



Communications Committee

Corrected oral evidence: The Advertising Industry

Tuesday 12 December 2017

4.45 pm

[Watch the meeting](#)

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

Evidence Session No. 13

Heard in Public

Questions 123 – 133

Witnesses

I: Professor Patrick Barwise, Emeritus Professor of Management and Marketing, London Business School; James Collier, Co-Founder, Prism.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Professor Patrick Barwise and James Collier.

Q123 The Chairman: I welcome our two witnesses to our second session today in our inquiry into the future of the advertising industry. We are looking in particular at the area of skills and what we need to do in terms of public policy to ensure the industry flourishes in the future. Can I ask our two witnesses if they would very briefly introduce themselves? Tell us a little bit about yourselves and give us your headline or top-line thoughts on the future on the industry and the question of what we need to do to ensure it thrives and contributes to the economy going forward? Mr Collier, do you want to start?

James Collier: Thank you for having me today. My name is James Collier. I am chief revenue officer and co-founder of Prism. We work with telcos, to help with things such as consent and enforcement, as well as ad experience. Some of the questions that were being asked today were particularly relevant to our service. We also help them with the subject of data monetisation. I have previously worked in various areas of media and technology—at Google, YouTube and News Corp—over the past 18 years.

Professor Barwise: I am Patrick Barwise. I am Emeritus Professor of Management and Marketing at London Business School. We are a graduate business school ranked number one in Europe by the *FT*. We do three things: postgraduate education, executive development and research. We compete in international markets for students, faculty and support staff. London is probably the most cosmopolitan city in the world and has more top-100 institutes of higher education than any other. Being based here is one of our big competitive advantages, which we actively exploit. Our website is london.edu, and our logo is London Business School with “London” in bold.

I joined the faculty in 1976 with a first degree in engineering science with economics, an MBA from London Business School and an early career at IBM. I work on a wide range of management, marketing and media issues. I am also former chairman of Which?. I mention that for two reasons. First, Which? is quite a significant media business. Interestingly, it is a pretty successful magazine business, and perhaps one reason for that is that we never took advertising. We were able to focus pretty single-mindedly on our subscribers. That also meant we did not have someone called Head of Advertising Sales, which in my experience can be quite disruptive to focusing on readers.

Secondly, Which? makes a very clear distinction between consumer issues and citizenship issues. I was struck by some of Lady Stowell’s questioning about this. It is a very important distinction. Which?’s focus is obviously on consumer issues, and we were very clear about that. When I look at the impact of the big US tech companies, it has been overwhelmingly positive for most UK consumers, although we still have at least 8 million adult fellow citizens who for practical purposes are not

online and are not benefiting at all, and therefore are disbenefiting from the internet, because everyone else is benefiting and they are left out. Overall, the internet has been very good for UK consumers. For UK citizens, the impact is much more mixed for reasons you will have discovered. We have a problem and it cannot be easily tackled by traditional competition regulation designed to stop the Rockefellers from screwing consumers because they have bought all the gas stations. We need it to be adapted for a world of big data and all those other things. That is my opening position.

The Chairman: Thank you for your pitches.

Q124 **Baroness Bonham-Carter of Yarnbury:** My question really picks up on the Rockefellers. James, I know you talked at the Westminster Media Forum recently about what I am about to ask you about. What are the implications of a small number of large digital platforms? Martin Sorrell referred to them as the “seven sisters”—I am not quite sure why, but that is what he referred to them as—dominating digital advertising. Can the market be competitive in the face of this reality?

James Collier: There are distinctions when we talk about what processes each of these businesses perform in the function of advertising. You can differentiate these businesses. An organisation such as Google is very much a cluster—I know you use this term in another way—of businesses that have a large number of processes that relate to digital advertising. They own the device and they own the browser. They own the ad server; they own the ad network that monetises it. They are also a brand, et cetera. Throughout the value chain, they have a large and quite—I use this word with some preface—dominant position in some of those areas.

A business such as Facebook is an open platform but is obviously highly controlled. That means they control the message that comes through and the types of advertisers that are used. As an advertiser, how you use those can be very different. What they mean to the individual in terms of consumer experience can also be very different. However, ultimately, the primary issue we face is the value chain that you guys have already discussed: what level of ownership does a publisher and owner of content have over their own environment when they have to engage these large-scale businesses in order to effectively monetise, when the market is smaller? I was speaking to someone who obviously has a strong position on this, the COO of the *New York Times*, a couple of months ago. They are a fantastic example of a very strong voice in media who have very successfully started to mediate their business away from advertising and drive more of a consumer-direct and subscription-style service.

The challenge of that—I would also say this applies to Which?—is the value and depth of their content. The value and depth of their content is so deep and rich that obviously they have an open source or a well of very credible media that people want to consume. If you are a local press service, where your business is talking about whether a pothole has been fixed or other local issues—it can be anything from mediocre issues like that to issues like local funding—it is very difficult to be competitive in the

same way. When we talk about the shining lights or voices of democracy that we require, having these pinnacles like the *New York Times* is great, but society as a whole starts to suffer if you do not have that representation at the lower end. Those people have lost out, because classified advertising has gone away. Local advertising has shifted towards Facebook, because it is really easy to build a brand. That is one of the benefits of the digital economy. We have these very narrow brands such as Spoke, that only does chinos, but they can build a brand on Facebook that has become a very credible business. Previously, that would have been very difficult. There would have been a shop that advertised in the local community press. It has fundamentally changed how we consume media. As a function of these large-scale enterprises, 45% of all of the content that we look at, in terms of news, is looked at through Facebook. They are now the distributor. We are no longer sending trucks out. You are no longer looking for your press in the local shop; you are now looking at it through your friends' filters. The overall impact is very large, and their impact on our society as well as the economy is incredibly large.

Baroness Bonham-Carter of Yarnbury: How do we develop a feasible negotiation with these big companies in order for the market to be fair for content-makers?

James Collier: There is the thorny issue of enforcement, which you guys have already talked about today. In other parts of the media industry, you have clearing houses. There are other ways of dealing with things, such as ad experience all the way through to the type of content that is seen and, obviously, trade commissions that deal with the issues of monopolies. Some level of enforcement is required, but, as Professor Patrick has already identified, it is important that we have a level of flexibility and adaptiveness. We are not quite ready for it. A more comprehensive digital expertise is needed to come in and help to try to define that.

The Chairman: Professor, do you have anything to add?

Professor Barwise: Chairman, I know you are very conscious of the clock. I have recently sent to the publisher a chapter on how and why we got to GAFA—Google, Apple, Facebook, Amazon—that is being published in March in an OUP book. There are quite a lot of reasons why these markets are so concentrated. The most distinctive reasons are so-called platform economics and big data. Not just the CMA but competition authorities around the world are really grappling to get on top of that. Because there are quite a lot of issues here, my preference would be to send you the chapter but also for you to write, and I will try to give you answers to your specific questions.

I would like to pick up one very important thing that James said about advertisers using these different media for different purposes. If you boil it down, there are only two generic types of marketing communication: there are communications initiated by the advertiser and there are communications initiated by the user or the consumer. The internet is

very good at the second type. Search is at the heart of that. If you look at the early growth of so-called internet advertising, it was driven primarily by search and online classified advertising. When I ran the future media research programme at LBS in the late 1990s, I thought that print classified advertising would get killed in five to 10 years; in fact it has taken much longer than I expected. There is more inertia in this market. If you think about a consumer who is at what we call in marketing the bottom of the funnel: they want to make a purchase; they want information about which brand to choose. Search is a very flexible and powerful way of doing that.

Traditionally, we used classified advertising for that as well. As James said, for the magazine business and local newspapers, classified advertising was hugely important. It has taken longer than some of us expected, but there are deep, deep reasons why the internet is going to dominate that. Google is a monopolist by any normal standards. It is starting to get some interesting competition from Amazon, because although Amazon does not have a very high volume of search, when someone searches on Amazon they are interested in buying something, so the cost per thousand is relatively high.

On the other side, the internet struggles much more with display advertising—i.e. when I, the marketer, am interrupting your life to try to sell you something. Of course, it is becoming very important. That is why TV advertising is still so robust. If you are looking for high-reach and high-engagement communication, you choose TV. Increasingly, we are just beginning to be able to use addressable TV as well as online video to supplement and sustain the search among younger and upscale viewers. However, TV is in good nick. Local newspapers are getting killed and other print media are close to that. You have to distinguish between these different media. The needs they are meeting for marketers and the needs they are meeting for consumers are very different.

The Chairman: Thank you for offering to send us the chapter, which we look forward to.

Q125 **Lord Gordon of Strathblane:** I have a double question, but it is on the same subject, to Professor Barwise. Why is Google's dominance so great in this country compared with other countries, including America? It has a much bigger share of the market here.

Professor Barwise: It has an even bigger share of the market here. I do not know the answer to that. Nobody knows the answer to why the UK is the leading major economy in terms of marketers and consumers using the internet.

Lord Gordon of Strathblane: My other point is this. Granted the point you made about how we have to recognise that market dominance is a feature of the internet world, we are therefore going to be relying not on the competition authority doing something that, frankly, it cannot do but rather on regulation, are we not?

Professor Barwise: Or even legislation, you mean.

Lord Gordon of Strathblane: Yes.

Professor Barwise: We are dealing with multiple issues here. Some of them the market will sort out, and 2017 is the year of the beginning of the pushback by advertisers against the murky value chain you have been talking about. Some of this the market will sort out. What the market will not change is the dominance of the big tech players. Martin's "seven", by the way, is the big five American tech companies—Apple, Google/Alphabet, Microsoft, Amazon and Facebook—and the top two Chinese ones, which are the only serious competitors to them. There is a pattern in these markets. Google was not the first mover: someone called AltaVista was number one, and then there were others. However, once you achieve a dominant market share in this kind of market, it is almost impossible to be displaced.

My erstwhile employer, IBM, still dominates mainframe computers, but then they were superseded by PCs. PCs were and still are dominated by Microsoft and Intel. Now we have the cloud, mobile and social and so on. Relying on market forces to displace a market leader in these markets is not going to happen. The most you can hope for is that they get eclipsed by someone dominating a new market that becomes bigger. That player is almost certainly going to be someone very similar.

By the way, all these five companies are located in a very small geographical area. You have touched on clusters. Clusters are far more important than most people have realised. They are all in Silicon Valley or Seattle.

Baroness Bonham-Carter of Yarnbury: Or they are in China.

Baroness McIntosh of Hudnall: I really do not want to let this issue about the evolution of the technology go by, particularly as you have the kind of background you do. I have no expertise in this matter. What I do know is that the next generation of computing power is coming along a lot faster than anybody imagined it would—or some people say that it is.

Professor Barwise: They always say that.

Q126 **Baroness McIntosh of Hudnall:** Yes, but what I want to ask you is not what your opinion is about that, because I sense it is a bit sceptical, but about who is in control of the research that is leading to the innovation in the technology. That seems to be where we are most at risk as we go forward: the technology itself will drive the kind of changes in the markets that will be very difficult for regulators or legislators to stay abreast of. How serious an issue is that?

Professor Barwise: Most of the new technology is being developed by start-ups and the big tech players. When a start-up is looking successful, it tends to get bought by one of the big tech players. By the way, most of the start-ups get their computing from one of the big tech players. Amazon Web Services is supplying cloud-based computing for most of the

successful start-ups. Allegedly, it therefore has a bit of an inside view of which are the successful ones and so on.

Baroness McIntosh of Hudnall: Is it funding the research that will eventually lead to quantum computing?

Professor Barwise: It spends very heavily on research. There are a dozen hot areas around artificial intelligence and so on. It has been mentioned that Alphabet is not just Google; Alphabet is now a cluster. That includes people like DeepMind, which was originally based in Cambridge. That is then being exploited across the rest of the Alphabet system. Outside the US, nice Mr Putin says that whoever controls AI will control the world. Clearly, there is government-driven investment there. The big Chinese tech players are very big, and they are much closer to their Government than the equivalent would be over here. There are several places where this is happening. James, do you want to amplify or disagree?

James Collier: Very quickly, as it relates to advertising, we do not really consider Apple a player in advertising, but it is a player in the consumer section. We talk about FATBAG, which is Facebook, Amazon, Tencent, Baidu, Ant—which is Alipay, AliExpress and so on—and Google.

In terms of investment, obviously the venture funding world is obviously largely backing those start-ups. They represent a huge margin of the investment they get. Obviously, Google and those other businesses also have their own venture funds, as do other very large conglomerates. Where that funding comes from is very diverse. Ultimately, as you have identified, there are these clusters. The problem is that they are kind of like a bowling ball on a rubber sheet: they condense everything towards it, so even when we develop expertise in the UK in specific areas, we do not necessarily have the funding to support scaling those businesses. That scale-up is a major issue for UK technology and advertising, because we are in an industry with the second largest spend per capita in the world on digital advertising; it is the third largest for media overall. Our ability or power to spend money on advertising is very large, but those US businesses are really the ones that are capitalising on it. What we get in terms of expertise is lots of salespeople; we do not get that deep understanding of AI and research that happens as a result of having a large-scale investment in advertising technology or even the circumference AI or whatever other applications you can have.

The level of funding is diverse, but it is typically pocketed to specific environments: Silicon Valley, Japan and China all have major interests.

Baroness McIntosh of Hudnall: So it starts wider and it comes into a small base.

The Chairman: I am afraid we need to move on.

Q127 **Viscount Colville of Culross:** Professor Barwise, you just talked about the murky business of the supply chain in advertising and how you

thought that the market was going to sort out quite a lot of that.

Professor Barwise: Maybe. Yes.

Viscount Colville of Culross: It will sort some of it out, you hope. We have heard a lot about how advertisers are not getting value for money, how the publishers are not getting paid properly and that there is a lot of opacity, particularly with the platforms. Can we just leave it to the market to sort it out? What are your concerns about getting more transparency and sorting out the complexity in the supply chain?

Professor Barwise: I am not over-optimistic that the market will sort it out. To me, it is very fair to ask the CMA, "Can you please unpack the box and look to see what is going on that is not transparent?"—that includes not transparent to the advertiser. For instance, if rebates are being paid to media agencies that might cause them to invest advertisers' money in a way that is in the interests of the agency rather than of the advertiser, that seems to be something the CMA should be interested in even though it is not a consumer issue.

I do not know the answer, but even if we leave aside the social issues, which to me are even bigger, there is quite a cluster of financial and economic issues, which are not only about consumers, that it is fair to give to the CMA at least to unpack and tell us exactly what is going on.

James Collier: To add to that, for my sins, I was very actively engaged in the development of automated trading in advertising. We had good reason for doing it. There was this massive growth in space; there was an opportunity to engage consumers, and publishers suddenly had all this real estate that they had no idea what to do with. We started to pack together systems that allowed them to automate that trading and generate revenue from it. It all sounds very noble. Unfortunately, it also became a gateway for venture capital funding and exponential growth in lots of intermediaries.

We now have about 3,000 companies, the middle men, involved in the trading of digital advertising. Unfortunately, it is very difficult to unpack. On a typical ad page—let us on MailOnline—you may have 400 or 500 different requests for you as an individual when you arrive on that page. There is a year 1 PhD student studying this. Actually, he is not year 1 anymore; he has probably completed his PhD. He is a guy called Steven Englehardt at Princeton. He did a study on cookie-syncing. I am not going to go into the depths of it, but it is a fascinating area. It is a huge threat to privacy and data protection. It is very hard to control. Enforcement in those areas is very important.

On who derives what value, let us look at a business—this goes back to monopolies—such as Google, which has DoubleClick. DoubleClick has an 80% to 85% market share of ad serving. That is linked to its ad network, which prioritises its own requests for advertising in that space. Subsequently, obviously, it also has the Chrome browser, where it is instigating an ad-blocker of sorts that will essentially decide what ads get

seen. Throughout that chain, there are issues that might relate to monopolies. We need to unpack and understand them, and that is the legislation piece which the gentleman on my right brought up earlier.

Viscount Colville of Culross: Is there a metrics issue that is part of that?

James Collier: Yes, measurability. ROI in digital advertising is really difficult. No one really understands what metrics to apply. Is it attention? Is it clicks? Clicks do not lead to sales. It is probably one of the most difficult issues we face in digital advertising. However, in true terms, the other issue is the shift in the types of advertisers that are really engaged in digital advertising. With the shift to mobile, it is no longer actually about Marc Pritchard. I am sorry to Marc Pritchard, and he is a very important man, but his level of spend on mobile advertising pales in comparison to Candy Crush or Supercell. They really do not have the same level of accountability as those large organisations, and they can get involved in practices that allow them to Hoover up consumers as quickly as possible. That opacity is a real issue.

Viscount Colville of Culross: On the platform end, is it difficult to be able to get really good metrics from the platforms about this?

James Collier: They would say no. Obviously, it has been highlighted as an issue in consecutive years. Year after year, they constantly get called up for accountability and measurement. The other issue that really gets the sticker in this is fraud. When you look at broader digital advertising and display, you are talking about 20% fraud. The other problem is bots. Whether it is a bot in the cloud or it is on the device, they really like to click. When you start to eliminate the bots, the metrics actually go down, which is not really good for anyone.

There is that adjustment in terms of our expectation that leads to the question of how we measure attention in the digital space? How do we value that accordingly? This goes back to the value to the publisher. Publishers need to redefine what the value of the attention in their space is worth versus social media or search. That has to go hand in hand with what the gentleman who was here prior to us said, Martin Sorrell. Price point should not be the only discussion that we have in digital advertising, which is that race to zero. It needs to be about quality. He is implementing those. There is a very broad execution within WPP to put brand excellence at the forefront, but it is just a start.

The Chairman: Sadly we need to move on. You have touched on some issues that the Committee is fairly interested in.

Q128 **Baroness Bertin:** Can I just go back to regulation, please? I do not want to put words in your mouth, but you implied that perhaps the regulation could be better, certainly in the context of the CMA. I wondered whether you could go perhaps into a little more detail about what measures could be put in place to make this work better.

Professor Barwise: When you say “measures”, do you mean in terms of audience measurement or measures in terms of legislation?

Baroness Bertin: Yes, indeed.

Professor Barwise: To me, the measurement side is simply an abomination: Facebook marks its own homework and then repeatedly has to fess up to getting it wrong. To me, what we need is the equivalent of BARB for online display advertising. I would like to see more power to ISBA’s arm in particular to say, “We are simply not going to play ball with you until you clean up your act and have audited measures”. I do not know the answer to that question. If you look at the whole set of reasons why these markets are winner-take-all markets, they are multiple. They are unfamiliar reasons. Not just in the UK but worldwide, regulators are simply not up to speed with handling, for instance, the extent to which big data gives an unfair advantage.

Baroness Bertin: If I could just interrupt there, they were obviously saying that they are getting more expertise. It must be very difficult for them to recruit, I would have thought.

James Collier: Domain expertise does make all the difference. This is by no means me targeting DoubleClick and Google, but it is an obvious issue if you have an 80% market share of ad serving. This goes back to GDPR and permissions. They have a first-party cookie on a publisher’s website, which makes them privy to data that is enormously valuable for their overall business. There are lots of small ad tech companies that can help reinforce that 80% market share, which should be looked at more critically in terms of how they are applied as a technology in this market, even when they are bought overseas. It requires that global awareness of M&A and how you can unpick those processes in a local market.

Baroness Bertin: Very briefly on self-regulation, it is obviously notable that your Googles and your Facebooks have not fully signed up to a lot of the initiatives such as JICWEBS and IAB Gold Standard. I just wanted to have your view on that and how problematic that was, really.

James Collier: There are a couple of things here. From a user-experience perspective, Facebook is arguably much better at dealing with the advertising experience than the rest of the world wide web, because it is in its interest to retain consumers in that space. That is how it monetises. It owns and controls that environment, so it streamlines advertising. It has invested in streaming services that compress video and make it faster so it is less interruptive. That makes sense. Arguably, some of the standards it has internally are probably more rigid than the IAB or JICWEBS in certain areas. Likewise, that applies to Google depending on the environment.

Because of the size of the market share they have, it is difficult for them to commit. It is actually really difficult for them to say categorically that they can do certain things, because there is so much they are involved with from a technology perspective on the page. You have analytics, ad

serving, content hosting, and malware detection. All of these things contribute, and therefore it becomes difficult for them to get involved. Giving our trade bodies more teeth would certainly help instigate this. If you are a trade body and you have a level of enforcement available to you, it really does encourage people to get involved, because at that point if you are not in it you risk being in a situation where you are being governed by other people and you have no say.

Professor Barwise: Can I just make a distinction between search and display? Google has a dominant share of search, and it is starting to get competition from Amazon. In general, the market works reasonably well. That is because the pricing of search advertising is a competitive auction. Consumers are benefiting from a very high-quality, free service.

There are two concerns I have. One is that, increasingly, Google/Alphabet is adding more free services. They do not do that because they are a charity; they do that to collect more and more consumer data. That gives me some concerns more from a social than an economic viewpoint. Secondly, Google was fined a lot of money by the EU because it was skewing search results to benefit its own products or products in which it has an interest. That has to be policed.

Baroness Bertin: I am getting the impression that fines are the answer.

James Collier: It is a good way to make money, but I do not know whether it has that much impact. If you look, it took that £2 billion out of profits and just held it. It kind of made it a victimless crime in that sense.

Professor Barwise: Fines are the right answer if you do not have a better one, yes.

James Collier: That is probably right, yes.

Q129 **Lord Allen of Kensington:** I was going to ask you to take us through the new digital model. We all understood the advertising agency and media owner model of yesteryear. You have touched on how complicated it is. Can you help the Committee by either sending us something or pointing us in the right direction? We hear about the exchanges; we hear about content aggregation; we hear about malware. There is a whole series of things. What is the best piece of paper or best document that you could send us? It would take more than the time we have to ask you to walk us through it.

The Chairman: Our Christmas reading list.

Lord Allen of Kensington: If you could send us whatever you have, the Committee would find it incredibly useful.

Professor Barwise: We can both do that.

James Collier: Yes, absolutely. We will probably come from slightly different angles.

Professor Barwise: You are looking for something purely descriptive, purely clarifying the facts.

Lord Allen of Kensington: Yes, I am looking for a business model and an understanding of the complications. What should we be looking for as we understand the \$19 billion fraud within that model, which slightly surprised the regulator?

James Collier: If you figure it out, you will have a job for life in advertising.

Lord Allen of Kensington: I will try.

The Chairman: We look forward to your reading list. Seriously, the Committee would like anything you can point us to that we can read over Christmas as we are preparing the final stages of the report. We are going to stay with this a little bit longer, because it is a very interesting subject.

Q130 **Baroness Kidron:** I just wanted to pick up on something Lord Allen was finishing with. You come in and you say, "There is a societal issue and a consumer issue. These two things sit in different places. We have to have regulation". You were both in the room. The regulator said, "It might be complicated for the advertiser". We have a system where the whole of the world's information is backed up by advertising. Do you see that as a problem, period, or is it just a question of doing it fairer and better?

Professor Barwise: That has always been true. The economic impacts of advertising are contested with one exception, which is that advertising funds an awful lot of media. Societally, the biggest concern is that it funds an awful lot of news media. One effect of so much advertising money going to tech companies that may or may not be media companies—in a sense, it is a semantic issue—is that they are stripping money, as I say, initially from local newspapers, which are important in democracy, and increasingly from other media. As it happens, TV is more robust, for various reasons, but less money is available to go into news. News is both a consumer issue and a citizenship issue. It is not new that advertising is funding a lot of information. What is new is that this particularly crucial information, which is properly researched news, is getting resources sucked away by these new media.

Baroness Kidron: If I can just press you on that, I was thinking more about the Jaron Lanier angle: they are also advertising what you do in your kitchen and how many times you open your fridge and so on. They are taking data at such a behavioural level in order to sell you something. It is beyond the media now. I am just curious about whether advertising has a place in the new "Truman Show".

Professor Barwise: Yes, there are deep and really difficult privacy issues. The distinction the techies make is about using information to push advertising communications relevant to the consumer. Beyond a certain point, relevance becomes creepy. At present, they are counting

on the market sorting that out. They say, "Look, it is not in our interest to be creepy". I am concerned. There is quite a grey area.

Baroness Kidron: You are a bit creeped out.

James Collier: One thing we talked about was the self-correction. Actually, what we are not thinking about is what the next generation is doing and perceiving. Deloitte today released its study of the top nine things to watch for. Ad-blocking is continuing to rise, and it is having a direct impact. That does not typically hurt Facebook so much; environments where it can own and control it such as search are not really impacted so much. Who is impacted? Again, it is the publishers; it is the content developers and the news press that are really impacted in that environment. That is the consumer experience issue: the creepiness factor, the privacy and the tracking.

Five years ago, Eric Schmidt said that you should just forget about privacy. That is really easy to say when you own the largest advertising business in the world. Ultimately, technology has come back to look for its own solutions, which is what technology is there to do. Fundamentally, the reason for doing that ad-blocking from a consumer perspective came as a direct impact of other advertising technology businesses coming into play. Now there is a self-correction that needs to happen again. We need to help publishers in that fight against the rise of ad-blocking, but it is not about fighting against consumer choice; it is about correcting the issues that technology has created for itself.

The Chairman: I am afraid we need to move on. We want to move on to look at the international role of the UK advertising industry and its importance, which is at the heart of our inquiry.

Q131 **Baroness Quin:** I have a couple of questions relating to the international and European dimensions. What concerns do you have regarding continued access to international and European markets? As far as those concerns go, what approach would you want, and should the Government take, to help forge new relationships internationally and with the EU to support the advertising industry? To pick up on one of the themes of the moment, how important in those future relationships is regulatory alignment?

James Collier: We have already talked about the flow of data. We talked about GDPR and how we are adopting those practices across borders. In terms of access, we talked about the scale-up issue. We are great for start-ups in London, by the way; we have accelerators and seed camps and all of these various funds that are available to us to get us to that certain point. We also have Amazon, which gives us free access to the cloud, and we have Microsoft and so on. However, when you get to that next stage, which is that you want to go from 10 employees up to 50 employees, we do not have the same resource to encourage talent to come into those businesses that exist in the UK, because we do not have the same valuations. What we typically rely on—I can point to this in pretty much every tech company I know—is outsourcing a lot of the

technology development to Poland, Estonia or Ukraine; the list goes on. There are lots and lots of tech hubs in other countries, because they are much more cost-effective and we do not have to use equity as an incentive to bring that talent in. As you can imagine, it is a cyclical issue: because there is no encouragement to bring those tech leaders in and create new tech leaders in the advertising space, a space which we should have more ownership of.

That, and the impact that outsourcing has on our ability to be competitive at an international level in terms of technology as a result of the lack of funding and scale-up, is a concern to me. As a technologist and an entrepreneur myself, that is probably my biggest concern.

Baroness Quin: How should the Government approach these issues?

James Collier: There are two issues there. First, how do we encourage a greater level of funding at a higher level in the field of technology? Some areas are well funded. Fintech and pharma are well funded, but when you go further down the funnel of digital advertising it typically streams off. Anything above £10 million is really hard to find.

There is the funding area, and then there is how we can create better incentives for large organisations. For instance, Google has its own venture unit, Google Ventures. In fact, it has an arm here that is very active, but obviously that gets pulled back into the United States. How do we get the Unilevers and so on to increase the level of funding they are starting to do? Actually, the *Guardian* and other businesses in the media are starting to try to create funds for themselves. It is about incentivising them.

Secondly, we need to look at how we outsource and what restrictions we might impose on that, or any changes in legislation in a post-EU world. We have to think about that and about how we can still access talent.

Lastly, there is the education piece. How can we encourage more people to be actively involved in technology that could correlate to advertising and incentivise them to look at advertising as a potential career? That is another area.

Professor Barwise: My one piece of advice to government is to run a second referendum on Brexit next June. If that happens, the chance of it happening is very small. I do know there will be various people trying to discourage a second referendum.

Apart from that, you will have heard that it is pretty much a spectrum from most businesses: hard Brexit is worse than soft Brexit and soft Brexit is worse than no Brexit. They are all planning for the worst and hoping for the best, if you like. They are in damage-limitation mode. It is about data, people, markets, supply chains and all those things—I am not saying anything very original here. I am in the small minority who thinks it probably is not going to happen, by the way, but I know I am in a minority here.

The Chairman: That is interesting. Can we pick up on the issue of immigration, which partly arises from that?

Q132 **Baroness McIntosh of Hudnall:** I am very interested by what you were saying, Mr Collier, about outsourcing. In a way, outsourcing is not affected by immigration policy, I do not imagine. If you are going to send the work away, it does not have to be physically done in this country and you can import it back in. The only thing you need to be sure of is that there are no restrictions on importing the data. Would that be the case? To both of you, really: is there anything about immigration policy—that is, about real people in real places—that the Government could do?

James Collier: I am sorry. As a follow-on from that outsourcing piece, that actually leads to us hiring people from those regions or even setting up organisations there, but bringing them into the UK.

Baroness McIntosh of Hudnall: But those are two very different things. Hiring people implies bringing them in or needing to bring them in and making them part of this community; setting something up somewhere else is a different way of dealing with the problem.

James Collier: Both are applicable for us. We would definitely seek to bring over talent from Estonia, Poland and so on into the UK to build technology hubs here, where essentially—

Baroness McIntosh of Hudnall: So that still matters.

James Collier: Yes, it definitely matters, absolutely. There are strong technology hubs in those countries; they have great education systems, for whatever reason, which support technology development in universities. We definitely utilise it.

Professor Barwise: In 1997, a very bright journalist from the *Economist* called Frances Cairncross wrote a book called *The Death of Distance*. It has turned out to be completely wrong. This is really relevant to Brexit, particularly since the business you are looking at is a service business. We have just had this thing about how Northern Ireland is going to be both in the customs union and not in the customs union. It will emerge in time that you cannot actually do that. Services are a big issue for the Canadians, because they have a different relationship with the rest of the world in that regard. Their research shows that, even in services, economic geography has not gone away.

If you remember, at the top, I said that the five most valuable companies and brands in the world are all in a small geographical area. This is a problem for a democracy like us, because everybody outside London hates London and thinks Channel 4 should be moved to Birmingham and all of that. There is a genuine tension between the fact that, of course, we want to share the benefits of economic growth versus the fact that these cluster effects are very powerful. Silicon Valley is the example of a cluster. A cluster is where you have both competitive and complementary organisations, including higher education, lawyers and so on as well as within the obvious supply chain. James's earlier reference to the

Estonians is really important. There is no clear-cut distinction between working with an Estonian in Estonia, the Estonian coming to London for short breaks and the Estonian joining the office. It is a continuum, and it is about a combination of talent and what the sociologists call social capital, which is all those informal soft processes that Silicon Valley has in spades.

If Brexit goes through, London and the rest of the UK will be in a weaker position, not just in terms of tariffs and all those very formal tangible things but in terms of those intangible communications as well.

James Collier: We measure that by a very simple thing when we look at the development of technology globally: the number of unicorns. I know it sounds stupid, but it is the number of billion-dollar tech companies. Berlin beats us 10 to the dozen on that. Sweden has a better output than we do, arguably. Why is that, when we have access to so much capital per consumer?

Q133 **Baroness Stowell of Beeston:** I was not going to preface my question with this, but, in light of what you have just been saying, I would like to say something. I tried to raise this theme with Martin Sorrell when he was here, in terms of Brexit and everything. You have talked a lot about the big five and all this sort of thing. The other group that has been incredibly powerful during the past 18 months, which is getting ignored—and ignored at our peril—are the voters who are forcing this disruption on us. Just like any other big sector, if the advertising industry wants to avoid being at the mercy of the big five it also must recognise what it needs to change in the industry. There is a much bigger topic that should be considered—not necessarily by this inquiry—about the way in which the sector thinks about its response to the events of the last 18 months.

That leads me on to regional growth. You have talked about clusters, and I get the point about Silicon Valley being the most powerful one. Is it possible for us to have clusters in the UK in terms of the advertising industry? Peter Bazalgette's recent review talked about a big venture capital gap as far as funding for businesses outside of London is concerned. There is a quote here: "The new tech sector venture capital investor Accelerated Digital Ventures (ADV) estimates that there is overall a 'venture gap' of £3.9 billion nationwide of which £3.33 billion is outside London and the South East". If we were to try to develop clusters in areas outside London, is it even possible?

Professor Barwise: It is very difficult. That is the honest answer. What you probably have a better chance of doing is developing niche clusters that specialise in something in particular, say a vertical market or something like that.

James Collier: You could take Cambridge for biotech as an example.

Professor Barwise: Yes, like Cambridge for biotech and so on. As far as advertising and the advertising technology market are concerned, those economic-geography factors are more powerful than most people have realised. It can be done, but only at great expense.

James Collier: Advertising technology goes where the spend is. If you look at the marketplace for advertising—although every major agency has hubs in Manchester and other parts of the UK, typically they are less digitally focused and more regionally focused—it is all in London. We have two of the largest advertising agency groups in the world; they are British. Again, that is another factor. We have all this power in this space, but it is not fully utilised and capitalised on in terms of that gap.

Baroness Stowell of Beeston: If there was any sort of structural support from government for that to take place, are players in that market willing to form clusters in different places?

James Collier: You need the right lever in the right place. It is physics.

Professor Barwise: I am relatively sceptical, I have to say. I mentioned Channel 4. With Channel 4, I get saying, "We are gradually going to increase the proportion that Channel 4 has to commission outside the M25". It is a trade-off. It is not a coincidence that Sky, left to its own devices, does not spread its money as widely. However, for policy reasons, I totally get that. The idea that Channel 4's main office should be sent elsewhere is madness and it is missing the point. There is an inherent tension between these natural economic forces and the desire to spread the benefits, but you need to use the stiletto rather than the bludgeon.

If you have a university, let us say, with particular expertise in a particular technology area, you may then be able to say, "Okay, we are going to use some resources to encourage a mini cluster that is relatively focused in that way". In the same way, with Channel 4, rather than using the bludgeon of saying, "We are going to move the main office", saying, "We are going to put it in your remit that you are going to spread the benefit more widely", seems a pragmatic way of recognising the reality of cluster economics, but then saying, "We are not just going to leave it to market forces, because we do not like the outcome".

James Collier: This is not necessarily in a similar way, but graphene is a great example. The development of graphene was in Manchester, and then suddenly all of the development and funding have gone towards businesses in the south-east, which seems, first, unfair and, secondly, impractical.

Professor Barwise: There is one interpretation of why the UK is good at start-ups and then not good at unicorns, and that is a cultural thing: culturally, we think it is slightly vulgar to be very rich and therefore the Brits are more likely to cash out at £10 million, whereas in the US they think, "We are just getting going".

The Chairman: I thank both of our witnesses for their time. I thank you also because you obviously spent a lot of time reading some of the previous material that has come before us. That was very good of you and we appreciate that it has enabled you to answer our questions very fully. It was interesting for us also that you followed on from the

regulators, which informed much of the questioning you had—which we could have extended. Thank you for offering to send us material as well. Thank you for coming.