## Advertising Association – written evidence (ADV0019)

Inquiry into the Advertising Industry

### About the Advertising Association

1. The Advertising Association is the industry body representing the whole of the advertising and marketing communications industry and bringing together companies that advertise, their agencies, the media and relevant trade associations to combine strengths and seek consensus on the issues that affect them. We promote the role, rights and responsibilities of the industry, communicate industry positions for politicians and opinion-formers, and publish industry research through advertising's think-tank, *Credos,* including the *Advertising Pays* series which has quantified the advertising industry's contribution to the economy, culture, jobs and society.

### Why the advertising industry matters

2. *Advertising drives economic growth, competitiveness and jobs:*

   Advertising is a driver of economic growth and competition. Every pound spent on advertising returns £6 to GDP. Advertising spend will be over £21 billion this year and this results in over £120bn to GDP, supporting over 1 million jobs across the UK. The UK is the largest exporter of advertising services in Europe, at £4.3 billion per annum.

3. *Advertising is a bellwether for the wider economy*

   Advertising forecasts are important not just for advertising and media industry sectors but because they can give an indication of future economic trends. Advertiser confidence can be fragile when there is political and economic uncertainty, and UK adspend forecasts have softened in light of the vote to leave the EU. We are now predicting 2.6% total growth in 2018, compared to the 3.3% growth we were forecasting in April 2017.

4. *Advertising funds the media, arts and creative industries:*

   Advertising is the second largest creative industry in terms of GVA, and also funds culture and the other creative industry sectors, from TV and publishing to the arts, through advertising and sponsorship[1].

### Key concerns and policy asks

5. **Global talent:** It is of fundamental importance to all our industry sectors that **future immigration rules allow easy access to European talent and that Tier 2 rules also be reviewed to make it easier and quicker to bring in international talent**. The Advertising Association is publishing a new report[2] on advertising and global talent on 17 October. The UK

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[1] *Advertising Pays 3,* produced by Credos/Deloitte for the Advertising Association in 2013

attracts the best global talent because of the UK's reputation as a centre of expertise for creative, digital and tech skills and because we have been open to the world's talent.

6. **Promoting the UK's assets:** The UK is one of the most important global advertising hubs in the world but **we need the Government's support to help maintain this status in the face of competition from other countries and cities which are being marketed as attractive destinations for businesses and talent**. The Advertising Association is having constructive discussions with DIT about an industry-Government partnership to promote British advertising and marcoms industry sectors with the aim of building the UK's reputation and attract more inward investment to our world-leading industry sectors. **We need Government to see this as an important priority to resource for 2018.**

7. **Access to markets:** We urge the Government to prioritise market access to the EU and other countries through regulatory equivalence to key EU laws (eg GDPR, AVMS, Consumer Acquis, subject to strong freedom of expression exemptions and derogations), and by explicit reference to the industry's priorities in future Free Trade Agreements. Within the EU, the advertising industry benefits from European-wide legal frameworks such as GDPR, the E-Privacy Directive, AVMS and the Consumer Acquis. The free flow of data across borders is essential to the free movement of businesses and services, including advertising and marketing services, and having "equivalent" status with Europe is essential to the UK's continued leadership in digital advertising and marketing communications services going forwards. We welcome the Government's intention to achieve 'adequacy' status that will recognise UK data protection standards as equivalent to those of the EU. The UK's broadcasting and advertising industries have also benefited from the AVMS framework and country of origin principle which enables them to acquire a single broadcasting licence to broadcast their channels, and the advertising they carry, to the whole of Europe. In the absence of alternative arrangements, international channels established in the UK would have to re-license their services in an EU market, and move some or all of their workforce accordingly. Coming out of the EU, the UK needs a viable legal framework that allows UK companies to continue to do business across EU borders easily and without unnecessary barriers. This is very important to retaining London's status as a global broadcasting and media hub.

8. **Free trade agreements:** Using the UK's bilateral trade dialogues to encourage replication of key UK regulatory structures governing advertising (both regulatory and self-regulatory) in third markets would be very helpful in promoting the UK's leadership in advertising services. We propose the Government consider including an "Advertising Services Annex" in trade agreements with other countries, to ensure as much market access and mutual recognition as possible. The Government has committed to maintaining a high level of protection for IP; this is crucial for the creative industries, including advertising, to be able to protect and monetise UK creativity.

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[2] Ad Pays 6: World Class Talent, World Class Advertising, published 17 October by Credos/the AA

9. **Continued UK involvement in EU regulatory discussions:** We urge the Government to stay involved in negotiations in the EU law-making process, for example, the review of the E-Privacy Directive (now proposed as a Regulation). The UK's lead in digital advertising is threatened by some of the proposals and there is a major question over the need for such a Regulation, given the implementation of GDPR which assures high standards of data and privacy already. We need British advertising industry interests safeguarded in this and other discussions, through strong advocacy by the Government in the law-making process.

10. **The impact of digital:** The AA is currently discussing with members the priorities it will propose to Government in the context of the Digital Charter's ambition: these include ad fraud, ad misplacement, adblocking and data privacy. We are putting forward ideas to Government as to how it might work with the industry on these issues as part of its wider programme to make the UK the best place for digital services and the safest place to be online.

11. **Government support for the industry's Regions and Nations Industrial Strategy:** We call upon the Government to acknowledge the importance of advertising as growth lever for companies and the wider economy, and to support the industry's proposal to help SMEs grow their businesses. We are proposing more industry action through collective, impartial advice hubs in the regions and Nations, starting with a pilot scheme, matched by a fiscal incentive from Government to signal to SMEs the importance of this strategy for growth.

**Answers to Questions**

**1. Skills and Research**

*What specific skills are required to support the advertising industry in the production and distribution of advertising? What different skills are required for the creative, technical, accounts, business and analytical aspects of the industry?*

12. The Advertising Association's membership represents a wide range of different advertising and marketing communications industry sectors, from companies that advertise, the agencies that make their campaigns, the national and regional media that depend on advertising revenue, and various bodies representing parts of the marcoms sectors, from market research, and direct marketing to marketing promotions. These all require a wide range of different skills, from 'creative' skills, numerical and data analysis skills, strategic business skills, sales and planning. We give examples below but anticipate that the member bodies will answer these points in more detail.

    - Creative: copywriting, art direction, visualisation, graphic design, web design, content creation, ability to write for different media (TV, radio, press, digital, search, social media etc.).

- Media buying: negotiation, financial and commercial skills, market knowledge, client understanding, budget orchestration, traditional media landscape and new digital media landscape understanding and integration, programmatic buying.
- Campaign strategy and planning: Ability to understand and analyse research and data, insight development from data sources, data analytics, behavioural analytics, consumer behaviour, logical and lateral thinking (diagonalthinking.co.uk), user experience and customer journey analysis, understanding of new digital and tech landscape and how consumers interact with it.
- Media delivery: Ad serving, programmatic buying of media, search: search engine optimisation and pay per click advertising, performance marketing (including social media communications).
- Client service: Literacy, numeracy, strategy, people skills, financial, team management and leadership, presentation, negotiation, project management, lateral and logical thinking, general client business understanding, market dynamics, economic background.
- Media and communications planning: Media planning (TV, digital, press, radio, cinema, out of home, search, social, web advertising, apps, AI, VR, AR) and implementation, media orchestration, budget management, time management, consumer behaviour, media behaviour, understanding balance of paid owned and earned media, performance marketing.
- Digital: software and system development, statistical analysis and data mining, database management etc.

*Is the current system of education and training for advertising adequate? What are the respective roles of universities and industry in teaching skills? What gaps exist in such provision of training?*

13. Trade bodies and companies provide high quality training programmes for people working in and those that have yet to start working in advertising and marketing communications. Qualifications provided by the IPA and MRS are internationally respected. Specialist advertising apprenticeships run by the industry are becoming more established and aim to broaden diversity of entrance into the industry. The IPA’s Creative Pioneers scheme is a leading example.

14. There are some examples of industry programmes with universities, for example, the Chartered Institute for Marketing (CIM) has accredited courses, such as a 3 year marketing course at the University of Hertfordshire[3].

[3] Other examples include: **Reading -** BSc Food Marketing and Business Economics draws on the University's internationally recognised expertise in the food chain and its excellent links with industry. Based in the Department of Food Economics and Marketing, it benefits from close links with the Chartered Institute of Marketing's sector interest group for the food industry. **Manchester –** MMU has BA Advertising and Brand Management and this degree has been developed in close co-operation with practitioners from the communications industry who are also actively involved as expert guest lecturers, mentors and placement employers. Includes the option of having a placement year. **Leeds – Leeds University Business School** MA Advertising and Marketing (accredited by CIM) is taught by specialists with professional experience and research expertise. **Leeds Beckett University** also has a BA Marketing with Advertising Management course which includes a placement year in industry and has close links with CIM. **Bristol** – University of West England (Bristol) has a BA Marketing course, accredited by CIM, connects with

Industry bodies are now doing more to attract people to work in the industry. The IPA has a portal to connect graduates and current students to agencies, with a focus on STEM to help agencies deal with the developing digital landscape.

15. Closer relationships between the industry and university/college marketing courses should be encouraged so that we foster the right skill-sets and combine practical knowledge with academic knowledge. It is well known that universities feed talent to local businesses and encouraging close ties between local advertising and media businesses will help create talent hot spots in the regions and Nations, as well as in London.

*How much of advertising budget for universities comes from EU sources? How well does the current visa system for students support the advertising industry?*

16. We do not have the information regarding the first question above. We assume that universities have this information.

17. It goes without saying that attracting the best student talent, from the UK and other countries, is very important to the various advertising and marketing industry sectors. Like other industries, we would be impacted by any diminution in the pool of talent from universities as a result of new restrictions in the visa system for non-EU students who now have to return after their courses if they do not have a job. We would be further affected if similar restrictions are introduced for EU students after Brexit.

18. We note the Mayor of London's call, on 11 October, for as open an immigration policy as possible and he called for "urgent changes to the visa system for students". We would agree that the visa system does need to be reviewed as part of the UK's future immigration policy. This is vital to enable businesses, including those connected with the advertising industry, to continue to attract the best talent both from the UK and from around the world.

## 2. International

*To what extent is the UK advertising industry integrated with the global economy? For example, to what extent does advertising rely on services and talent based outside the EU? How could immigration policy better support the industry?*

19. The UK's advertising industry is a world leader, with many global advertising, media and tech companies having their European HQs in London. There are many reasons for this: the world-beating creativity of our industry sectors that means the UK is a magnet for diverse skills and businesses, and the attractiveness of London and the UK as a place to live and work.

20. By way of a snapshot, the Advertising Association's June 2017 Brexit survey of 132 companies across the advertising ecosystem found that seven out of ten (69%) respondents employ staff from outside the UK. We found that on

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practitioners in the local industry.

average, 17% of a company's workforce is made up of non-British EU nationals and 10% is made up of non-British nationals from outside of the EU.

21. On 17 October, we published a major new report on global talent, which shows that London is at the top of the league of five cities, including New York, Sydney, Paris and Amsterdam, in terms of attracting the most international talent.

22. The UK's advertising industry is reputed worldwide[4] for its creativity and production expertise, and for particular services such as market research. It achieves this renown because London and the UK can attract the best talent from across the world, as well as from the UK. There are already anecdotal reports from companies about the human resources issues they face with keeping existing EU talent as a result of the uncertainty and negativity EU nationals perceive from the Brexit debate, and it is also affecting people's attitudes about coming to the UK to work.

23. The advertising industry in the UK is a world leader in part thanks to the wealth of talent we attract from all four corners of the globe. A continued flow of highly skilled people is necessary for us to maintain our edge as one of the world's leading exporters of advertising. The calibre and diversity of the talent in the UK is a significant reason international clients pick UK-based agencies, research and production companies over others. It's vital we nurture home-grown talent, but it is the diversity of nationalities and the creative and cultural stimulus that has been key to our success.

24. EU cities like Amsterdam, Paris and Berlin are already pushing to attract business and employees from the UK. The city of Amsterdam has a website, in English, aimed at attracting people to come and work there, selling Amsterdam as a creative hub, and offering tax incentives to migrants coming to work there[5].

25. Any future immigration controls that limit the pool of available talent in the UK, put up new barriers to recruitment, or deter high-flyers from seeing the UK as a "must come to" destination to build their CV, are unhelpful to the advertising industry because they put up barriers, make the UK less attractive as a place to come to work and undermine our world-standing as a global advertising hub.

26. For these reasons, we support a flexible immigration system that keeps the UK as an attractive place for exceptional people to grow their careers. The ability, currently, for EU nationals to come to the UK freely and to find work when they are here, has enhanced the pool of talent available for jobs and enabled quick and easy recruitment. This will be under threat with any new controls put in place for EU nationals.

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[4] A major exporter of services (£4.3 billion in 2015; second only to the US). Advertising and marketing are 1.2% of all UK service exports, and 61% of advertising's exports are to Europe.

[5] https://www.iamsterdam.com/en/

27. The Tier 2 visa system for nationals from other countries outside Europe also needs to be reviewed at the same time to make it easier to bring skilled workers into the country.

*What are the concerns for the UK advertising industry regarding continued access to international markets? What measures could the Government implement to make the UK an attractive place for foreign companies to buy advertising services?*

28. The UK advertising industry has benefited from the UK's access to the EU markets and from the UK's geographical and linguistic advantages which help access the US market as well as the European markets. Because of the expertise and reputation of our industry sectors, companies from other countries turn to the UK to run their campaigns.

29. Going forwards, we have three "asks" of Government: (1) help us promote British advertising and marketing services abroad working closely with the Government's own resources (we are now discussing with DIT how the industry can work with them in establishing priority markets to target for their trade missions) (see paragraph 6 above), (2) create close alignment with key EU legal frameworks (eg GDPR and AVMS) – see paragraph 7 above, and (3) include us in Government discussions about future Free Trade Agreements, so that the needs of the advertising and marketing industries can be considered along with other industry sectors (see paragraph 8 above).

### 3. Clusters and Entrepreneurship

*What role do entrepreneurs, start-ups and Small and Medium Sized Enterprises (SMEs) play in the UK's advertising industry? What are the benefits and disadvantages of employment practices, such as freelancing and virtual working, with respect to the development of skills and access to talent?*

30. The advertising industry is made up of very large businesses, including media and tech companies, and SMEs and start-ups, which are often spawned by the large businesses and get much of their business from them. There is a virtuous circle of interdependence.

31. The growth of freelancing and virtual working allows companies to buy in specific skills for projects, and to diversify and adapt their businesses to rapidly changing markets.

32. Virtual working, enabled by access to super-fast broadband, is important for the rapid sharing of large volumes of data frequently needed in the advertising development and production process. Transfer of media files and data, as well as the capability to communicate with contractors, clients and contributors in high quality and in real time are important factors in enabling a small company or agency to successfully develop.

33. Virtual working also allows staff and contractors to work more flexibly. However, relying on contractors can mean that companies are inclined to

invest less in staff training and skills. This can often be provided by associations and many of the AA's member associations offer considerable training and support (eg DMA, MRS, IPA, IPM and others).

*How do creative and business clusters form? Does such clustering contribute to the past success and future growth of the advertising industry? What type of companies and skillsets are required to form clusters that are beneficial to advertising? To what extent can virtual working contribute to the development of clusters?*

34. The advertising industry tends to be conurbation based, and the talent will often co-locate in those conurbations. Advertising firms are often 'anchor tenants' for creating or sustaining a cluster because it draws on lots of other creative industries. Agencies often attract the other segments of the ecosystem – when the advertising agency Mother moved to Shoreditch, it sparked a number of other companies moving or setting up, providing a range of services. This has also occurred in Leith, as well as around the 'Custard Factory' in Birmingham. Clusters also form around significant cultural institutions such as theatre spaces, art galleries, museums and media – Manchester being a case in point. Such entities sustain a creative environment that other creative and digital and creative businesses will seek to cluster around them.

35. Clusters are incredibly important to advertising. In the UK, Soho is the prime example of a cluster. A combination of agencies, production houses, VFX houses, media owners and brands has meant that London is unique for hosting all sectors making up a successful advertising industry.

36. Advertising firms rely on a diverse range of suppliers; technology, web design and data science services as well as photographers, designers and independent production companies. Advertising sustains an ecosystem around it that supports a much broader breadth of the creative industries.

*What is the role, if any, of the Government in promoting the growth of clusters? How could an appropriate balance be struck between regional growth and the concentration of clusters in the South-East of England?*

37. The UK is 3$^{rd}$ most successful country in the world for the number of new start-up businesses it produces; however it is only the 13$^{th}$ best performing globally for scale-ups. London is very important to the advertising and creative industries which are thriving there and the Government needs to take this into account and support its continued growth. However, through its Industrial Strategy, the Government is also rightly focused on measures to encourage growth and productivity in the Regions and Nations, and the Advertising Association, in its response to the Government, has set out proposals to help SMEs throughout the UK grow their businesses through incentivising greater investment by SMEs in advertising and marketing.

38. Investment in advertising and marketing grows brands and businesses and creates multiplier effects on the general economy. As stated in paragraph 2, research by Deloitte for the Advertising Association has shown that every £1 invested in advertising, generates £6 into the general economy. Therefore

the £21.3 billion invested in advertising in 2016 contributed more than £120 billion to the economy. For SMEs, the impact of investing in advertising is greater.

39. Recent YouGov research we have conducted with SMEs to find out their views on investing in advertising supports our view that, whilst there is more industry can do to provide more practical advice to SMEs, this also needs to be accompanied by a strong signal from Government, including practical support and networking structures in the regions and a fiscal incentive to ensure a measurable change in their investment behaviour. This would not only build brands but create a virtuous cycle of investment and revenue growth benefiting the wider regional and national economy.

40. The YouGov research indicated 49% of all SMEs would undertake additional advertising if supported through a tax relief scheme (e.g. a 100% corporation tax relief scheme on additional advertising investment). 80% would increase spend by more than 10% and 30% would increase spend by more than 100%. Making growth vouchers available for advertising would also act as an incentive, though to a lesser extent: when asked about grants for first-time advertisers, 32% would probably or definitely increase investment in advertising and marketing.

## 4. Digital

*How is the UK advertising industry adapting to the shift to digital media advertising? How does this compare with other countries and other industries? What role can the Government play to support the industry in this regard?*

41. More than 50% of advertising spend is now on digital advertising. The UK is ahead of other countries. The UK industry is one of the most developed digital industries in the world. Internet advertising accounted for over half of all advertising spend in Q1 2017. Internet advertising continues to drive ad spend growth, with one in four pounds now spent on search.

42. Since 2013, we have seen a directly correlative shift in brand expenditure on print and digital newspaper advertising. Whilst print expenditure has fallen by 29.7% from £2.4 billion to £1.7 billion, digital expenditure has increased year on year. In the same period, digital has grown from £323 million to £422 million, marking an increase of 30.7%.

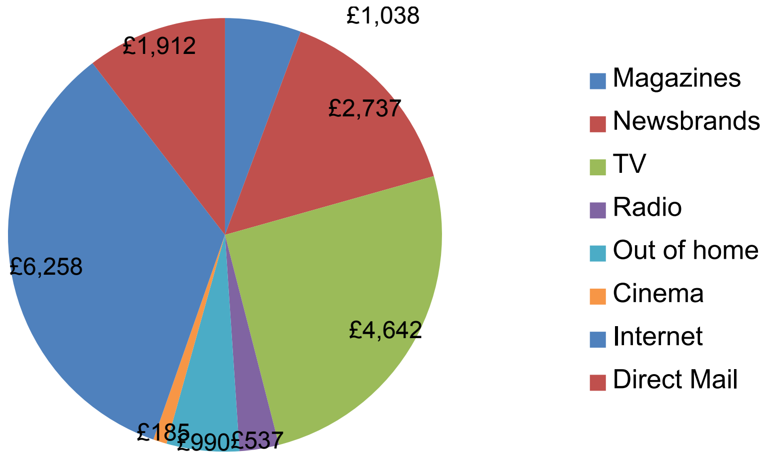
43. Similarly, the magazine industry has seen a fall in the amount spent on its print advertising, however the amount spent on digital advertising has grown at a slower pace. Between 2013 – 2016, the amount spent on print advertising decreased from £786 million to £594 million, thus showing an expenditure fall of 24.3%. Conversely, digital spend increased by 12.2% from £251 million to £282 million.

44. Whilst concerns have been raised as to the fall in expenditure in print advertising, publishers are now moving towards more innovative ways to target consumers using their websites in order to make up for the increasing shortfall.

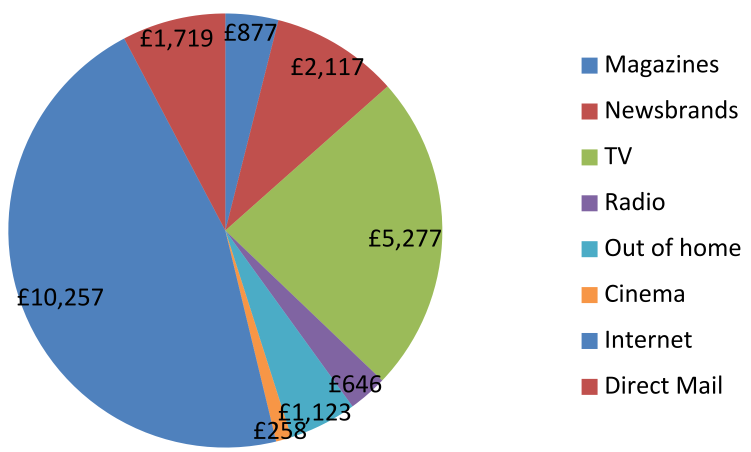
*What is the future of television, print, radio, out of home and other forms of non-digital advertising?*

45. The latest AA and WARC data (the authoritative source of data on advertising spend) was released in late July 2017. It showed 1.3% year on year growth in Q1 of 2017, the 15th consecutive quarter of growth (albeit the slowest rate in almost 4 years). Within this overall picture of the market, online advertising is growing in market share, whilst advertising in other media is declining. The rapid changes in the market are causing some market disruption.

**Total ad spend 2013 (£ millions)**




**Total ad spend 2016 (£ millions)**




*Is the current digital media market fair, open and competitive? What legislative measures, if any, should be adopted?*

46. This is a very competitive market in which there is rapid market change, and this is having an effect on business models. Various industry sectors will be responding separately.

*Is there any role for the Advertising Standards Authority or other regulators in respect of digital advertising?*

47. The CAP code for non-broadcast advertising applies to:

    a. advertisements in newspapers, magazines, brochures, leaflets, circulars, mailings, e-mails, text transmissions (including SMS and MMS), fax transmissions, catalogues, follow-up literature and other electronic or printed material
    b. posters and other promotional media in public places, including moving images
    c. cinema, video, DVD and Blu-ray advertisements
    d. advertisements in non-broadcast electronic media, including but not limited to: online advertisements in paid-for space (including banner or pop-up advertisements and online video advertisements); paid-for search listings; preferential listings on price comparison sites; viral advertisements; in-game advertisements; commercial classified advertisements; advergames that feature in display advertisements; advertisements transmitted by Bluetooth; advertisements distributed through web widgets and online promotions and prize promotions
    e. marketing databases containing consumers' personal information
    f. promotions in non-broadcast media
    g. advertorials
    h. advertisements and other marketing communications by or from companies, organisations or sole traders on their own websites, or in other non-paid-for space online under their control, that are directly connected with the supply or transfer of goods, services, opportunities and gifts, or which consist of direct solicitations of donations as part of their own fund-raising activities.

48. The ASA’s remit was extended to cover marketing communications on companies’ own websites in 2011. Between 2011 and 2016, the ASA resolved 41,383 complaints about 36,872 online ‘advertiser-owned’ ads, accounting for 1 in 3 complained about to the ASA.

49. The ASA also deals with Online Behavioural Advertising (OBA). OBA is the practice of collecting information from web browsers so that it can be used to deliver ads that are more relevant to the user of a particular computer.

50. Self-regulation is flexible, funded by the industry itself and can be changed in a faster and more efficient manner than legislation. Advertising self-regulation ensures consumer protection as well as stability and clarity for business. Adjudications are swift, creating cost and time efficiencies for stakeholders.

20 October 2017