



Select Committee on Communications

Corrected oral evidence: Public service broadcasting in the age of video on demand

Tuesday 23 April 2019

3.35 pm

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Members present: Lord Gilbert of Panteg (Chairman); Baroness Benjamin; Baroness Bonham-Carter of Yarnbury; Baroness Chisholm of Owlpen; Viscount Colville of Culross; Lord Goodlad; Lord Gordon of Strathblane; Baroness Kidron; Baroness McIntosh of Hudnall; Baroness Quin.

Evidence Session No. 3

Heard in Public

Questions 33 - 40

Witnesses

I: Bobi Carley, Head of TV and Video, Incorporated Society of British Advertisers; Phil Smith, Director-General, Incorporated Society of British Advertisers.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Bobi Carley and Phil Smith.

Q33 The Chairman: We welcome our witnesses to this evidence session of our House of Lords Communications Select Committee inquiry into the future of public service broadcasting. We set ourselves the question as to whether the PSB remit is in danger in the fragmented media world. If it is, does it matter? If it matters, what should we do about it?

We have two witnesses with us today, Phil Smith and Bobi Carley, to help the Committee explore those issues. Thank you both very much for joining us, and for giving us your time so soon after the Easter break to come to give evidence to the Committee, which we really appreciate. I will ask you to introduce yourselves in a moment. Today's session will be broadcast online on the Parliament website and a transcript will be taken.

Can I ask you to introduce yourselves and, in so doing, answer an initial question? Obviously, advertising and advertising revenue is central to the business models for some of the public service broadcasters. Could you tell us a little about how you see recent trends in the advertising market and how you think the advertising market and its impact on public service broadcasters will change over the coming years?

Bobi Carley: My career has mostly been in broadcast advertising sales, from Sky to Viacom, and, latterly, at Disney, where I was on both the client side and the advertising sales side. Some of my expertise is also in the kids' market space, where many of the trends we see today in the young adult space started. We were witnessing them many years ago in the kids' space, which was one of the first to start to move to other-device watching, and the trends have progressed. Now it is where we see the large decline in young adult viewing today.

Phil Smith: I am director-general of ISBA, the trade organisation that represents leading advertisers. We have some 3,000 brands in membership, and our purpose is to advocate a trusted, accountable and transparent media marketplace that is effectively regulated. My background is 40 years in sales marketing and general management in a variety of sectors, including packaged goods, retail and the National Lottery, and in technology along the way.

To take your question about recent trends and the outlook, advertising spending, as I am sure the Committee is aware, has been growing strongly. The last data we have seen shows an annual growth of 6% in the total spending. That has very much been driven by digital advertising, particularly in search, and in digital display, which has grown by some 13% in the last 12 months.

As people will know, Facebook and Google have been capturing most of that growth, and, when you look at it from the other end of the telescope, there has been quite a change in the advertiser constituency, in the sense that there are now many more advertisers, many more of whom are SMEs or digital-first companies, as we would call them, than there were. There have been declines in some of the traditionally

big-spending sectors, such as retail, which are more than compensated for by growth elsewhere.

It is much more difficult to be concrete about the outlook. We expect rapid disruptive change to continue. Technology will continue to drive that change, as well as changing audience habits. The technology is very difficult to predict; for example, voice advertising has been predicted as the saviour of the industry, but it is proving slow to take off. We would suggest that the public's appetite for content and their ability to consume it will create new advertising opportunities. For example, we expect to see advertising models come through in some of the subscription services that are available today. Advertisers will carry on trying to do what they have been doing for as long as I have been in the business, which is trying to continue to make their advertising more relevant to the audience. That, in today's world, means more focus on using data to make that relevance happen. We would expect to see addressable TV, which I am sure we will talk more about later, become smarter and more widely adopted.

As a counterpoint to that, data privacy concerns, which to a large extent today are hidden under the surface rather than being on the surface, and the impact of regulation in the data area, where we think GDPR has yet to show its teeth through the impact of data protection authorities around Europe, may have an offsetting effect to some of those efforts.

The Chairman: Thank you. Ms Carley, do you have anything to add on the outlook for the next 10 years on advertising revenue and its impact on PSBs?

Bobi Carley: The main thing to point out is the emergence of more SVOD services; we will see Disney+ launch this year. It will be interesting to see which of those services end up having an ad-funded model, especially commercial businesses such as Disney, whose model is for a different purpose than Netflix's; it is a commercial entry point into the wider Disney business. We are going to see a lot of disruption, in terms of eyeballs moving, from those places.

Viscount Colville of Culross: You talked about data and about the possibility of some subscription services having advertising. At the moment, we know nothing about the data for the subscription services; Netflix in particular refuses to tell us anything about it. Do you think that is going to change soon, that the market alone will force that change so that we get more data on subscription services?

Phil Smith: The short answer is that I do not think we know the answer to that question. We can certainly see an impact from advertiser demand on the big platforms in the shape of Google and Facebook to share more data about how their services are consumed and to create more connected measurement of audience. That would be beneficial to us, but I do not think we can yet make any prognosis for the subscription side. Bobi, I do not know if there is anything you want to add.

Bobi Carley: No. They do not seem to be in any place to be sharing anything.

Viscount Colville of Culross: Should they be made to be in a place where they can share it, so that there is more of a level playing field with their competitors and the PSBs who indeed have to declare their data?

Phil Smith: We would certainly argue that any regulatory environment needs to be evenly applied. For both SVOD services and BVOD services, we would expect there to be, over time, an even application of whatever regulation is deemed appropriate.

Q34 **Baroness Benjamin:** Over the years, the first port of call for the advertising market has been linear television. Is linear TV advertising becoming less attractive as audience numbers and reach decline? Secondly, we have seen the decline of children's content on commercial PSBs, so, in your view, which type of programme provides the most advertising revenue and which the least?

Phil Smith: I will try to tackle that in two parts. You are right: linear TV has always been very attractive to advertisers, because the very large audiences that it has been able to reach mean that audiences can be built very efficiently, and there is a social currency impact of being able to be seen in large audience programmes that has been beneficial to the stature of brands.

In so far as those audiences are declining, that is definitely an issue. It is particularly an issue among young adults where we see that the majority of their video consumption is spent away from linear TV and catch-up TV combined. They are increasingly consuming both streaming subscription and non-subscription services, as well as doing other things with the TV set. That means that young adult impacts are in steep decline and are not being offset by the increases in broadcaster VOD, which means that advertisers are having to follow the audiences and are moving into the online environments, which is what we have seen reflected in the numbers. Bobi, do you want to add anything to the granularity of the data there?

Bobi Carley: On the numbers, we have seen large decreases in young adult viewing. Last year, they were down 25%, and this year to date they are already down 23%.¹ It is a continued downward trend. Broadcasters are looking at their broadcast VOD offering, and the content that is being put on those platforms, with the intention of trying to capture those younger viewers. That is the intention, the objective, as they progress, and their offering becomes more sophisticated.

Lots of the predictions are that those numbers will continue to decline, but we are seeing that the viewing habits of people watching at the age of 20 are very different at the ages of 30 and 40, so it is not necessarily a linear direction. What I find personally disturbing is the amount of kids' viewing that has gone; 30% of kids' viewing is now on YouTube, which is an unregulated environment.² That is an issue for the kids' platforms.

¹ Note by witness: "The exact BARB viewing number is 23.7% year-to-date commercial viewing. Excludes BBC. A 23.7% drop in impacts equates to around 10.5m impacts."

² Note by witness: "In referring to an "unregulated environment", Mrs Carley is referencing content and not advertising regulation, which is governed by the Advertising Standards Authority. The UK ad rules apply equally to advertising online, including companies' own claims on their own websites, social

Phil Smith: You asked which types of programme provide the most revenue. I will ask Bobi to provide a bit of colour on that, but, as a generalisation, the most attractive programmes tend to be those that attract the largest audience, particularly of viewer categories that are hard to reach, hence the interest in the World Cup, with its young audience profile and very big viewer numbers.

Reiterating the point, in addition to efficiency of reach, there is also a question of the brand, fame and stature that tends to be associated with being in those very large programmes. Bobi, I think you were going to mention some of the programmes that are still favourites.

Bobi Carley: Things such as the World Cup hold up the revenue numbers as well. ITV, for example, earned a lot of money in 2018 from the World Cup matches, which were the No. 1 ranking events in 2018, but still at the top of the viewing lists are the Saturday night shows such as "The Great British Bake Off" and "I'm a Celebrity". Those family viewing shows rank consistently at the top, with shows such as "Coronation Street" coming in sixth place with very large numbers; there are still 6 million viewers an episode for "Coronation Street". There are the likes of "Bake Off" and "Britain's Got Talent", which has 9 million viewers, so there are still very large numbers for those key top shows.

The Chairman: Although their audiences have dropped off, they are still substantial. Are those shows still producing significant revenue for ITV?

Bobi Carley: Yes.

The Chairman: They are.

Bobi Carley: Yes, both in spot revenue and in sponsorship and broader partnership revenue; they are the key real estate for partnerships.

Phil Smith: They become disproportionately more important as they become a smaller proportion of the total. I think ITV now owns 98% of the top-performing shows.

Bobi Carley: Yes.

Baroness Benjamin: Can I ask about the least attractive programmes as well? Does that mean the death of religious programmes or art programmes? We have already seen the death of children's programmes, so do you think that, if advertising or linear TV declines, those kinds of programmes will definitely be affected?

Phil Smith: It is hard to say, because there is always a degree of cross-subsidy between programmes in a broadcaster's remit. Clearly, there are public service obligations as well. Anything that stretches advertising spending further across the broadcaster's need to fund its commitments will put pressure on some strands of programming, and those with small audiences will be the ones looked at first, I suspect.

Baroness Quin: Is it a problem that people can presumably record their programmes to watch later and then flick through the adverts and fast-forward? If that is a problem, how do you assess it, and are there

particular kinds of programmes that people tend to pre-record?

Bobi Carley: When the TiVo player first came in, which was in the 1990s, the first headlines came in about the death of TV advertising, but actually there was no effect. The TV market has moved through that journey. It moved through the introduction of all the multichannel platforms, going from a few channels to five channels, and now to 700-plus channels. It has stayed robust throughout many years of changes. Interestingly, no, it had no real effect.

Phil Smith: At the same time, it underlines some of the industry's current efforts to create much better measurement of audiences of commercial video on a proper duration-weighted basis, so that advertisers can start to form a view on the most effective way to spend, and what is being seen in catch-up and what is not being seen.

Baroness Kidron: On a detail on the cross-subsidy question, I totally accept that they have their obligations, and then there are these centres of revenue, right at the high end. Are you seeing a hollowing out in the middle and that if you do not have a lot of revenue, or sufficient revenue, coming in, some of the high-quality programmes may have to become cheaper? Is there a tension around that?

Perhaps another piece of my question is at the other end: do you find stations trying to compete with YouTube, being very low and cheap? I am interested in both ends.

Phil Smith: To be honest, it is better to ask the broadcasters than the advertisers, who are driven primarily by the audiences. I do not know whether there is anything factual that we can add, but I would be speaking from opinion rather than fact.

Bobi Carley: I would mention the model of "The Bodyguard", for example, which was made by ITV Studios and shown on the BBC, and now Netflix has the rights in the US. That is a new model of working for a high-level investment show. I think those models will become more commonplace.

Phil Smith: I would probably also argue that in any of those trade-off decisions, broadcasters know that they would need to deliver some of the audiences that are harder to reach, so some more costly content may be necessary to get to the more difficult audiences. There has always been some of that teeming and lading over time, but how that is playing out and whether it means that in some areas—

Baroness Kidron: But you cannot see it. You do not see it from your purview as a major trend one way or the other.

Phil Smith: No. We cannot see that as a trend.

Baroness Bonham-Carter of Yarnbury: I think my question is for the broadcaster, too.

Baroness McIntosh of Hudnall: I think mine is for the advertisers. It is probably a naive question, but we are very focused on audience numbers. From whichever side of the argument we are talking, whether it is

broadcasters or advertisers, we are very focused on whether the numbers are going up or down, or whether viewers are moving away or towards us.

Apart from numbers, what other metrics do advertisers apply to determine efficacy? It is all very well to reach 600 million people, but if none of them buys your product you are wasting your time. What are the metrics that are running alongside?

Phil Smith: I think you have answered your own question, which is that what advertisers most want to see from their advertising is sales.

Baroness McIntosh of Hudnall: You know the question I am asking you.

Phil Smith: I know exactly the question you are trying to ask. In a previous world that was simpler, it was easier to see whether a burst on television would result in an uplift in sales or not, and brand managers' fates would hang in the balance.

In today's environment, where many more touchpoints exist between brands and consumers across many more media, channels and platforms, it is harder to see which particular advertising exposure was responsible for sales. That gets much debate over time. We are actively involved in helping to create advice for members on how to go about their effectiveness modelling for both the short-term and long-term effects of their advertising investment.

Clearly, this is an area where online advertising, with its ability to trace behaviour to purchase, particularly in the online e-commerce environment, scores advantages and is able to demonstrate a clearer return on investment from an advertiser perspective, but there is lots of evidence that TV advertising builds strong sales over time and builds incremental profit.

Much of the modelling that has been promoted by Thinkbox on behalf of the industry has been done by independent companies such as Ebiquity and Gain Theory, which we tend to subscribe to. At the end of the day, any advertiser is looking mostly for the ability to track sales back to activity. In that environment, online tends to score because you are able to create, through last-touch attribution or multitouch attribution, a better linkage than through longer-term TV advertising spend. Did that answer your question or not?

Baroness McIntosh of Hudnall: You did answer my question, and of course in a way it is as blindingly obvious as the question was naive, but, when you are talking about numbers in the several millions for popular public service broadcasters' product, that is a very different way of hitting people from dribbling it in over time. When advertisers are thinking generically about one kind of advertising as opposed to another kind of advertising, what is the impact of 6 million people all watching it at the same time rather than the same number watching it over a period?

Phil Smith: We have talked about the quotient of fame or social currency, which has generally been hard to evaluate in concrete

economic terms but was certainly qualitatively valued by advertisers in the past. If you asked most advertisers today how they would like to deploy their activity, they would still like to see it deployed to large numbers of people over a short period, in a very efficient way such that every individual in their audience was able to see the advertising for a specified number of times.

In TV in the 1980s and 1990s, when audiences were much larger, it was possible to construct schedules based on a few spots in very high-rating programmes where you could be pretty certain that the amount of wastage, the very long tail of repetition, was quite low. In today's world, even in TV, it is very much harder to do that because there are fewer big-rating shows.

When you add to that the complication of online media people migrating elsewhere and the fact that common, joined-up measurement systems do not exist, advertisers are struggling. One of the things they most want to see is much better joined-up measurement of audiences, both between linear TV and broadcaster video on demand, which is still not where it needs to be, and between those channels and the online channels, to allow them to plan and buy their campaigns more effectively and get to audiences more efficiently.

The other thing that advertisers are conscious of is that there is a long-term decline in public favourability towards advertising. The biggest single component of that decline, or cluster of factors driving that decline, as we saw in a big piece of research that was done by the Advertising Association, largely on the industry's behalf and our behalf last year, is what people term bombardment, which is a combination of volume, repetition, lack of relevance and obtrusiveness. Those are definitely things that the advertisers in our community seek to mitigate. In fact, we have an active group working across the industry on that as we speak.

The Chairman: We may want to come back to the issues around trust in advertising, which you encompassed there, but let us move on for the minute.

Q35 Baroness Chisholm of Owlpen: You have partly answered the question I wanted to ask you. It is interesting that some research showed that the cost of targeting 16 to 35 year-olds and 16 to 24 year-olds through adverts on ITV's main channels has increased enormously—82%—over the last eight years. That is presumably going to mean that there is a danger that advertisers will move to other forms of programmes, other forms of media, to target younger audiences. Is that going to be a huge threat to advertising on linear TV? Presumably it will. Also, what programmes do you think are most likely to suffer on linear TV through that?

Phil Smith: Yes, we think that is a big long-term threat. The 16 to 34 audience is very attractive from an advertiser point of view, but it is notoriously hard to reach. As those numbers decline, people are concerned not just about the short-term impact but about the fact that people with very different consumption habits are expecting to see what

they want when they want it, and largely in an advertising-free environment, or a much more restricted advertising environment, moving through into the later stages of being consumers.

Yes, I think we would be concerned that that will have an impact on broadcasters unless we see a significant ramp-up in some of the efforts they make through other ways of reaching them—for example, through a much stronger broadcaster VOD offer, which is sold as an advertising package in a much more joined-up way than currently.

The Chairman: Do you see that happening?

Baroness Chisholm of Owlpen: Yes, I was going to say that. Is that likely to happen?

Phil Smith: Shall we jump into that one? It is starting to happen. For broadcaster VOD, different people are at different stages of development. Sky, with its 11 million connected set-top boxes, has a lead on everybody else. It has a reasonably well developed Sky AdSmart solution that is currently being sold as a niche product to SMEs and to smaller audience advertisers over time.

We see already that other people are racing to catch up. There has been the announcement recently by ITV of its partnership with Amobee in this area, and data will start to come into play to a greater degree. In a world where there are proper, connected audience measurement systems, and perhaps connected audience data—competition concerns permitting—big advertisers will be very interested in more targeted joined-up campaigns delivered in a more addressable and targeted way in a VOD environment.

Bobi Carley: There are great examples where viewers are shifting. A classic one that ITV talks about is “Love Island”, where there were 4,500 viewers but only just over 1,000 that were live. That shows that it is attracting viewers on other platforms, so it is about putting the content where the eyeballs are. If it is great content that the audience want, they will watch.

Picking up on the AdSmart piece, what is interesting is the number of SMEs: 70% of AdSmart’s business is from SMEs, which is new money coming into the TV marketplace, and is obviously a positive thing for the TV business. Sky has started in that lead, so it will be interesting to see where ITV and Channel 4 continue in that space.

Baroness Chisholm of Owlpen: It is interesting that it seems to be apparent that even though the young are watching YouTube much more, they will change and move back to linear TV. At what sort of age is it thought that they are going back to watching “Coronation Street” or whatever?

Phil Smith: We are not sure that they go back, because we think that what we are seeing is different cohorts moving through. We have talked a bit about the 16 to 34s, and among that cohort a big chunk of Netflix and other subscription channel viewing takes place. Among the younger children’s audience, there is an even bigger proportion viewing YouTube

currently. We are too early in the evolution to see to what extent those habits stay with them for life.

Q36 Viscount Colville of Culross: You were talking about targeted audiences, which we were going to ask as a later question, so I might as well ask it now. You explained to us the idea of connected audiences and targeted audiences. There are very specific solutions coming forward, and I would be interested if you could tell us a bit more about them. Channel 4 has announced Dynamic TV, which is supposed to be aimed at multiple devices. How does that work and how does it help with the idea of targeting audiences?

Bobi Carley: Because Channel 4 has log-in—you log in to those devices—it obviously has first-party data on all its audiences. Its ambition is to target who you are on different devices and to play out different advertising on different devices. That is not where it is at yet, but that is where it is going.

Viscount Colville of Culross: The user, even though they are on multiple devices, surely would get the same targeted advertising in the end. Is that the idea?

Bobi Carley: I am sorry, yes, that is the idea.

Phil Smith: The idea is that they would be able to connect up those multiple devices.

Viscount Colville of Culross: Where are we with that at the moment?

Phil Smith: Today's advertising experience in broadcaster VOD is very different from place to place. Much of it is not targeted. Some of it is quite repetitious as well. I will not name names, but I would say that we are in the foothills of the journey, although everybody is very clear about the need to use data to a much greater extent to serve up a more tailored advertising experience. The extent to which they are going to be able to do that competitively is very much to be proven. They have some mighty competition when it comes to the art of personalisation and targeting.

The ability to glean first-party data will to some extent be a question of what is a valid value exchange between the user and the company, and, while you can see that the big technology platforms are offering so many pieces of value that they are able to amass large amounts of data, it is hard to see how the broadcasters could get the same granularity of information.

The extent to which they can use third-party data is still very much to be determined, because we have yet to see much of the impact of GDPR played out through the various DPA rulings across Europe, but there is much concern around how third-party data is being used, and underneath the surface we know that when consumers are told about how advertising technology works today there are concerns.

The Chairman: Baroness Bonham-Carter, do you want to come in?

Baroness Bonham-Carter of Yarnbury: You have leapt to a question

that I was going to come to. You can drop me later on.

This is a much more naive question than the one from Baroness McIntosh. It is about the success of our public service broadcasters in generating advertising through catch-up. I was watching some catch-up—I think it was catch-up, but maybe it was downloaded—of an ITV programme last night and there were no adverts. They seemed to have been dropped. Do you know what I am talking about? Why should that be the case? Is that not an obvious lack of revenue that they could garner?

Bobi Carley: Yes. ITV already has a paid-for service where you pay for no advertising.

Baroness Bonham-Carter of Yarnbury: I did not know I was doing that.

Bobi Carley: It is on the ITV Hub.

Phil Smith: It is ITV Hub+.

Bobi Carley: You can then skip to your basic viewing.

Baroness Bonham-Carter of Yarnbury: Is that a sensible business model?

Bobi Carley: The broadcasters are not expecting a huge amount of revenue from that model. They just see it as consumer choice, giving the option.

Baroness Bonham-Carter of Yarnbury: I do not think this consumer understood her choice.

Phil Smith: I do not know whether it is sensible or not, but other subscription models are adopting the advertising-free model, and some of them have been successful over time. Whether it will work for ITV Hub, I do not know.

Q37 Lord Gordon of Strathblane: Assuming that some public service broadcasting, notably ITV, Channel 4, and to a lesser extent I suppose Channel 5, all depend on a healthy advertising stream, it is natural that we should look at whether there are any restrictions on advertising at the moment that could be removed, still in the public interest, to enable ITV and so on to get more advertising—if we lifted the limit.

The AVMS directive at the moment permits 12 minutes an hour. It is a lot lower in this country. I think I know the answer, bearing in mind what you said earlier about clutter, but would there be any advantage either to you or to broadcasters in raising the limit of advertising per hour?

Phil Smith: The short answer is that we cannot think of any of the restrictions that are getting in the way of commercial growth. The fact that the UK is recognised as having one of the strongest advertising co-regulatory environments in the world is a good thing.

I would be doubtful about saying yes to your question for two reasons. Particularly given the declines in young audiences we have talked about, if more commercial minutage was allowed, I suspect the inflationary impact would simply be dissipated somewhat and you would not get more

spending; you would just see people not taking quite as much of a hit when it comes to price increases, although I might be wrong on that.

We would also be concerned about the impact on public perception. We have talked about bombardment, and although we acknowledge that there is a lot in the online environment that needs to be addressed in relation to the factors that are there, the research was clear that there are some things in the commercial broadcaster space that are of concern and need to be addressed. For example, the prevalence of gambling ads in live sport would have come up in the research, and the current poor state of targeting and repetition in some of the broadcaster VOD today. We would be concerned about opening the floodgates to additional minutage and slightly sceptical about the commercial return.

Bobi Carley: I completely agree. You only have to go to the US and watch television there to have your answer.

Lord Gordon of Strathblane: Can I mention another restriction, which has nothing to do with regulation but is to do with your good selves? That is the CRR. Is there not a case in reality for regarding that as out of date now?

Phil Smith: The CRR has been in place for a very long time: 2003 or—

Lord Gordon of Strathblane: Longer, I think—2002—and the world has changed.

Phil Smith: The world has changed significantly. It was interesting to us that ITV did not ask for another CRR review as a result of its strategic review last year. We are actively looking at the CRR mechanism, in conjunction with our members, as to its relevance and the protections that it does or does not offer the market. It would probably be a bit premature for us to be taking a position on that, but I certainly think that it has prolonged active life.

The Chairman: For the sake of the Committee and our audience, could you reiterate what CRR is?

Phil Smith: I am sorry. It is contract rights renewal. It is a shame that Lord Allen is not here, because that was the mechanism that was agreed to allow the merger of Granada and Carlton, which was brokered by ISBA back in the early 2000s. I was on the executive committee at the time. It preserved the rights of buyers, be they agencies or advertisers, who had direct deals, to preserve their discount relative to the station price, provided that their share of advertising revenue allocated to ITV stayed the same.

Lord Gordon of Strathblane: But that was regarding the universe as television, whereas the universe is now a lot larger, which is the case for looking at it.

Phil Smith: That is correct, yes. There are questions as to who benefits most from the way CRR is currently operating. We would not wish to walk straight into an unprotected environment without taking good note of our members' interests. We are in the process of working our way through that.

Lord Gordon of Strathblane: I sense that it is premature to ask supplementary questions on that, but I will watch this space.

Phil Smith: Yes, watch this space.

Q38 **Lord Goodlad:** Could you summarise what restrictions, if any, you think should be imposed on advertising in on-demand services?

Phil Smith: The headline would be that any regulations should be evenly applied, as we said before, across media. Video on demand is regulated by Ofcom today, and advertising in broadcaster video on demand is regulated by the CAP—the Committee of Advertising Practice—and the ASA as Ofcom’s designated co-regulator.

Our only position would be that there needs to be an even position across on demand. When you move outside video on demand and think about the broader online environment, because that would probably be the natural supplementary question, we support the ASA’s new strategy, which calls for more impact online and which, from our perspective, is very much about formalising and strengthening the relationship between the ASA and the major platforms in a way that mirrors what we see today between the broadcasters and the ASA. As you might be aware, we have been calling for some time, about a year and a half, for strong independent oversight of content in the digital environment.

Q39 **Baroness Quin:** This follows on from Lord Goodlad’s question, because it gives an example of restrictions. It is about the proposed restrictions on products high in fats, salts and sugars. How do you think that would affect the TV advertising market, and, depending on your answer, do you feel that there should be equivalent restrictions for on-demand services and how could that be done?

Phil Smith: Leaving aside the arguments around HFSS advertising, where there is an ongoing consultation in which we are actively involved, the currently proposed watershed of 9 pm would have the impact of restricting the amount of adult advertising airtime available to food advertisers. We would expect, therefore, some inflationary pressure on TV airtime post the 9 pm watershed.

It has the potential to drive some spending into other channels where adult audiences can be more precisely targeted, or into areas where the regulation of child exposure is less enforceable—for example, the outdoor environment. We think it would undoubtedly have a negative impact, as currently framed, for broadcasters.

From an advertiser perspective, there has been a long-term decline in the number of impacts of HFSS products to children, and our members are certainly supportive of further reductions. As long as the burden of evidence that leads to the changes is proportionate and evidence based, we think the ASA is in a good position to help with the analysis to support that. Our members are very much part of that consultation.

Baroness Quin: Do you want to add anything, Bobi?

Bobi Carley: Only in line with the second part of your question. As with Phil's previous point, we think that the same regulations should be representative across all platforms equally.

Baroness Quin: How can that be done?

Bobi Carley: A cross-broadcast VOD falls under the same regulations when it falls across broader online media sites. That is when it is a harder regulatory challenge, which we want to push for.

Phil Smith: We get to see arguments that time-based restrictions could not be applied in an environment outside broadcast. The question is whether or not they achieve the effect that is being required.

Baroness Quin: Are there examples of time restrictions being successfully enforced on online platforms at the moment?

Phil Smith: Not that we are aware of. It would be a first.

Lord Gordon of Strathblane: As my accent may indicate, I come from Scotland. My recollection is that if the UK consumption of sweet products is 100, Scotland's consumption is 160, and it has nothing to do with advertising. Likewise, childhood obesity has increased despite the restrictions being put on advertising to children. Are people in danger of shooting the messenger rather than dealing with the problem?

Phil Smith: As we have said, we think any of the measures put forward should be proportionate and evidence based. This is clearly a problem that is complex and multifactored, and advertising is but one component.

Baroness Kidron: You have said a couple of times that your position is that things should be equal across platforms, and I totally understand that. In relation to this particular question, is it that regulation has to seek the same set of outcomes rather than that measures are equal across platforms? You talked earlier in your testimony about the ability to target and use data. Whether a child is found at 9 pm or whether you will find a child, period, is the same question but possibly with a different answer, and there is something a bit crude about the watershed period at this point in time.

Phil Smith: I agree completely. When we talk about the regulation being applied evenly, we are very much thinking about outcomes rather than necessarily about inputs. We would not automatically move to time-based ways of restricting targeting when more powerful ways are available.

Having said that, I do not think we should be convincing ourselves that the online environment is watertight today. We know that age verification is an area that needs much tighter oversight, as we have argued. From an advertiser's point of view, we see audiences for adults being inflated as a result of people not claiming the correct age.

Baroness Kidron: It is just bringing it into scope rather than looking for identical across.

Phil Smith: Yes.

Baroness Kidron: Thank you very much.

Phil Smith: It is a very good question.

Baroness McIntosh of Hudnall: The thing that does not seem to have been mentioned in any of your answers is the fact that so many of the online platforms are not based in the UK. Consequently, there is an issue about how you regulate them. Whatever you want to regulate, whether it is their advertising or any other aspect of their output, there is a question, is there not, about how you extend the regulatory regime to non-UK-based companies? In relation to everything you have said thus far, do you have anything to add on that?

Phil Smith: We are at the start of a consultation on the *Online Harms* White Paper, which is in a slightly adjacent area. In the ASA's relationship with the platforms, we currently have a largely informal set of relationships that we think can be formalised. They could either be formalised voluntarily, or there may indeed be the need for more oversight in that area and a statutory backstop in much the same way as we see within broadcast.

As somebody said, the days when platforms can continue to mark their own homework are coming to an end, and in some cases that may need regulatory oversight. As things stand, there are some aspects of platform behaviour that comply. I can think of one big platform, for example, that puts compliance with the Committee of Advertising Practice codes into its conditions for advertisers. Whether it enforces that is a separate comment, but there are some things that can be done voluntarily and some that might need more intervention.

Q40 **Baroness McIntosh of Hudnall:** To some extent, this is about the same topic; it is about the boundaries between the UK and other territories but on the slightly different basis of transnational advertising agreements, where there appears to have been a growth. Are they useful to your industry and is there more that commercial public service broadcasters can do to extend the sources of advertising revenue they can look for?

Phil Smith: We are going to draw a bit of a blank on that one. I think we tried to feed in beforehand the fact that we are not well qualified to answer that question.

Baroness McIntosh of Hudnall: Yes, but from the point of view of the people you represent—

Phil Smith: We have many multinational, and some global, advertisers in membership. Many of them will be striking global arrangements with media companies. We do not see that happening much within the PSB environment today, as far as we are aware, not that we would expect to be privy to those global arrangements. Could they have an impact or a benefit? I do not know. It is not something that members come to us asking for us to help them or advise them on.

Baroness McIntosh of Hudnall: You are allowed to have an opinion. What view do you have of how a public service broadcaster in the UK is viewed as to its value as a medium for disseminating advertising by the kind of global companies you are talking about? Is it a necessary part of

the environment that they want to continue to hang on to or is it something that looks a bit marginal?

Phil Smith: For most of the multinationals in our membership, big public service broadcasting entities would be a core part of the business model. It is how they built their businesses. They would be concerned about their decline. They still want to be able to get after the large audiences, not just because of the numbers, as we were talking about earlier, but because of the sense of scale and fame that it brings to their brands. Although it is a patchwork quilt from country to country, they are seen as the bedrock of how these businesses operate and they still attract the majority of their spending.

Baroness McIntosh of Hudnall: This is important as much as anything, because the tendency of the argument to run that the public service broadcasters are the supplicants and the people who have the money are the gatekeepers to any future success that they may have seems to me, on the basis of what you have just said, to be not quite a balanced picture, and there is more value in the impact of public service broadcasting than perhaps we are always led to believe.

Phil Smith: There is huge value. Probably the only theme I would add is one that I talked about when I was here in 2017. We talked about agency-client alignment, because at the same time as multinational clients we have seen a concentration of multinational media-buying agencies. Many of those will strike deals with media providers not just on a national basis but on a global basis. If advertisers are not very clear about the commercial basis that exists between themselves and their agencies, there may be instances where agencies have a commercial incentive to favour a global commercial deal with a big global company, which is largely, usually, a technology company as opposed to a local broadcaster, if that makes sense. There is an agency twist in that particular tale.

The Chairman: Baroness Bonham-Carter, and then I want to come back to trust.

Baroness Bonham-Carter of Yarnbury: I want to put something on the record. My research says that you do not have to pay for ITV Hub, so that is a question for the broadcasters.

Phil Smith: No, you do not. There is a free one—ITV Hub—with advertising, and ITV Hub+ is advertising-free, which you have to pay for.

Baroness Bonham-Carter of Yarnbury: It is definitely for ITV anyway.

The Chairman: I think we are clear now.

Phil Smith: I saw an ITV Hub programme yesterday and it had lots of ads.

The Chairman: I want to come back to something you raised earlier and which we talked about when you gave evidence to this Committee when we were looking at the future of the advertising industry. It is the breakdown of trust in advertising.

I think you referred to four areas where you thought there were issues of bombardment and irrelevance, but you were describing a situation where there was a gradual breakdown in trust in advertising, a lot of which has come from online advertising, ad fraud, inappropriate use of personal data and inappropriate association of content with advertising.

Is there an opportunity for the commercial broadcasters to assert that they have a highly trusted advertising medium where the issues that have created the breakdown in trust do not really apply, and in so doing get a competitive edge?

Phil Smith: To some extent, that is a drum they beat very loudly today. We have seen that despite the number of instances of adverse criticism in the media around the major platforms—I do not need to catalogue them here—advertising money continues to flow in their direction. We have seen instances where advertisers have paused or withdrawn from platforms such as YouTube, but none the less the movement is in one direction.

We conclude that in markets where it is highly competitive and where, if you pull out, your competitor will keep spending, if you genuinely believe that that is what is driving your sales and your business model, and we know that for some markets that is now the case, it is commercially very difficult to withdraw permanently.

The Chairman: Good, thank you. I am afraid we have gone over time. I am sorry, but maybe we can chat separately and send a further request, as we have gone a few minutes over. I thank our witnesses for their evidence. It has been very useful to us and very expert. If we want to follow up on anything, we will do so in due course. Thank you for your time.