Select Committee on Communications

Corrected oral evidence: The advertising industry

Tuesday 28 November 2017

3.35 pm

Watch the meeting

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

Evidence Session No. 8 Heard in Public Questions 71 - 84

Witnesses

I: Phil Smith, Director-General, Incorporated Society of British Advertisers (ISBA); Katharine Newby Grant, Associate Director, Media—Northern Europe, Procter & Gamble.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Phil Smith and Katharine Newby Grant.

Q71 **The Chairman:** Welcome to our witnesses for this session of our inquiry into skills and the advertising industry. We are joined by Katharine Newby Grant and Phil Smith. Thank you very much indeed for joining us. Please briefly introduce yourselves and give us a little of your background, and perhaps tell us what you think the answer is to our question in your own terms: what are the challenges facing the advertising industry in attracting skills and what would you be doing about it? What are the factors that make the UK attractive as an international centre for advertising, and is that threatened in any way? Perhaps you could address those in your opening remarks and then members of the Committee will ask you some questions.

Katharine Newby Grant: Hello. Thank you very much for inviting me here. I am Katharine Newby Grant and I am the associate director for media at Procter & Gamble. I have worked for Procter & Gamble for 17 years, since I came out of university. Procter & Gamble is one of the world's largest consumer goods manufacturers. We have about 4,000 employees in the UK, where I am based, and 95,000 globally. We are responsible for producing many of the well-known household brands that you might be familiar with, such as Oral B, Gillette, Fairy, Pampers and Ariel.

If I think about some of the challenges facing recruiting in the advertising industry, one of them is ensuring that we get the full breadth of diversity into our company and into the advertising industry. We feel diversity is really important. We are building brands for consumers across the nation and we are building advertising of those brands, which is an important and fundamental part of our business model. We want that to be relevant to all the great British public and we need to represent the diversity that exists, and we believe that having the right diversity in our company and in our agencies is most helpful with that. Sometimes getting that diversity can be challenging.

Phil Smith: Good afternoon. My name is Phil Smith. I am the director-general of ISBA, the trade organisation that represents the advertiser. My background is in sales, marketing and general management and consultancy in packaged goods and grocery retail. I was commercial operations director of the lottery operator Camelot, and I have also served in line roles in four digital start-ups and SMEs, one of which was in marketing technology. I have worked in the UK and Europe.

When it comes to the challenges involved in attracting talent into our industry, for me, this comes back to the consumer. We have seen over time a slippage in public favourability towards advertising, and that mirrors, and in some ways goes further than, the decline in trust in other institutions. When you question people about this, as the Advertising Association has done recently, you find people talking about being bombarded by advertising in the current environment and about a lack of balance between the reward they get from advertising, in terms of information or entertainment, and the interference. That balance needs to be brought back into line. When you ask them more deeply about where they see that, most of it comes back to issues within digital. That is why, from an ISBA perspective, two of the challenges we see as high on our list are to help bring about a much more transparent, accountable and responsible media marketplace in digital, and to promote diversity in the quality and choice of media that are available for advertisers.

Q72 **Baroness Kidron:** Good afternoon. In some written evidence, the Government said to us that they hope to seize the opportunity created by our departure from the EU to turn outwards as global Britain and to make UK advertising visible to global markets. I would love you to give us a bit of feedback on that statement, and there are two things I would like you to pick out: first, what you feel about the UK as a centre; and secondly, what the possibilities are for looking outwards both to the EU and beyond.

Phil Smith: On what we feel about the UK as a centre, the UK is a very developed market for advertising services. Historically, it has also been a very well-regulated market, through its statutory regulation that has sat alongside its self-regulation system. There are many strengths within the industry, some of which come from the fact that London is such a strong hub for the creative industries, which, in turn, has helped spawn a very strong advertising industry. Linked to that, London has been a great hub for technology industries as well, and now technology and creative industries are very much twin partners when it comes to advertising. Some of that is mirrored in the way in which we have seen the uptick of digital advertising more strongly in this country than elsewhere.

When it comes to our ability to export, that is being seen through some of our technology businesses as well as through some of our creative businesses. For us, one of the big challenges as we look forward to a world beyond Brexit is to make sure that we have access to the right talent to be able to fuel those industries, in terms of both diversity of culture and the skills shortages that we know are around globally. We need to be able to get the very best tech people into the technology businesses that power the industry.

Katharine Newby Grant: I would absolutely support everything Phil says. At P&G, we really believe in developing great advertising; as I said, it is a key driver of our business model. We see the UK as a centre for creative excellence. It sits alongside New York and has some of the best creative talent in the world and a real diversity of talent. We have created some fantastic advertising campaigns that have not only resonated here locally with UK consumers but have gone on to be well known around the world. For us, it is going to be critical, as we move forward as a country, to maintain access to that diversity of talent at a creative level and at a tech and data level.

Baroness Kidron: Can I press you a little on that? Both of you have talked about keeping access, but neither of you have picked up on the point of making yourself visible. Is that because you feel you are already visible? Are there new markets for you?

Katharine Newby Grant: P&G operates in 180 markets, and we do develop some great advertising across different countries, but the UK continues to remain a real hub for us. We develop some of our global advertising out of the UK creative industry and it is seen, within P&G, as a real centre for excellence. I can talk about within the P&G world, but I wonder if Phil wants to add more perspective on what other advertisers are thinking.

Phil Smith: Yes. We represent a very broad church when it comes to our advertisers. Some of them, by definition of their services, are local, and some are global, across sectors from automotive through retail to financial services. Many of them use UK-based creative talent and technology to help fuel their international campaigns. We certainly support the work that the Advertising Association has been doing to help promote Britain as a global centre for advertising on the back of the Government's own efforts. However, as a trade body with such a broad membership, it is quite hard to be talking too much about our outward effort.

Q73 **Baroness Quin:** I can certainly understand your concerns about wanting to maintain attracting talent. Is there any concern about loss of influence within the EU in terms of helping to formulate policy or being consulted; or, given that, for example, Procter & Gamble is a big company with a presence in lots of different countries, does that not particularly worry you? I would like to get the reaction of both of you to that question.

Katharine Newby Grant: At P&G, everything starts and ends with the consumer. It is most important that we are able to develop brands, products and advertising that are locally relevant to a UK consumer and locally relevant to a US consumer, and we can be flexible in how we do that. We maintain very strong links and are a very closely connected company within P&G, and we would really like to continue to have very strong links across Europe outside of P&G, and that is, indeed, important for us.

Phil Smith: We do have concerns about loss of influence, and one specific relates to data regulation. We know and we can see that the Government take very seriously the need for equivalency of data in the post-Brexit world and the ability to move data from country to country. As techUK has shown, 11.5% of global cross-border data flows are coming from the UK. We welcome also the bringing of the general data protection regulation, GDPR, into a UK context, and we know that our own ICO has been a very strong force in helping formulate that in a balanced way that is good for the consumer, so we welcome that regulation.

We have more concern about future regulation and the direction of travel of EU regulation in data protection relative to that which we might fight for ourselves if we were on the inside. We already see a loss of influence in the steering of the ePrivacy directive, which is being worked on as we speak, even though we chair some parts of that constituency. As we move away from the EU and are no longer able to forge the coalitions and bring to bear the soft as well as the hard influence, it is a concern that we would start to see things going like that. At some point, we might say, "We are not able to take this", but we might feel we need to, to have the ability to continue to move data across. That is one of the reasons we have been urging to ensure that the ICO continues to have a seat on the European Data Protection Board after Brexit.

Q74 **Baroness McIntosh of Hudnall:** Can I take you back to what you said earlier about slippage in public favourability in relation to digital advertising? You have already told us, and we knew, that the UK has been extremely enthusiastic about taking up the opportunities that digital marketing and advertising provide. Beyond what you have already told us, can you expand a little on why you think that has been the case? Particularly in relation to what you said about the public recoiling a bit from being bombarded, how do you envisage managing that? What are the advantages of digital marketing and how strongly are the disadvantages starting to emerge?

Katharine Newby Grant: From an advertiser's point of view and as P&G, we want to reach consumers where and when they are receptive. We want to grow our brands and to let people know about our products and brands, and advertising is a key pillar of that. As consumers have moved to consume more and more digital, there was seen to be an advantage in that we could reach them within digital. At P&G, we always ensure, no matter what platform our advertising is on, that it is lawful, decent and truthful and we hold our standards at the highest level. Any advertising we place anywhere, irrespective of medium, will be of the same standards as if it is going on broadcast. With digital, we saw some advantages: that we can reach consumers when they might be receptive to advertising; that we can reach certain demographics of consumers—the younger demographic; and that maybe we could be more targeted within digital. Also, sometimes digital is close to that moment of purchase—if we think about online shopping.

They were the advantages we saw, but you are right in that there are some disadvantages that quickly became apparent. There are no boundaries in the amount of digital advertising that is allowed on the internet and so, as a consumer, you are bombarded. Also, there are not the same guidelines on the quality of the content that you may find your advertising next to. There is also ad fraud, whereby you think you have bought an ad but it has not reached a human.

We have taken action into our own hands, and our CMO is very vocal, and has been in industry forums, about the issues in the digital advertising industry. For us, it is time to take action, and at P&G we are taking action. I talked about the standards we hold our advertising content to, but we also now hold all our publishers to a high level in terms of brand safety. We only want our advertising to go next to what we would deem appropriate non-inflammatory content. We have put in third-party verification, so we tag and track our digital advertising so that we know where it was placed and that it was viewed by a consumer. We are also insisting on eliminating ad fraud. We are taking action and we have put in place procurement contracts so that we can do that and third-party verification.

Baroness McIntosh of Hudnall: You have obviously set yourselves certain very high standards, but I have two questions. Can you maintain those standards in an environment that is not otherwise regulated? How difficult is it for you to do that? Secondly, we will come later on to the question of regulation, I suspect, but do you have views about wider regulation that is not only about what you do?

Katharine Newby Grant: At P&G, we did see the issues and we are taking action, but action takes time and there are challenges. We are being very public about the action we are taking, because we do believe that, with all advertising, the content of the advertising and the advertising platforms need to hold themselves accountable; otherwise consumers will lose trust in the brands, in the advertising and in the platforms. We want advertising to be a force for good for society and a force for growth, so we think that the industry needs to take more action. What action that is can be a cause for discussion, and I wonder if Phil may want to talk more broadly for all advertisers and perhaps the industry.

Phil Smith: Yes. I am going to backtrack and say most of what I am about to say probably echoes what you have just said. When you talk about the factors that have driven the process of online advertising, the first thing is the consumer. The consumer has been consuming a lot of online and, more recently, mobile content. For those advertisers who are selling directly from the web or from mobile and who are response-driven, these channels provide an incredibly efficient, scalable, easy-to-use way to reach audiences and to be able to track very simply between the activity and the sale. For instance, if you are just looking at what came from that last click, you can make a very strong economic case for digital advertising. That has been where some of the strongest growth has come from, because obviously it is the basis of the search-advertising model and you can pay for advertising on a cost-per-acquisition basis.

For those who are using their advertising to create demand, to build long-term brands and reputation, it is a more difficult set of questions, but some of the challenges have been the same. As consumers have been going online, there has been a real fragmentation of the audience when it comes to traditional media, so the TV audience has fragmented. You have seen a lot of time-shifting in terms of viewership, and people have been skipping TV ads as well. Reaching broad audiences quickly and efficiently, which used to be TV’s big strong point, has become more elusive. The promise, if you like, of digital, particularly video-based programmatic advertising, was that it could allow you to build very big audiences and reach targeted audiences quickly and cost-efficiently. The World Federation of Advertisers has just done some research on this, and when you ask people why they are going to continue to spend in digital—and most of their advertisers say they are going to continue to spend more in digital—they say it is because of reach. Reach is the primary reason why brand-based advertisers are using digital today.

It would also be fair to say it is being sold very hard as well by the platforms themselves at a global and local level. I should also probably add that the agencies have sold digital advertising hard as well, and some of that is because there have been strong financial incentives to do so. That is one of the things we are seeking to rebalance. We are looking for much better alignment of agency and client interests in the commercial agreements that they strike, and for clients to properly remunerate and incentivise their agencies to help them grow their businesses.

Q75 **Baroness Kidron:** I do not want to misquote you, but you said something quite interesting about your own standards and then expecting the same standards from publishers. Did you mean publishers—or who do you mean by "publishers"?

Katharine Newby Grant: I will clarify that there are two elements to it. One is the standard of advertising—the advertising content—which must always be lawful, truthful and decent. The ASA self-regulate and we fully support them in that regulation. At P&G, no matter what platform we are putting our advertising content on, we hold ourselves to the highest standard: that the advertising itself must be lawful, truthful and decent and it would get through Clearcast approvals, for example, to go on a TV broadcast. We would hold all our advertising to that same standard. That is really important for us, because products need to hold up to their promises; otherwise you start to erode trust.

The other angle is appropriate content on platforms and by publishers, whether that be television, print or online. We absolutely want to put our advertising next to content that is appropriate, because we are very aware of the value equation that advertising can fund excellent content and that can improve the lives of consumers. Therefore, we will only want to put our advertising next to great content. We believe if advertising is to be a force for growth and a force for good in society, that is the model we should hold everyone to account by.

Baroness Kidron: Do you mean everyone around you as well as yourselves?

Katharine Newby Grant: Yes.

Q76 **Lord Allen of Kensington:** I would like to stick with the same theme and really understand ad fraud. "Fraud" is a very serious word. Can you articulate exactly who is committing fraud and who is disbenefiting? Can you just talk us through and give us examples of that? Katharine, has your company been defrauded in any way?

Phil Smith: We see ad fraud as a significant problem that is not sufficiently well understood by the industry. It is one that advertisers are having to lead the way in understanding. The biggest single issue is that estimates vary so much depending on the vested interests you ask. Some people will tell you 2% and some will tell you way more than 50%, and that is a very big range. The World Federation of Advertisers put an estimate at 30%, but that is rather a wet finger in the air. The ISBA equivalent in the US, the ANA, did a study of 49 more sophisticated advertisers and came up with a global estimate of something like $6.5 billion worth of fraud, 9% in display advertising and 22% in video advertising. With PwC and other industry bodies, we will commit to producing an estimate for the UK in 2018.

In terms of who commits the fraud, it is very complicated and there are many bad actors in the system. Some of them are operating on quite a local basis simply by clicking on ads in order to be able to earn revenue. Some are much more sophisticated actors, who are, potentially with organised crime backing, creating software that, in itself, is going to be driving very large numbers of false impressions.

Lord Allen of Kensington: They are overestimating the impressions there. They have mechanisms in place to overestimate it.

Phil Smith: Correct. They are automating impressions. In some cases, they are making it appear as though an ad has been served to a computer when, in fact, it is a hidden browser window so no consumer sees it. Once computers get infected with the software, they will carry on acting as part of a bot farm, which is the term, which allows it to serve many impressions to that computer, which can then be monetised. Some of it is very systematic and systems-driven; some of it is pretty basic and human.

Baroness Stowell of Beeston: As a quick point of clarification, how do they get the money in this process? The bit that I cannot quite put my finger on is, if they have created this scheme where they have bots happening and this, that and the other, where does the money come from?

Phil Smith: If you have a website and you are allowing it to serve ads, you will get a share of the advertising revenue associated with those ads being seen by humans.

Baroness Stowell of Beeston: I see—so they have created the website.

Phil Smith: Correct. If you are able to attract an audience that can then take money from advertisers, it will then collect that from a platform or the intermediary.

Lord Allen of Kensington: Is there any role for platforms in addressing this issue as well? That seems an obvious route to be going down.

Phil Smith: Yes, there is a big role for the platforms to address this, and they are. Google will call this non-human traffic, and they have resources dedicated to that. We have had two presentations from their Zurich-based international team on the subject, and I do think that they see it as in their interest to clean this up over time. However, they would be the first ones to say that they are chasing a lot of bad actors.

Q77 **Lord Allen of Kensington:** The second thing I would like to pick up on is your point on transparency and brand security. Clearly, you have taken that very seriously, but we are still seeing examples, as in the press this week, of major brands taking ads down because they were next to inappropriate—however inappropriate—content. Maybe both of you would like to comment on whether there is more to be done. I am sure these brands had adequate systems in place, but we still find that that is happening. Help us with what the industry should be doing to address that.

Phil Smith: Different brands are taking measures currently, and P&G would be a very good example of a brand that is taking proactive measures. It is possible to be more specific about where your advertising is going to be placed. You can do that by direct dealing with publishers, by using only private exchanges and by the more or less extensive use of whitelists and blacklists, and we see a growing number of advertisers doing that anyway. However, that tends to come at a cost, such as additional technology costs to be able to monitor that and, more importantly, in terms of your ability to reach audiences cost-effectively, because you tend to constrain the amount of inventory that you can access.

We have seen a number of issues through the course of the year with the major platforms and specifically with YouTube. In March, we were heavily involved with the work that it committed to do around extremist content. We know that a lot of measures were taken there — the policies and the controls it made available for advertisers and for its own enforcement. The most recent bad content has been around either content that is purportedly child-friendly but has a strange adult twist, or unacceptable comments being put against children’s videos that might well have been placed with innocent intent but are attracting unwholesome attention from people with paedophiliac intentions.

We take a very strong line on this. We think that, not just for advertisers but for the platforms themselves, urgent action needs to be taken to ensure that content is fit for consumption. We do recognise that much has been done and we have had repeated meetings with the platforms through the course of the year. We are aware of some of the things that are going on behind the scenes and some of the measures they have proactively introduced, but we are pushing for a much stronger line. Particularly for advertisers, we think that content should only be made available that has been positively vetted, and that is not the case currently. We will continue to drive them to do that.

We do not have a policy when it comes to the potential regulation of content. We have taken the view that, as with the press and other forms of media, it is not right for advertisers to try to intervene in content policy. That is a matter for the brands and for government. You would not want us trying to tell the *Daily Mail* what to write for their headline—or perhaps you might. Some members are seeing the need for statutory regulation in this area, and we recognise that, if it is necessary, it would not be an easy thing to do and we recognise that it is being looked at in other areas. However, we would see nothing inconsistent between a system of statutory regulation and self-regulation sitting side by side, one for content and one for advertising.

Baroness Kidron: The YouTube thing revealed that they have voluntary people flagging content, and its initial response was that it could be pointed out by the children using the platform—i.e. pre-schoolers being the people who judge the content. You have immense power in this area as advertisers. Is that adequate?

Phil Smith: We do not think it is adequate. On extremist content, we have seen that they have used a lot more AI tools. They claim more than 80% of the detection of extremist content now is coming through AI before it is being referred to their teams. We think that having to use flaggers is not an adequate system in this area.

Katharine Newby Grant: At P&G, we have been building brands for 180 years and we have zero tolerance. We want 100% brand safety and we want to be assured of that. We have found that that requires selecting the channels that we have seen appropriate content on. We call that a whitelist: you select the channels you want to be on. An industry has been built on the concept of blacklists—sites you do not want to be on—but we know that new ones can always be built and technology may not hold the infinite amount, so that is a fundamental industry issue that needs to be tackled. As I said, at P&G we are very clear on our standards and we are able to work directly with advertising platforms to ensure we can uphold those and, wherever we cannot, we will not advertise.

The Chairman: We might like to hear a bit more about your whitelisting process and perhaps we might write to you about that.

Q78 **Lord Gordon of Strathblane:** I do believe in the concept of enlightened self-interest, but I can fully understand that it is in your interest, as an advertiser, that your advertising is seen to be reliable, truthful, et cetera. Surely it is also in the interest of the platforms looking for your advertising that they are providing a safe environment for it, or do you think they somehow are oblivious to that fact?

Katharine Newby Grant: That is a very good question.

Phil Smith: We certainly have a lot of dealings with the UK management and we have some dealings with YouTube global management. When they talk about their intent to clear these things up, they are sincere and we have seen action that has been taken. However, they are behind the issue rather than ahead of it, and we are pressing for much more clarity about the size of the problem they are dealing with here and the effectiveness of the measures they have put in place to deal with it. I would agree that they do see it as enlightened self-interest to sort it out.

Lord Gordon of Strathblane: Arguably the withdrawal of advertising funding will speed up the process of examining exactly where the self-interest lies.

Phil Smith: That is certainly the case. With Google, when the story broke in March around extremist content and advertisers started pulling money away, we saw action with alacrity. We have yet to see action elsewhere, because in many cases advertising money is continuing to flow in and grow. The commercial self-interest needs to come to the fore, and advertisers will need to make their own decisions but will need to work out what is an acceptable context in which to advertise.

Katharine Newby Grant: This area is complex and everyone is at different levels of enlightenment. That is why we are being very public about the issues that we see and the action we are taking, so we can help enlighten others.

Lord Gordon of Strathblane: Both of you have alluded to the fact that the advertising industry, as a whole, has achieved great recognition of its self-regulation through the Advertising Standards Authority, and print and television are regulated on that basis, and the power of advertising has thereby increased. Surely it is in the interests of the platform owners to make what I understand is called JICWEBS, which is the attempt at online regulation, equally respected.

Katharine Newby Grant: It is, and we see movement and people are working towards getting to an industry standard. At P&G, we want to be very supportive of getting to higher standards and getting to third-party verification. There is third-party verification as industry standard in television and print. There is currently no industry-wide third-party verification in digital. It is now 21 years old. For a while it was because it was new, but it has matured, and that is why Marc Pritchard, our CMO, is being very vocal and at P&G we are vocal and are partnering with ISBA: because we want to drive this change—and change is needed.

Phil Smith: We are founder members of JICWEBS and have been encouraging the major platforms to join, along with all the other online publishers, and we are seeing movement in that area. One of the issues that is raised frequently, though, is a local standard versus a global standard. These are big global companies that we are dealing with and, in many cases, the objection is: "We do not want to adopt something in one market that we will have to replicate in 100 different ways in other markets".

Lord Gordon of Strathblane: It depends whether you end up with the lowest common denominator or the highest common factor.

Phil Smith: I am relaying the objection rather than arguing the case.

Lord Gordon of Strathblane: I understand. They have not all signed up to JICWEBS yet, have they? I understand that Google is only partly subscribed and Facebook has yet to fully subscribe.

Phil Smith: Correct. There is more work to be done.

Lord Gordon of Strathblane: Why are they dragging their feet?

Phil Smith: Those are questions you would have to ask Google and Facebook.

Q79 **Baroness Quin:** You did touch on my question in your earlier answer, but perhaps it would be good to give an opportunity to fully deal with the issue, which is about the transfer of personal data from the EU to the UK after Brexit. What impact do you think a failure to agree any legal mechanism for transferring data would have on UK advertisers and the advertising industry? When you answer, can you say if you feel that you have the ear of Government in terms of your concerns over these issues?

Katharine Newby Grant: For P&G, maintaining alignment with such key directives with regard to transfer of data is essential.

Phil Smith: We would say it is absolutely critical. Over half of UK trade internationally is deemed to be digitally enabled, and we think the impact would be catastrophic if there was not equivalency from day one. We do feel we have the ear of Government, and it is clear that that has been heard in the way in which the Data Protection Bill has come forward.

Q80 **Baroness Bonham-Carter of Yarnbury:** I am going to ask you a rather large question, which is about your future. How competitive is the digital advertising market, or is it a monopoly? That is the first part of my question. What is the future for your kind of advertising against the background of what I suspect you will say is a monopoly? Maybe you will not say that.

Phil Smith: More than half the market now is being traded digitally and we are heading for 60% in the not too distant future. Google and Facebook are taking the lion's share of any growth in the marketplace. When you look at what that means for the consumer experience, there are questions to be answered. We have talked a little about volume of advertising relative to content, and those goalposts have moved. They have moved in search, for example, and there is something around the way in which the platforms have struck their relationship with consumers when they go advertising-free first and then introduce advertising over time, where the contract is not quite as transparent as it has been in other media.

The impact, in digital, of their strength is that advertisers do feel they lack choice when they are looking simply within digital media. In addition, the mechanisms for the sharing of revenues between content provider and platform, and the need to be on those platforms if you wish to be represented digitally, which drives you into those terms, are tilted in the wrong direction. We have talked a bit about consumer perceptions around volume, and volume is a very real concern that we need to be prepared to throttle back on. At ISBA, we make a point of saying we stand for quality and diversity in media choice, so we note very much the NMA's submission that regulators will need to remain vigilant as we leave the EU, but there are some very real concerns here.

Katharine Newby Grant: I would say that it is important for us to look at all media—media as a whole. We want to be where the consumer is, and we try to look across media and be very medium-agnostic but reach the consumer where and when. We are supportive and we encourage a competitive and fair marketplace for any medium, and the areas of concern that Phil called out are valid.

Baroness Bonham-Carter of Yarnbury: What do you think is the future for television, radio and print? Is our advertising industry ready for the future?

Katharine Newby Grant: I wish I had a glass ball and could know exactly. What I do know is that it will continue to evolve and it will continue to disrupt. At its heart, it will be about engaging with consumers and providing them with great content, but the way they experience that content will change. It will become much more about the consumer being able to get brilliant content wherever they want. Therefore, it is important for the television and print industry to always be thinking about how to innovate to improve the lives of consumers and bring relevance to consumers. At P&G, that is what we have always done. We have always put the consumer first.

Baroness Bonham-Carter of Yarnbury: It is about the attracting the consumer, is it not?

Katharine Newby Grant: Exactly.

Baroness Bonham-Carter of Yarnbury: I remember the doom and gloom about fast forward, but we seem to have—

Katharine Newby Grant: We have, and sometimes there have been comments such as, "Television is dead", or, when television came, "Radio is dead", but they are vibrant and it is because inspirational people have put the consumer first and thought about, "How can I provide an experience that the consumer loves? I may need to disrupt myself: I may need to offer it in a different way from before". That is what we have been doing with our brands and products, which has served us well, and I encourage the advertising industry and the platforms to be doing that, whether you are an outdoor, a print or a TV platform.

Phil Smith: We would very much like to see the industry evolve along those lines. As Kath said, the consumer will choose where to consume great content, and I do not know what will happen. We would very much like to see a vibrant TV in the future. We know from recent BARB research that in the house the TV set is still king; it is still the way people like to consume long-form content. We are delighted by some of the innovation we see through things like addressable TV, which allows you to get to a targeted TV audience at home. All the evidence that we see from the economic case for TV advertising in the short and the long term is very strong indeed. Different business models need TV advertising in different measures and in different ways, but again when you look across the different sectors that use TV, the economic case is very strong. When we do some of the things we do to help get digital right and rebalanced, I do think that TV and the content within TV will have a healthy future.

It would appear that, at least in the short term, radio and out of home are finding a real place for themselves. The one sector that has had the most challenges over time has been the print sector, which has seen search advertising take a very large chunk of its advertising revenues; we have seen the consumption of content move strongly online, and it has not been able to find viable economic models to date.

Q81 **Baroness Quin:** I am wondering if there is a quantity/quality division here though. I may not be at all a typical consumer, but I seem to spend a lot of time trying to avoid adverts when I go online for information. Also, with television, especially if you record programmes, very often you record them and rush through the adverts. The adverts that I tend to focus on more are probably in print, particularly in things like local newspapers, where you are looking at it in a more leisurely way and, very often, looking at these things more closely. I wonder if in all the talk about digital and online there is none the less a quality issue related to print that is being overlooked in this somehow. I may be talking complete nonsense.

Katharine Newby Grant: Not at all. At P&G, we do look at when and where people are receptive, which is how we describe it. The quality of the environment advertising is placed in can play a role; the mindset that the consumer is in when they are looking at that content plays a role; and how that advertising appears within the content plays a role, and that varies through television, print and other mediums. We invest across all mediums and we do see a real value in print advertising. Indeed, we have been one of the advertisers that has really supported that industry.

Q82 **Baroness Benjamin:** It was very interesting to hear your passion about diversity, integrity and ethical responsibility and the part they play in advertising, because we all know the whole idea behind advertising is to get people to buy products and to be influenced to spend their money. Advertising has changed, as you said, dramatically over the last 10 years or so, so what are the risks and benefits to advertisers of native and influencer advertising? Perhaps you can explain what native advertising is.

Katharine Newby Grant: At P&G, we classify native advertising as a story of a brand told through a more editorial lens versus a pure brand advertising. We see that native advertising and influencer advertising, where you have a spokesperson who is often known to the consumer, can inspire and engage consumers, and that can be a good thing. However, it is really important that the consumer is aware that this is advertising and that, even if it is native or influencer advertising, what is being said is decent, lawful and truthful. We hold our native and influencer advertising to the same high standards as would go through on broadcast brand advertising. We do think that is important and we think it is very important that it is transparent and clear to the consumer.

Baroness Benjamin: What are the risks?

Katharine Newby Grant: That it is not, always.

Phil Smith: There are reputational risks, but there are regulation risks as well, in that there are clear codes in this area that can be breached if there is not clarity about the nature of the sponsorship and the advertiser. If done well, we would agree it can provide relevant, engaging content, and at ISBA we provide advice, best practice and help with contracts when you are talking to bloggers and vloggers. We think it definitely has a place, in much the same way that advertorials have a place in other media.

Baroness Benjamin: With digital advertising you can influence behaviour, especially children's behaviour, because they spend so much time online and are subconsciously absorbing the advertising they are seeing. What role do advertisers have in ensuring that advertising is responsible and fair to the consumer, especially when it comes to children? You mentioned children earlier; what is the role you can play?

Katharine Newby Grant: As an advertiser, at P&G, we have a very strong role to play. We have a strong role to play in the content and placement of our advertising. Where we choose to place it, it should be in appropriate channels. There are standards and regulations about children's advertising in broadcast media, for example, and we hold ourselves to those same high standards irrespective of the medium.

Phil Smith: Our members are in business for the long term. They are building brands and have reputations to manage. Public trust and confidence is absolutely key to them. With them, we participate in the Committee of Advertising Practice and help to make sure that the codes that are written and enforced are appropriate to protect all kinds of vulnerable people, but especially children.

Baroness Benjamin: Is there any type of advertising that you would turn down and say, "We are not touching that"?

Phil Smith: As an advertiser trade body, yes, there have been advertising sectors, like payday loans, where we no longer participate[1].

Q83 **Baroness Stowell of Beeston:** Can we move now to the agencies that you work with? Could you tell us where you see benefit, if you do, to working with start-ups and entrepreneur advertisers—agencies that are outside the big London agencies? Do you get to do that often and do you see any benefit in using those kinds of people?

Katharine Newby Grant: At P&G, we are advocates of innovation and we see partnering with start-ups as a great way to disrupt our thinking and bring disruptive insight. There is a big innovation fair that happens in Germany called dmexco. It happened in September and our Vice-President of Marketing for Europe, Sophie Blum, attended dmexco with a delegation of people from P&G. We sponsored a start-up innovation area where we had start-ups coming and responding to briefs, and we have partnered with one of those start-ups ongoing. We have innovation hubs around the world in different outposts. We have digital accelerator innovation outposts in London and in other parts of the world, where we put briefs out and we offer start-ups to come in. If they can answer the brief, which is always consumer-led, we will partner with them.

---

[1] The witness clarified that, although he believed this statement to be true at the time of speaking, one of ISBA's members carries out activities that could be classed as payday loans.

Baroness Stowell of Beeston: Presumably, it helps to serve your need for greater diversity.

Katharine Newby Grant: Absolutely.

Baroness Stowell of Beeston: Whether it is with the agencies employing more and more freelancers and that sort of thing, what interest do you have in the employment practices and policies that some of the agencies have with the different kinds of freelancers they might use now? As we are in this much more fluid employment-type practice, is that something that touches you in terms of the contracts you take out with them?

Katharine Newby Grant: Within P&G, we are very clear on our employment contracts and will always do the right thing. We are very clear with our agencies to absolutely ensure that they hold themselves to the same standards to protect the employees and their diversity.

Phil Smith: We represent such a broad spectrum of advertisers, we are able to provide best practice advice and model contracts and frameworks for the procurement of services, but it would not be possible for me to give you a categorical answer about how broadly they are adopted. Clearly, the principles you say we would advocate—

Baroness Stowell of Beeston: There is a conscious awareness of it.

Phil Smith: Yes.

Q84 **Lord Goodlad:** I declare an interest as a member of the advisory board of GovNet Communications Ltd. I have two questions, please. First, what benefits do regionally based media agencies have for local advertisers? Secondly, what more could the Government do to promote the demand for advertising services in the nations of the United Kingdom and in the regions? Do you think that will be desirable and, if so, why?

Phil Smith: Our membership base is very broad in terms of its geographical spread, so we are not nearly as London-centric as the advertising industry. Some of our members will be using out-of-London agencies already, but the real benefit of regional agencies tends to be slightly outside our core group, in the sense that where they work really well is where they can operate at a similar size and scale to the businesses with which they operate. One of the dangers for regionally based small businesses operating with big London agencies is they do not get enough of their attention. They can be very good stepping-stones for companies that are building their business to greater things, and they can be a great source of talent for the industry at large.

The other thing they can do is to educate companies about the benefits of advertising, although I would be the first to say that when it comes to small businesses or SMEs that are starting on the trail to being able to promote their businesses and advertise that, digital has been a real boon. It is very easy to access, very easy to scale and does quite a good job of educating its audience. Where there is a gap is in the need for more impartial advertiser-centred advice for would-be and new advertisers, and at ISBA we are working to provide that in the future.

Katharine Newby Grant: I would agree with everything Phil said, so I do not have anything additional to add.

The Chairman: Ms Newby Grant, Mr Smith, thank you very much indeed for your evidence; it has been very useful. You have been very open with the Committee. It may well be that we will want to write to you to pick up on a few of the issues that you have raised. You had a stab at the start of the meeting at answering our question about skills and the requirements of the industry. Is there anything, in conclusion, you would like to add or anything you think we could have asked you that we did not?

Katharine Newby Grant: I think you covered everything very well, and I offer my time for further questions or comments. I would be pleased to help.

The Chairman: We appreciate that.

Phil Smith: I concur. Thank you very much indeed.

The Chairman: Thank you both very much for your time.