work we do. It will lack those viewpoints.

The Chairman: Baroness McIntosh, will you briefly ask your question?

Q70 **Baroness McIntosh of Hudnall:** My question comes directly out of what you said about potential loss of types of employment that we may see disappear. One way in which people are adapting to the beginnings of that is by becoming their own businesses. The advertising industry has, over a long period, had a lot of start-ups and freelancers in it.

Sir Martin Sorrell: We were a start-up.

Baroness McIntosh of Hudnall: Exactly, and now you are as big as it gets. What is the relationship for you between the tiny start-up, where often there is a lot of innovation, and the industry as a whole? Specifically on your business, what reliance if any do you have on those microbusinesses?

Sir Martin Sorrell: A healthy, competitive marketplace is always important. We have benefited from start-ups and we have been disadvantaged. Those start-ups are fine as long as they started up in the right way, which means that people keep to agreements they make and do not breach them. That is quite important. Having said that, a healthy, Darwinian, competitive environment is very important.

I take some pride in the fact that we employ in one way or another 200,000 people around the world. Let us say there are on average three people in a family, so some 600,000 people are in some way dependent on WPP for their livelihood. I take some satisfaction from that, given that we started with a wire basket manufacturer in the UK with a couple of hundred people. That is very important.

Start-ups are always going to be there. I was looking through the areas that you have covered, and you did not cover this: the odds against start-ups are probably tougher now. If you asked me what the world is like at the moment, despite what you hear sometimes in newspapers and TV about the world getting stronger from a GDP point of view, it is low

growth and low inflation. Pricing power for clients is under pressure, so there is a focus on cost. You referred to people cutting budgets. Whatever the reasons, they are cutting budgets because there is pressure in the system.

The rise of procurement and finance has resulted in a tremendous focus on payment terms. Let us say that we invest 60% of our revenues in people. We make an investment each year of \$12 billion in people. We are a human capital business. We probably buy \$750 million of things, so we invest more than 12 times more in people than in things. The growth of that is critical. We pay those people by and large on a monthly basis. I have not come across anybody who works for us who is willing to be paid over 90, 120 or 180 days. Yet we are being asked in many cases to accept payment terms of that nature.

I have one other thing. You may think I am wandering off the point, but I want to get this point over. We are being asked by procurement departments to sign up to clauses in contracts that result in unlimited liability for an intellectual property breach that is not our direct fault. We might be working on an internet project and there might be two or three other suppliers. They might make a mistake, yet we are liable. Most if not all of my net worth is tied up, for good or evil, in WPP. I am not prepared to let our people sign a clause like that. You referred to ethics. I think it is wrong.

So 60% of our investment is in people, who we pay every 30 days. Some 7% is in property, so two-thirds of our revenue goes into investment in people and in property. I have not met a landlord who is prepared to let us pay the rent over 90, 120 or 180-day periods. This is a serious issue that we have raised with government—Lord Allen asked what government can do—even at the very highest levels. We have seen no progress on this. I do not know what you would do as a start-up if you had to fund over 90 days. We are a bigger company and we can take some of that strain—not totally, but we can take some of it. The IP thing is outrageous for a small company to be prepared to commit itself to. Maybe it gets some dispensation, but that is important.

The Chairman: I was going to finish by asking whether there is anything we have forgotten, but you might have done it. I finish by asking whether it was indeed still a pleasure.

Sir Martin Sorrell: Very much so. Thank you for the opportunity

The Chairman: Thank you very much for your time. That was fascinating.

Sir Martin Sorrell: I will not bore everybody, but Baroness Benjamin raised some of the things we do on the qualitative—the ethical and social—side. We produce three books. They are interminable, but one is on sustainability, which is what we do. There is the pro bono work we do. We have given examples of what we do in our written evidence. Perhaps you will get a chance to look at this. I am biased, but I think what we do

throughout our various companies is truly remarkable. This is largely pro bono stuff that we do. It is what our clients do as well, because we have a section about what our clients do in all sorts of campaigns, whether it is diversity, healthcare of whatever.

The Chairman: That is fantastic. We will take it as written evidence into our inquiry. Thank you very much for your time.

Sir Martin Sorrell: Thank you.