ADVERTISING PAYS 7: UK ADVERTISING'S DIGITAL REVOLUTION

CREDOS

ENDERS | ANALYSIS

THE DIGITAL REVOLUTION IN THE UK ADVERTISING INDUSTRY

STEPHEN WOODFORD

Chief Executive, Advertising Association

The Advertising Pays series of reports from AA think tank Credos has become the global Gold Standard for research into the wider economic and social impacts of advertising and was the first to establish a body of evidence of our industry's value – both economic and social – to UK Plc.

Advertising Pays 7: UK advertising's digital revolution, from UK advertising's think tank, Credos, led by Karen Fraser MBE, is another outstanding report for our industry. Working with the team at Enders Analysis and many influential contributors, Credos enters new territory by investigating the impact of digital technology on advertising.

In just quarter of a century, digital advertising has grown to account for more than half of UK advertising expenditure. This report considers how we reached this point, what it means for the shape of our industry and where we are headed next.

In many ways, we are at the vanguard of the world in advertising's digital revolution. For example, the UK's ad tech sector, which produces digital tools and services for the advertising industry, comprises more than 300 UK-headquartered companies, with over £1 billion invested in this sphere since 2013.

British consumers spend more online than any other G20 market – nearly £2,000 per person per year and this report shows how this growth has gone hand-in-hand with that of online advertising.

At the same time, it supports the UK's SME community, creating jobs and growth right across the nations and regions, thanks to the flexibility and low cost of entry.

With this revolution has come major disruption and challenges to existing business models and, in response, rapid evolution and innovation. This report contains many outstanding examples from our advertising ecosystem.

The challenges go way beyond those of the advertising industry and outside this report's scope. Digital technology is changing the way we live, bringing new problems to be addressed. The UK Government's Digital Charter set the ambition for the UK to be 'the best and safest place to be online' and an independent regulator will enforce duties of care, as confirmed in April's Online Harms White Paper. With the recent Cairncross review making recommendations on the sustainability of quality journalism, potential enquiries from the Competition and Markets Authority and the ICO, along with investigations by Parliamentary Select Committees, the level of regulatory scrutiny has never been higher.

> **“ ADVERTISING PAYS 7: UK ADVERTISING'S ONLINE REVOLUTION SHOWS WE ARE A GLOBAL DIGITAL ADVERTISING POWERHOUSE.**

The UK advertising's self-regulatory system through the Advertising Standards Authority is also changing. In late 2018, the ASA announced its determination to strengthen further the regulation of the online space through its five-year strategy More Impact Online.

Advertising Pays 7: UK advertising's digital revolution shows we are a global online advertising powerhouse. Balancing statutory and industry regulation to encourage growth, ensuring competition is healthy and fair, while minimising societal harms, is a challenge for Government and industry alike. Yet, with the right conditions, UK advertising can play a fundamental role in the UK economy's future growth, not just within our borders but in how we do business with people worldwide.

DIGITAL ADVERTISING: POWERING THE UK'S FUTURE IN A GLOBAL DIGITAL ECONOMY

KEITH WEED

President, Advertising Association

Advertising is a crucial engine in powering the UK economy, with advertising expenditure of £23.6bn in 2018 contributing more than £138bn per year in total and online adspend now makes up 57% of this amount. This is predicted to grow further to 62% of total UK advertising spend by 2020 as we build on our position as the largest online advertising market in Europe and third largest in the world – behind only the United States and China.

This latest report in the Advertising Pays series is a hugely welcome and timely addition to the debate on advertising, its role in the UK economy and our status on the world stage. The findings demonstrate not only how we have arrived where we are today, but also give vivid case examples of the strengths of online advertising in the UK, and offer pointers on how we can continue to thrive into the future.

Within the past 25 years, UK advertising has undergone a fundamental change to reach a point where, relative to the size of the economy, UK online advertising expenditure is the highest in the world. Huge numbers of adverts are now delivered to audiences via digital technologies, against virtually zero in the early 1990s. Over half of all advertising spend now goes towards media that did not exist at that time. Many of us working in industry have witnessed these changes first-hand, and the changes in the way we reach consumers and market our brands have been truly astonishing.

This transformation has enabled the creation of new advertising platforms and created whole new skilled professions and technologies employing tens of thousands. Today's consumer is used to receiving marketing communications and advertising that is immediate, tailored, and more relevant to them and their interests in a way that was previously unheard of.

> **"THE DIGITALISATION OF BRITISH ADVERTISING HAS BEEN A TRUE MODERN REVOLUTION AND REVELATION...**

But Credos research also shows that the past 25 years have also seen a decline in public trust in advertising and, as we look at the wealth of new technology and opportunity to advertise at our disposal, it is crucial that we do not lose sight of the fundamental importance of the value of trust and our relationship with the consumer. This should be at the heart of all we do, which is why we have put addressing the public's trust in advertising right at the heart of our strategy for system change in the UK advertising industry.

We aren't the only country that has a strong online economy, nor are we the only one to have a high rate of online connectivity, or Government support for developing the digital economy. But what makes the UK special is that we combine all these qualities in the right amount and have been both as open to innovation from other countries as we have been in developing our own expertise and exporting it abroad. In an age of unparalleled connectivity, the UK is – and must remain – connected to the wider world. This also means continuing to welcome – and be attractive to – international talent.

The digitalisation of British advertising has been a true modern revolution and revelation that has created opportunities for people and businesses up and down the country. It should be a source of pride for us all in the UK that this has happened here. Advertising Pays 7 shows not only how much has been achieved but also the bright prospects that lie ahead. It is in our hands now to show the world how online advertising can be used in the most creative and effective ways to grow the economy, create jobs and drive societal change.

ADVERTISING ASSOCIATION

UK ADVERTISING'S DIGITAL REVOLUTION

A timeline of year-on-year total and online advertising spend and key market developments since 1994

AD SPEND TRACKER

Total ad spend (£millions)	Online ad spend (£millions)

1994

HOTWIRED launches the first banner ad

THE TELEGRAPH becomes the first major UK newsbrand online with the Electronic Telegraph

£8,625 £0

1995

NETGRAVITY, the world's first online advertising server company, launched

£9,368 £0

1996

YAHOO debut search ads

DOUBLECLICK begins using browser cookies to track users

£10,275 £0

1997

iab. UK FOUNDED

POP-UP ADS invented

£11,406 £0

1998

Google LAUNCHED

DOUBLECLICK develop Boomerang, advertising's first re-targeting technology

KINGSTON COMMUNICATIONS become the first UK company to launch a fully commercial VOD service

DIGITAL ONE is awarded the first license to broadcast commercial radio on DAB

£12,334 £0

2000

Google DEVELOP ADWORDS

£14,651 £153

2001

JCDECAUX launches first UK digital out of home screen at Victoria Station

JCDecaux

£14,259 £166

2002

£14,461 £197

The FINANCIAL TIMES becomes the first UK newspaper to introduce an online subscription

FREEVIEW, the digital terrestrial TV platform is launched

First AD BLOCKERS are rolled out

2003

Google LAUNCHES ADSENSE

£15,004 £465

2004

facebook LAUNCHES

£16,036 £825

2005

YOUTUBE launches

Europe's first mass roll out of DIGITAL CINEMA systems begins in the UK

£16,446 £1,367

2006

ADBLOCK PLUS is released

YOUTUBE launches its video advertising platform

SKY and CHANNEL 4 launch their own versions of VOD technology

TWITTER founded

£16,610 £2,016

2007

APPLE launches the iPHONE

GOOGLE buys DOUBLECLICK

YAHOO'S RIGHT MEDIA, arguably the first real-time bidding (RTB) ad exchange marks the beginning of programmatic advertising's rise

£17,364 £2,813

2008

YOUTUBE launches PRE-ROLL ADS

ITV launches ITV HUB

CRITEO launches one of the first demand-side platforms

£16,891 £3,350

2010

TWITTER launches promoted tweets

The Digital Advertising Alliance (DAA) launches the AdChoices program

£16,118 £4,097

2011

FACEBOOK launches sponsored tweets

The term 'NATIVE ADVERTISING' first coined

£16,656 £4,822

2012

AMAZON ADVERTISING develops into fully fledged demand-side platform

DIGITAL SWITCHOVER from terrestrial analogue TV complete

£16,961 £5,448

2013

INSTAGRAM releases sponsored posts in users' feed

£17,597 £6,258

2014

Global launches the DIGITAL ADVERTISING EXCHANGE

Magazine app READLY launches

SKY ADSMART kicks off addressable TV advertising

£18,740 £7,335

2016

SNAPCHAT begins to include ads between user's stories

THE COALITION FOR BETTER ADS is formed

£21,230 £10,111

2017

Google & facebook

agree for their ads to be audited by the US MEDIA RATINGS COUNCIL

£22,178 £11,683

2018

GDPR

IAB UK GOLD STANDARD launches to improve online fraud, brand safety and the user experience

THE COMMITTEE OF ADVERTISING PRACTICE (CAP) launches advertising guidelines for social influencers

£23,566 £13,439

EXECUTIVE SUMMARY

More than THREE FIFTHS of TOTAL UK ADVERTISING SPEND is predicted to be online by 2020

In 2018, online advertising contributed 57% of the UK's total advertising spend of £23.6 billion and is predicted to account for 62% by 2020. This signifies a huge change in the industry. Twenty years ago, online expenditure did not even register in published statistics.

The UK is the LARGEST ONLINE ADVERTISING MARKET in Europe, and THIRD LARGEST in the world

Only the United States and China spent more than the UK on online advertising in 2018. In terms of spending, the UK is well ahead of Japan and Germany, both economic powerhouses with larger populations.

Relative to the size of the economy, UK online advertising expenditure is the highest in the world, at 0.63% of GDP.

The UK's STRONG ONLINE ECONOMY has powered the GROWTH of online advertising

At £1,868 per person, the UK retail e-commerce expenditure per capita is higher than in any other G20 market. Statistics collected throughout the world demonstrate the close correlation between online advertising spend and the strength of the wider online economy. Both online advertising expenditure and internet retail expenditure in the UK have almost trebled since 2010.

A LARGE and DIVERSE AD TECH SECTOR flourishes in the UK, employing tens of thousands

The UK's strong online economy has fostered the growth of many companies in the specialist advertising technology (ad tech) sector, which produces digital tools and services for the advertising industry. The UK ad tech sector comprises of more than 300 UK-headquartered companies, attracting more than £1 billion in investment since 2013.

These UK ad tech companies employ over 19,000 UK workers, almost four times as many as the largest advertising tech platforms in the UK, such as Google and Facebook, combined.

Online advertising BOOSTS UK small and medium-sized businesses (SMEs)

More SMEs now advertise than ever - rising from 30% of SMEs in 2013 to 42% in 2017 – as the opportunity to target consumers more effectively on a small budget has never been better. Given the benefits that advertising offers SMEs it's not surprising that the growth in SME advertising coincides with massive growth in the business birth rate since 2010.

Not only are more SMEs advertising but more are now using multiple media channels to advertise as campaigns including TV, newsbrands, magazines and radio become more financially viable.

PRE-BREXIT CONDITIONS facilitated WORLD BEATING GROWTH and cemented the UK's position as Europe's MOST ADVANCED ONLINE ADVERTISING MARKET

A unique combination of factors including connectivity, cultural norms, population density, government support and the self-regulatory system created the perfect environment for the UK's online advertising market to flourish.

CHAPTER 1

UK ADVERTISING'S DIGITAL REVOLUTION

Over the past 25 years, the UK advertising industry has undergone a profound shift. More than half of all advertising expenditure is now allocated to media which did not even exist at the start of this period.

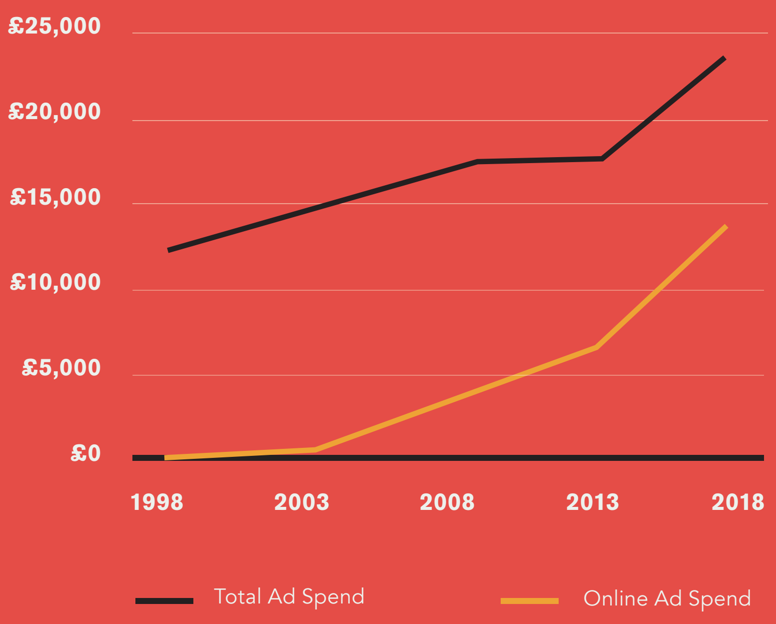
This fundamental change - the digitalisation of the UK advertising industry - is the subject of our report.[1]

ADVERTISING EXPENDITURE: KEY DEVELOPMENTS

Annual statistics compiled by the Advertising Association and WARC (The World Advertising Research Center) reveal the remarkable growth of online advertising[2]. Before the turn of the millennium, online advertising expenditure was so negligible that it did not even register in published statistics. At £13.4 billion in 2018, it now accounts for 57% of the UK's total advertising expenditure of £23.6 billion.

Search, incorporating Amazon, Apple, Google and Microsoft as well as some affiliate search revenue has grown rapidly since Google first developed its AdWords product in 2000, ushering in the kind of data-driven automation at scale which has characterised the online advertising industry ever since. The value of online search is expected to reach £8.1 billion in the UK in 2020, making up 50% of total online ad spend.

Figure 1:
Total and online UK advertising spend 1998-2018 (£ millions, current prices)



Source: AA/WARC Expenditure Report

[1] We aim to be clear and precise in our terminology. Too often, we believe, literature on this subject confuses more than it enlightens. We will not discuss digitisation, the action or process of digitising – the conversion of analogue data (such as images, video and text) into digital form.Rather, our focus will be on digitalisation – the adoption or increase in the use of digital or computer technology by organisations, industries or countries.
[2] The Advertising Association / WARC Expenditure Report (2018) (http://expenditurereport.warc.com/)

CASE STUDY

APPROACHING TWO DECADES OF SEARCH ADVERTISING

In the year 2000, Google AdWords launched with 350 advertisers each paying to access the innovative key word bidding system that was to radically alter the advertising ecosystem forever. At the time, few had any clear idea of the scale possible. Almost two decades later, AdWords now services millions of advertisers globally and over half a million in the UK alone. Search advertising[3] is anticipated to value over £8 billion in the UK by 2020, accounting for 31% of all UK advertising spend[4]. The growth in search advertising has been remarkable.

"AdWords offers the most technologically advanced features available, enabling any advertiser to quickly design a flexible program that best fits its online marketing goals and budget." Those are the words Larry Page, Google's co-founder, said of the new AdWords product back in 2000. Fast-forward nineteen years and the concept is largely unchanged, even if the technology has developed dramatically.

The ability to "enable any advertiser" regardless of size or budget is perhaps the key driver of AdWords, and indeed wider search advertising's, success. This is certainly the view of Mark Howe, Managing Director of EMEA Agencies at Google, outlining that "what online search and advertising offer any brand, however large or small, is the ability to get in front of the consumer at the point of demand. It's also self-service. Millions of advertisers have set up their own campaigns from their offices or bedrooms."

The self-serve advertising revolution among SMEs has been behind much of the rapid online growth in search advertising since Google launched the AdWords platform.

The UK is the second largest market for Google after the United States. Howe puts this down to this country's "entrepreneurial creativity and small business culture" as well as its high credit card usage, which is a boon to e-commerce and thus search advertising.

Of course, search isn't just attractive to advertisers. As Howe alludes to, retail e-commerce expenditure per capita in the UK is higher than in any other G20 market. Online search has changed the way people shop, becoming the second most important way that customers find a business. It has also strengthened the business-customer relationship as crucially, it lets them see how other customers have experienced products.

Estimates suggest that there are 40 million UK users of Google Search and a recent study found that 88% of Brits use a search engine at least once a day - and over a third (39%) use it more than 5 times a day. For 18-24 year-olds, 98% use a search engine daily[5]. "Consumers are becoming more impatient, and expect advertising to be immediately relevant to them," says Howe. "Search advertising doesn't even feel like advertising. In an unobtrusive way, it just delivers what the customer is looking for at exactly the right time." With ever increasing internet speeds and smartphone penetration search advertising is only likely to grow further.

[3] Incorporating Amazon, Apple, Google and Microsoft as well as some affiliate search revenue
[4] AA/WARC Expenditure Report
[5] Public First (2018) "Google's Impact In The UK: At Home, At School, At Work." (http://www.publicfirst.co.uk/wpcontent/ uploads/2018/10/ GoogleImpact2018.pdf)

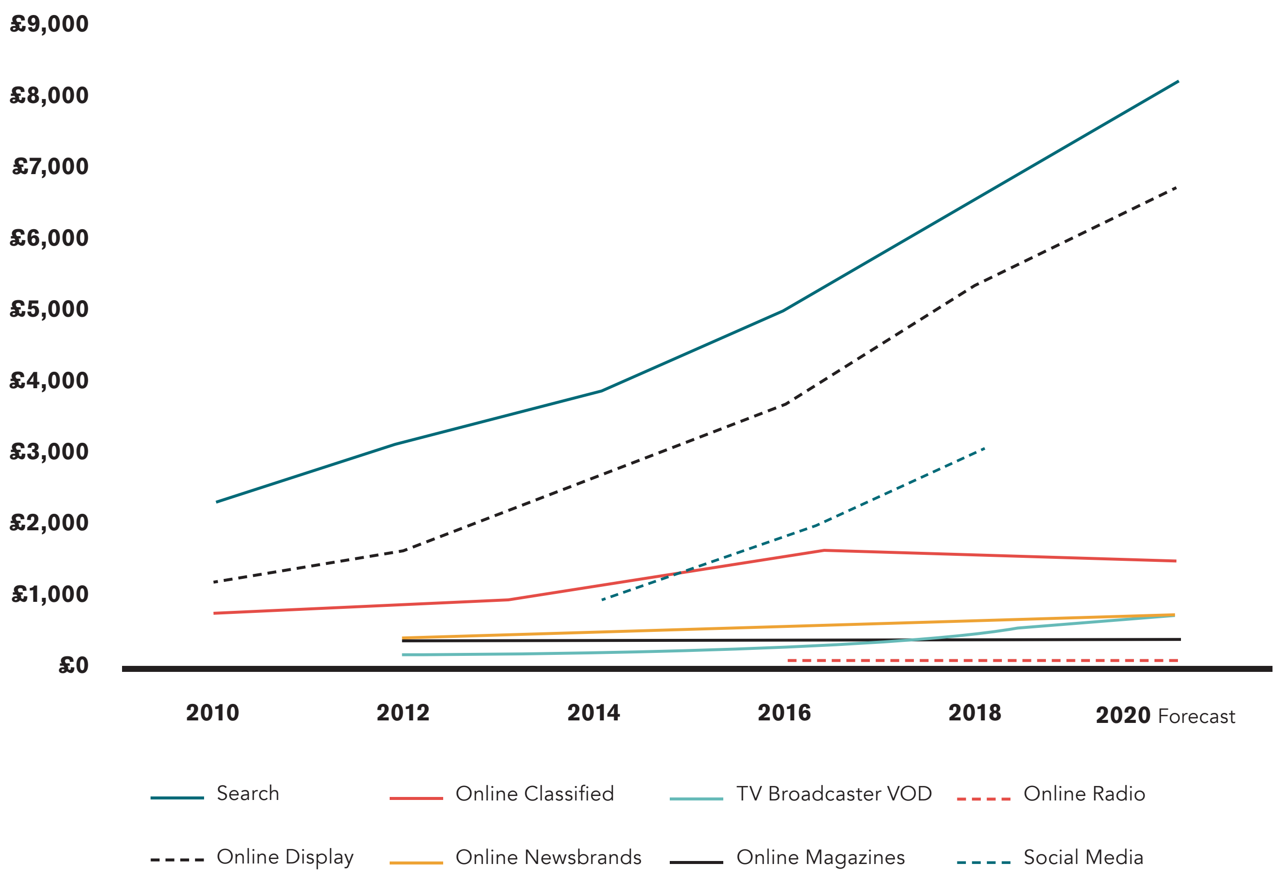
The second largest slice of online advertising spend is online display, around 57% of which is spent on social media. The growth of this format has been rapid since the introduction of sponsored stories by Facebook in 2011. Facebook's innovation was quickly followed by Twitter, Instagram and others, all driving social media advertising spend from £861 million in 2015 to £3 billion in 2018.

Advertising spend on online classified (e.g. Rightmove, Autotrader, Gumtree etc) increased quickly through the 2000s. Since 2009, growth slowed, plateauing at just under £1.5 billion in 2016. The growth of online classified to 6% of the advertising market is certainly a factor in the decline in newsbrand and magazine classified spend, though less significant than Search in its impact.

The decline in the proportion of total advertising spend for newsbrands has certainly been dramatic, falling from 40% of total advertising spend in 1988 to 8% in 2018. Similarly, between 1988 and 2018, the proportion of total spend for magazines fell from 18% to 3%. Clearly the impact of digitalisation on advertising revenues for print based media has been damaging. However, it has also brought significant innovation and growth. Expenditure with newsbrands' online formats is forecast to reach £577 million by 2020, representing 35% of all newsbrand spend. Growth for online magazines has been more modest – estimated to reach £274 million by 2020, though representing 43% of all magazine spend.

Figure 2:
Online advertising spend by media type, 2010 – 2020 (£ millions, current prices)

*Broadcaster VOD, online revenues for newsbrands and magazine brands, radio station websites and social media are also included within online display

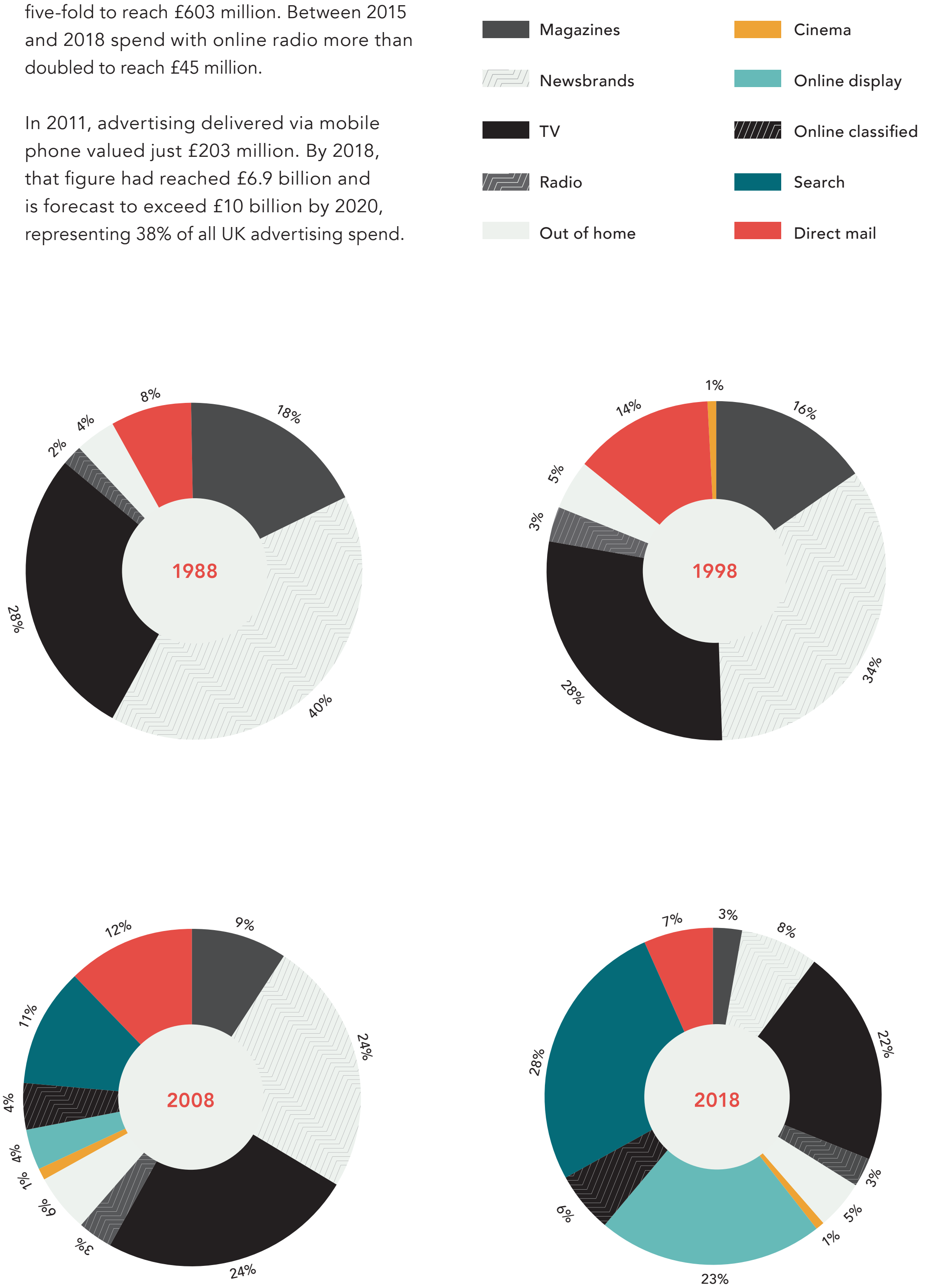


Source: AA/WARC Expenditure Report

As can be seen in Figure 3, advertising expenditure for TV, radio, cinema and out of home has remained fairly stable for the past thirty years. Even so, there has been considerable growth for online and digital formats in these media. Advertising spend in TV broadcaster video on demand (VOD) services grew six-fold in seven years, to £391 million in 2018. Over the same period, digital out of home increased five-fold to reach £603 million. Between 2015 and 2018 spend with online radio more than doubled to reach £45 million.

In 2011, advertising delivered via mobile phone valued just £203 million. By 2018, that figure had reached £6.9 billion and is forecast to exceed £10 billion by 2020, representing 38% of all UK advertising spend.

Figure 3:
Total UK advertising spend by media type – 1988, 1998, 2008 and 2018



Source: AA/WARC Expenditure Report

CASE STUDY

THE AGILITY OF DIGITAL OUT-OF-HOME ADVERTISING

For many years out of home advertising has been building brands by delivering mass audiences, at a time when people are often very receptive to messaging. Since digitalisation, it now marries the powerful combination of creativity and technology, allowing brands to communicate immediately to huge audiences, to deliver smarter, relevant, contextual messaging.

Yet according to Helen Weisinger, Chief Client Officer at Outdoor Plus, a media owner known for developing prominent digital sites in London, not enough brands are using it to its full potential. “There’s a huge chasm between the capabilities of digital out-of-home (DOOH) and how it’s currently being used. Sadly only 6% of all digital outdoor campaigns in the UK are truly dynamic and that’s because many advertisers still think in posters and single execution rather than thinking about the possibilities that exist by linking to other factors, or even other channels”.

Some brands have used it to fit their business. Take for example, easyJet whose own data told them that people researched travel at weekends and booked on a Monday and Tuesday. easyJet reacted to this information by focusing their digital outdoor screen advertising on those days, making it more relevant and useful for the customer, providing up to the minute availability and flight pricing. For them digital solved a business need.

For Sky it was about providing up to the minute content on one of the most important days of the football calendar, transfer deadline day. They used O+’s screens to push breaking news of a player's transfer live within seconds of an announcement, ensuring fans were kept abreast of those important player moves as they broke. This real-time capability has opened up opportunities for collaboration with other media too, with mobile and radio making perfect partners for DOOH campaigns. British Airways recently simultaneously synced their radio and DOOH ads, while Radio X use DOOH to highlight a track being played giving drivers the chance to switch over to hear it as they waded through the traffic.

This collaboration is very appealing, as Weisinger outlines “Be it the partnership between radio or the powerful connection that clearly exists between DOOH and people’s hand held devices, it’s this interaction, synergy and collaboration between other media that I believe clients and brands are seeking”.

She concludes; “The beauty of digital outdoor is that it has something unique; the ability to work in tandem with other platforms and react in real time on a mass public scale, all on a proven platform in which great creativity thrives”.

DIGITAL ADVERTISING VS ONLINE ADVERTISING - WHAT'S THE DIFFERENCE?

There are so many terms used to describe advertising now that confusion is inevitable. For example, are digital advertising, online advertising and internet advertising one and the same thing?

Different people can use the same term to convey different concepts, compounding the confusion.

Achieving clarity is not simple. One way to look at this is how the consumer interacts with technology and how it helps to tell the advertiser the different ways in which consumers are responding.

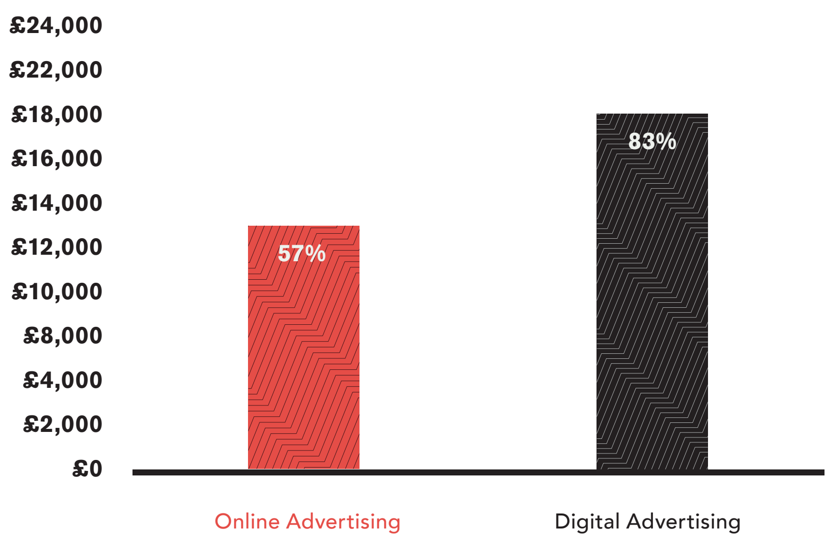
In this way, we can make a useful distinction between two forms of advertising, both of which result from the industry's digitalisation. There is online advertising, whose key characteristic is the potential to interact with the receiving device, and thus the consumer. And there is digital advertising, which is defined purely in technological terms.

Online advertising
Advertising displayed or played by internet-connected devices, with two-way communication over the internet protocol (IP) between the advertiser and each individual device. This can also be accurately described as internet advertising.

Digital advertising
Any advertising delivered and served as a digital signal.

Whereas all online advertising is digital, not all digital advertising is online. So, whereas 83% of the UK's total advertising expenditure is attributed to digital advertising, the figure for online advertising is lower, at 57%.

Figure 4:
Proportion of advertising spend by definition: Online advertising and digital advertising



Source: AA/WARC Expenditure Report

ADVERTISING ASSOCIATION

ONLINE ADVERTISING

As far as advertising is concerned, the most significant technical innovation has not been media becoming digital. Rather, it is that communication is now possible over the Internet Protocol (IP) – the method by which data is sent from one computer to another.

Indeed, the critical departure from the past is the move from one-way to two-way transmission. Internet-connected devices, such as set-top boxes and smartphones, have the ability to send back invaluable, frequent and detailed return path data, for example through subscription and pay-per-view requests. This is something which digital terrestrial television (DTT) and digital audio broadcasting (DAB) can only do if supported by the IP.

In other words, digital advertising is only genuinely transformative when it is also online. For example, this would include Freeview Play, a digital television platform which is enabled through a broadband connection.

Several forms of advertising fall into this online category

- online search
- advertising on social media
- advertising on news and magazine sites
- online display advertising e.g. YouTube
- online classified advertising
- digital out of home advertising in cutting edge cases
- addressable television advertising (showing different adverts to different households while they are watching the same programme)
- advertising on video-on-demand television
- online radio (such as Radioplayer, which operates through connected devices and platforms)

There are two reasons why return path data are so crucial to the development of advertising. Firstly, it is census level, meaning that it is possible to receive data on individual responses to an advert from all relevant devices on which it was either seen or heard.

Second, the response is in real time, allowing for this data and other contextual information (such as the weather, time of day, or level of pedestrian traffic at the point the advert was consumed) to be brought into the advertiser's decision-making. This constant monitoring of responses allows advertising campaigns to be measured and adjusted with much greater speed and flexibility than was previously possible.

With advertisers now able to measure consumer response more extensively and accurately, and tweak investment priorities based on immediate results, fresh opportunities arise. This is particularly true for small and medium-sized enterprise (SME) advertisers, who now have the tools to target consumers more effectively on a small budget.

It should be stressed, however, that the fundamental, underlying process of advertising remains the same as it has always been, despite these far-reaching technological developments. New online capabilities supplement rather than replace established methods of campaign planning, execution and measurement. In other words, the dramatic change of the last 25 years lies in the greatly expanded range of tools and tactics at the disposal of advertisers.

DIGITAL ADVERTISING

Not all digital advertising is online. This category includes

- all cinema advertising
- 53% of all expenditure on radio advertising[6]
- all television advertising, apart from that which is connected and therefore enables return path data, such as video-on-demand or Freeview Play[7]
- the majority of digital out of home (although this is changing as panel connectivity improves)

Digital broadcasting has given rise to many more channels, providing a greater variety of content for viewers and listeners, and more choice and opportunity for advertisers.

Although digital advertising is of crucial importance within the overall framework of the advertising industry, this report will largely focus on what we have defined as online advertising.

[6] According to RAJAR Q4 2018 (Radio Joint Audience Research, the official body in charge of measuring radio audiences in the UK, 52.6% of radio was listened to via a digital signal

[7] All television broadcast in the UK was switched from analogue to digital by the end of 2012

CASE STUDY

TV ADVERTISING FOR ALL BUSINESSES

With AdSmart from Sky, different ads can be shown to different households, all of whom are watching the same television programme. This highly targeted approach, known as addressable advertising, means that many more small and regional businesses can benefit from the unrivalled power of television advertising.

"SMEs can now deploy TV marketing that is highly relevant to a particular demographic or geographic area," says Graeme Hutcheson, Director of Digital and AdSmart at Sky. "It is also a cost-effective strategy. A double-glazing company in Exeter would never have advertised to a general audience because TV was never seen as a plausible option. But with a highly targeted and relevant audience, the cost makes sense."

Getthelabel.com is an online fashion store and mail order catalogue for the whole family; offering clothing, footwear and accessories direct to the public from designer labels, leading high street fashion and sport brands. AdSmart changed the way they thought about TV. "AdSmart allows you to create a big brand identity in a very targeted way without massive spend, explains Liz McNamara from Get The Label, "for consumers they don't realise it's targeted to them and you're seen as a big brand on TV." Through their AdSmart campaign they were able to target over 250,000 households in specific geographic areas that fitted their specific audience attributes. "During the four weeks we ran the campaign the test region jumped to number one, so we saw more traffic come from the region we were testing AdSmart in than we had previously." The campaign help generated an additional 2,000 orders and help raise the profile of the Get The Label brand.

Large national brands also gain from the targeting of specific households, accomplished by means of a combination of Sky's own customer data and information from consumer profiler experts such as Experian. "Some car manufacturers, for example, might want to advertise premium models to more niche audiences or affluent homes," explains Hutcheson. "Statistics suggest that this demographic watch almost 40% less TV than the average household. Addressable advertising is therefore an efficient way to market specific models of BMWs or Audis to specific audiences." As well as location and level of affluence, households can be also selected on a broad range of factors including age, lifestyle and the presence of children or even pets. A growing number of advertisers are bringing their own data to targeting, making it more relevant and effective for their customer base.

Frequency and measurement of impact is also precise. The AdSmart technology can identify which households were exposed to a particular addressable advert and how often. By comparing the outcome of that in similar households where the ad was not seen, AdSmart can determine the effectiveness of the campaign. Depending on the brand, the metric may be the volume of sales, or the number of app downloads, or simply the customer's perception of the brand. We also know that addressable campaigns are more engaging and capable of shifting key metrics - with campaigns delivering 35% increased ad engagement, 22% higher emotional response and 10% higher recall.

AdSmart technology is key to growing the TV advertising market having already run over 15,000 campaigns, with over 70% of those being new to TV or Sky. This makes TV advertising applicable to brands big and small. Sky is set to make AdSmart technology available to more homes in the UK following a deal with Virgin; from July 2019, around 40% UK households will be reached with the technology. "Before 2022, we will also have NowTV, YouView and connected TVs all linked up to the same technology," says Hutcheson. "A conservative estimate will see us reach around 60% of all households in the UK."

CHAPTER 2

A WORLD LEADING ONLINE ADVERTISING MARKET

In 2018, online advertisers spent £13.4 billion in the UK, making it the largest online advertising market in the world.

WORLD CLASS BY ANY MEASURE

In 2018, online advertisers spent £13.4 billion in the UK, making it the third largest online advertising market in the world after the United States and China[8].

This puts the UK well ahead of economic powerhouses such as Japan and Germany, countries which also have larger populations. In Europe, the UK online advertising market is larger than the three next largest combined. Relative to the size of the economy, UK online advertising expenditure is the highest in the world, at 0.63% of GDP. In 2017, the UK was among the very first markets in the world in which online advertising constituted the majority of all advertising expenditure, reaching this milestone at a similar time to China.

Indeed, online advertising in the UK is a larger part of overall advertising expenditure than is the case in most other markets. For example, Germany lags behind the UK, with online formats at less than a third of all advertising expenditure in 2017, compared to well over a half in the UK.[9]

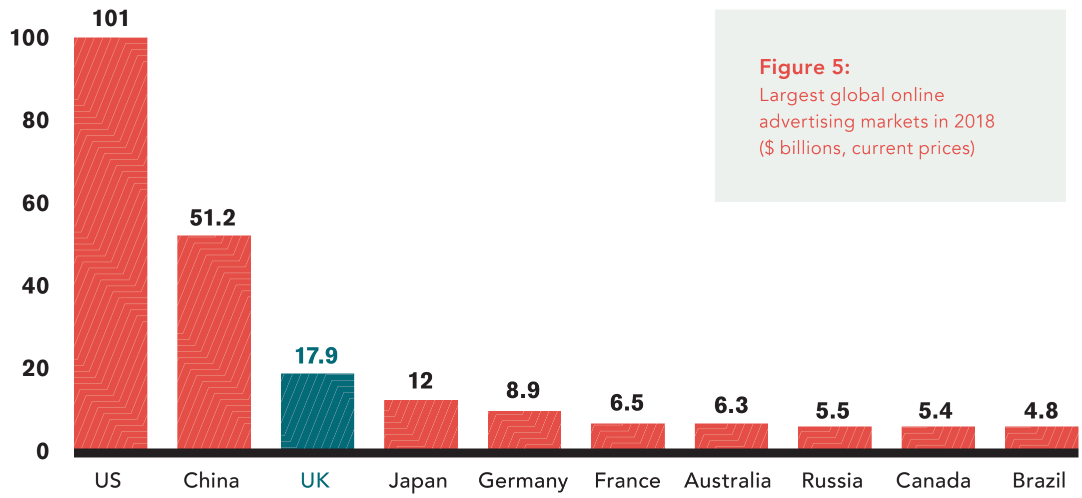


Figure 5:
Largest global online advertising markets in 2018 ($ billions, current prices)

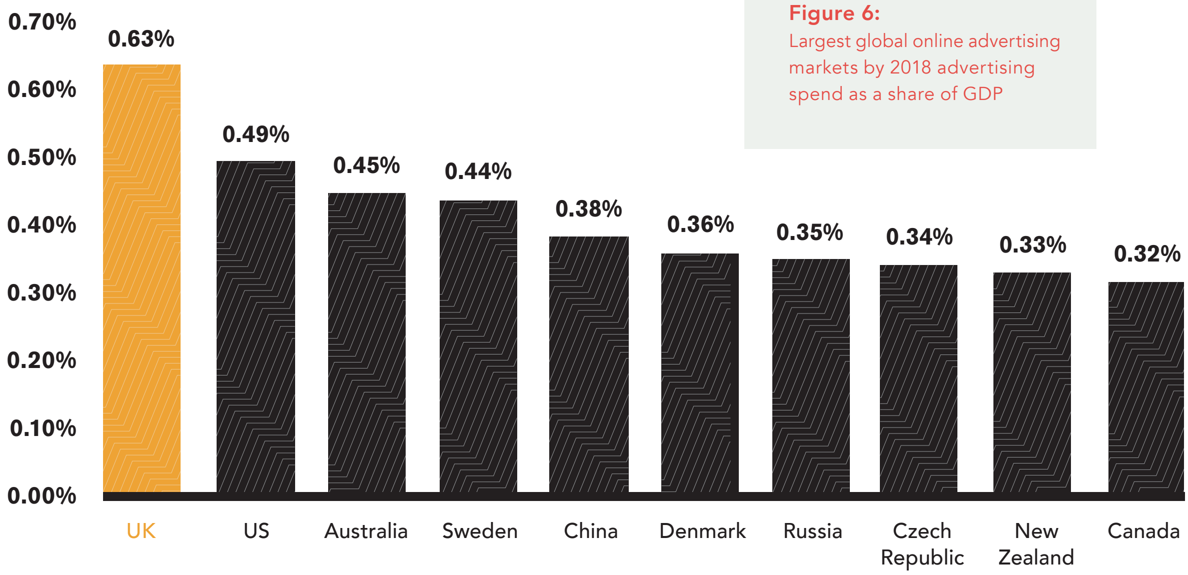


Figure 6:
Largest global online advertising markets by 2018 advertising spend as a share of GDP

Source: WARC Data, AA/WARC Expenditure Report

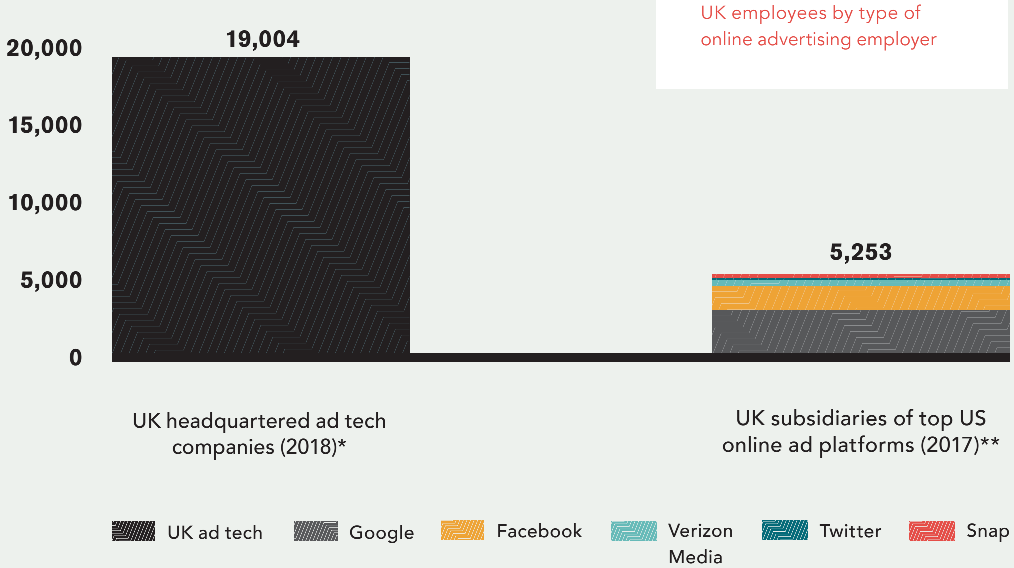
THE UK AD TECH CLUSTER

The UK's strong online economy has fostered a large and diverse sector of specialist advertising technology companies. This sector is referred to as ad tech, defined as companies producing digital tools and services for the advertising industry. Using available data, we estimate that the UK ad tech field consists of more than 300 UK-headquartered companies, in addition to more than 100 UK subsidiaries of foreign companies which also offer ad tech products and services.[10]

Indeed, most major ad tech providers and platforms have established a presence here. Besides these companies, the UK ad tech community also comprises of individual specialists in advertising agencies and advertiser companies, as well as at publishers and other media owners, in roles such as media trading, analytics and technical ad operations.

Ad tech companies employ tens of thousands of UK workers. It is often assumed that the giant US-based technology companies dominate this ad tech domain, and indeed the entire world of technology in general. However, at least as far as employment is concerned, we can see that this is actually not the case. The chart below emphasises the economic importance of UK-headquartered ad tech scaleup[11] companies. As a group, they employ far more people than even the largest advertising platforms – themselves major UK employers.

Figure 7:
UK employees by type of online advertising employer



*Enders estimate based on Beahurst data (October 2018)

**Latest companies house filings, reported figure in early 2017 for Snap

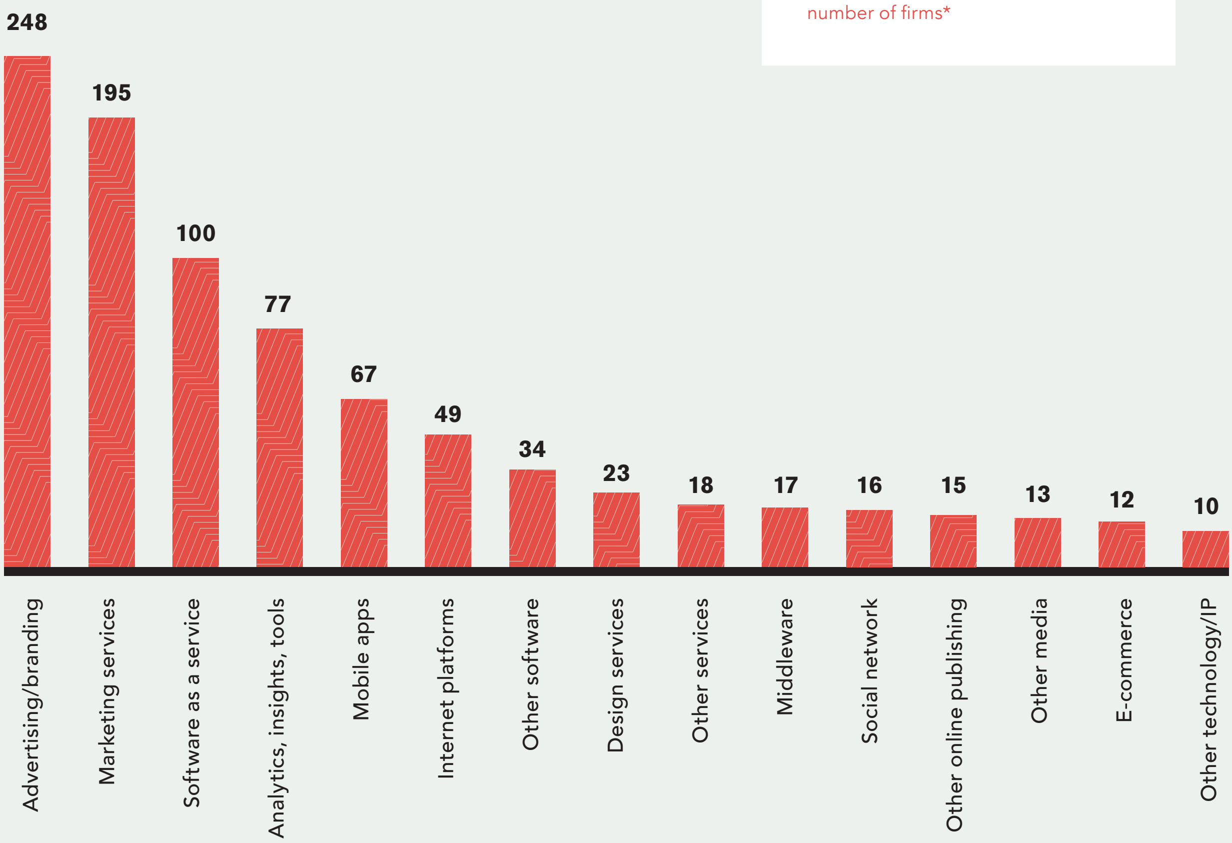
Source: Beauhurst, Companies House, Enders Analysis

[8]Estimates of online advertising spend by country vary greatly, but UK's market's position as the third largest is consistent across every study covering all the major markets (such as those produced by GroupM, PwC and eMarketer).
[9] Based on This Year, Next Year: Wordwide Media Forecasts (GroupM, December 2018). The specific values for UK and German ad spend differ by estimate, but the UK figure is universally thought to be well ahead.
[10] Based on Beauhurst's data of ad tech scaleups, IAB UK's member list of ad tech companies and online advertising platforms. Most external contractors and freelance staff are not included in the figures, but some staff based abroad is included. Beauhurst (www.beauhurst.com) is a searchable database of high-growth UK companies.
[11]The Beauhurst data in this report covers scaleup companies defined by OECD as growing either headcount or turnover by 20% every year for three years, as well as companies featured on high growth lists and/or receiving venture investment, accelerator support or innovation grants.

The bulk of these UK-headquartered ad tech companies can be found in London, with those based in the capital employing 75% of the total workforce of all such companies. Ad tech companies based in the rest of the South account for 12% of the total employment, followed by the North at 7%, the Midlands at 3% and Scotland at 2%.[12] Foreign ad tech companies are also likely to be similarly concentrated in the capital region.

UK ad tech companies operate in all areas of the online advertising industry, with the exception of the top tier of media trading platforms in programmatic advertising (online advertising combining automation with intensive use of data), which are almost exclusively headquartered in the United States. Just under a third of the UK scaleup companies, around one hundred in number, operate on a software-as-a-service business model typical for cloud service providers.

Figure 8:
Top business areas for UK-headquartered ad tech by number of firms*



Source: Enders Analysis based on Beauhurst data

*companies categorised by analysts at Beauhurst, most companies active in several areas

[12] Enders Analysis calculation, based on Beauhurst data as of 22 October 2018.

CASE STUDY

BRINGING ANALYTICS INTO TV ADVERTISING

When TVSquared started operating in 2012, they began introducing new tools to measure the effectiveness of television advertising. "What we were hearing was that some companies were spending 90% of their advertising budget on TV, but 90% of their analytics dealt with the remaining 10% of their budget," recalls Hew Bruce-Gardyne, a co-founder of the company.

Analytics for television advertising had lagged due to its relative complexity. In the world of online advertising, it is usually easy to determine how consumers arrive at a particular advert - what they searched for, when they clicked through to the advert, which website they were on at the time. With television on the other hand, any response to an advert is unlikely to be immediate and will be expressed on a separate device.

TVSquared therefore sought to devise techniques that could measure the effectiveness of television advertising in a convincing way. The company first determines the baseline, the normal level of traffic to an advertiser's site that would be expected in a given time frame. The second part of the process is to identify which adverts had the greatest effect on lifting results from the baseline, in which TV programme they were broadcast, and at what time.

These modelling techniques fill a major void, naturally appealing to a new generation of marketing directors who have learned their trade in an era characterised by more metrics and accountability. Bruce-Gardyne says that clients have typically been showing an improved return on investment on television advertising of around 25%.

These clients range in size from startups to global corporates and are located in more than 70 countries worldwide. TVSquared's largest market is the United States, where television advertising is trickier and more time-consuming to measure. "The same advert might appear at 9pm Eastern Time and then 9pm Pacific Time for the west-coast audience," says Bruce-Gardyne. "TVSquared's process automatically divides the response data along geographical lines, saving our clients significant effort."

Despite the international client base, almost all the technical staff operate from the company's head office in Edinburgh, with strong sales, marketing and customer teams located throughout the world, including New York, London, Munich and Sydney. "Edinburgh is a major hub for the tech expertise we need," says Bruce-Gardyne. "If those high-value skills can help clients to solve a major data science problem, it doesn't matter where you are. With a good product, the world is your oyster."

UK AD TECH INVESTMENT

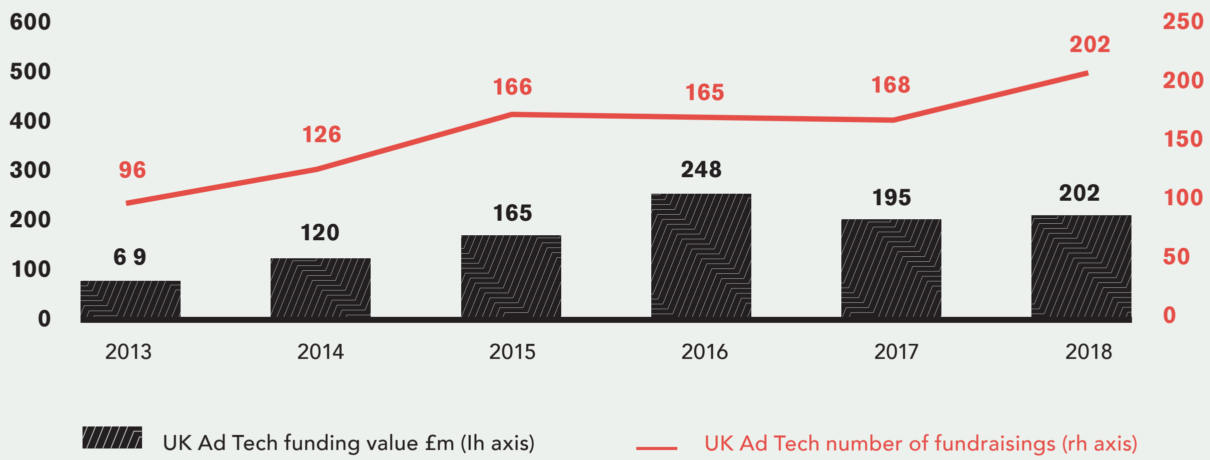
The UK ad tech industry has attracted considerable growth investment. Since 2013, the sector has raised over £1 billion in angel, seed, venture and other growth funding. However, investment in the sector has settled at a lower level after 2016, despite the fact that overall funding for UK scaleup companies has continued to grow.

Other areas of the tech industry have also attracted a large amount of growth funding. Indeed, fintech and artificial intelligence companies each attracted even more investment in 2018 than ad tech scaleup companies. It should be noted, however, that ad tech is still ahead of other tech fields such as virtual reality or law tech with respect to funding.

Ad tech is a common thread linking several of the UK tech industry sectors. For example, some of the ad tech firms that have raised the most funds are active in areas like augmented reality (AdMix) or artificial intelligence (LoopMe). Martech, a sector catering primarily to the non-advertising areas of the marketing industry, is closely related to ad tech. In fact, many of the ad tech companies in the dataset we cite from Beauhurst - a searchable database of high-growth UK companies - are likely to be active in both areas. Those which are not tend to be completely focused on business-to-business trading, and smaller in size than the ad tech firms.

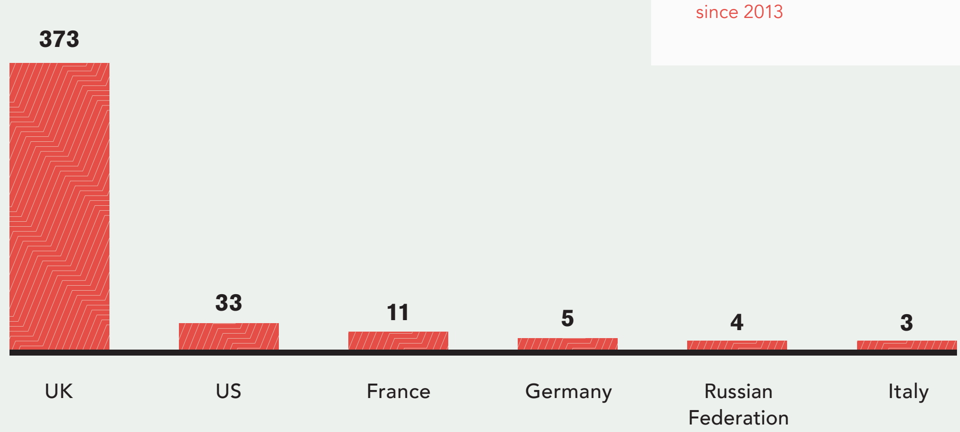
The growth of UK ad tech firms has been funded mostly from domestic sources. UK funds and investors dominate the participant listings of venture and growth stage fundraisings. The investors in earlier-stage seed and angel fundraising are not usually disclosed, but this type of funding is typically highly local. Among foreign funders, funds and investors from the United States are more active than those from all other countries combined, reflecting the strong transatlantic ties in tech, advertising and the finance industry. Moreover, the top US investors in UK ad tech, such as Accel Partners and Qualcomm, also tend to participate in the very largest funding rounds.

Figure 9:
UK ad tech fundraising, number of fundraisings and funding volume by year



Source: Beauhurst, Enders Analysis

Figure 10:
Country of origin of UK ad tech funding participants* since 2013



Source: Enders Analysis based on Beauhurst data

*Number of times funds from each country participated in disclosed venture and growth funding rounds

CASE STUDY

ENHANCING MOBILE TARGETING

The sheer pace of LoopMe's growth since the company's founding just seven years ago demonstrates how young the ad tech industry is and offers one glimpse of its potential. "In 2012, there were five of us in a shed in Kilburn," says Stephen Upstone, LoopMe's CEO and founder. "Now we have 220 people around the world in 15 offices."

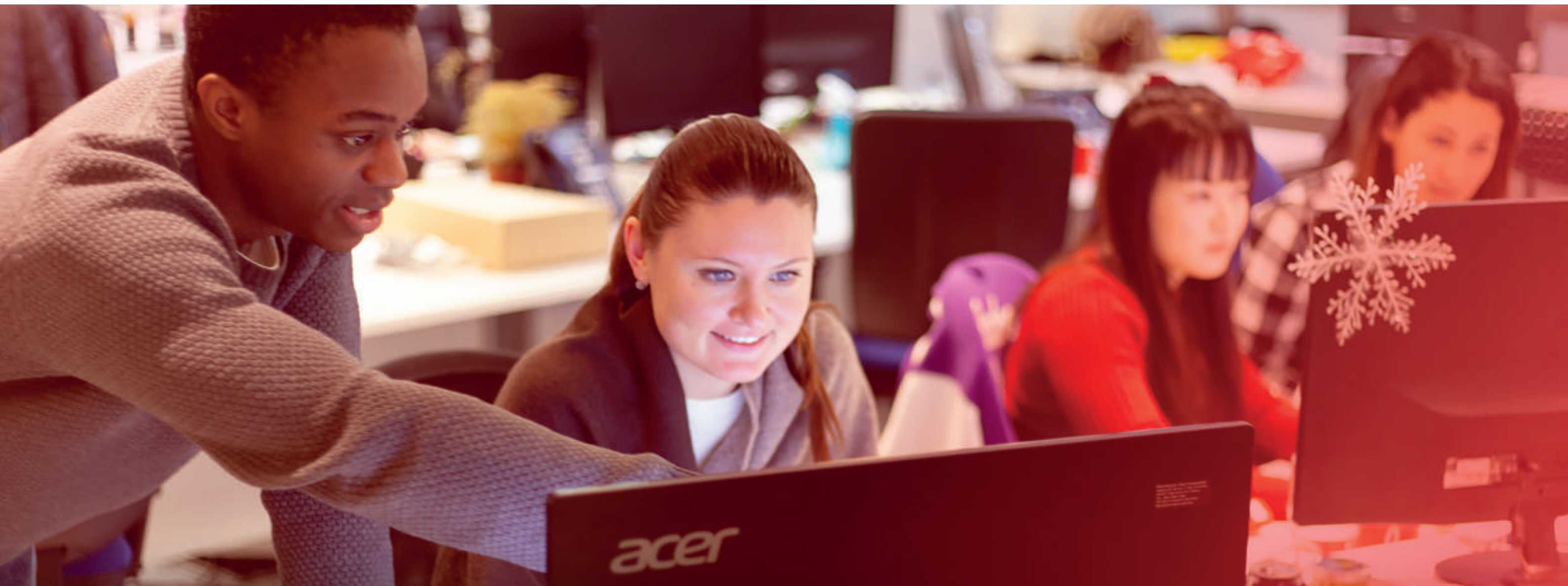
The technology and data science teams, headquartered in London, make up approximately half of the workforce. "The UK is very strong in engineering and technology, particularly in artificial intelligence," explains Upstone. The team's goal has been to make mobile phone advertising more effective for the company's growing list of major corporate clients, which now includes the likes of Audi, Heineken, Samsung, Microsoft and Peugeot.

This goal is achieved in two stages through the company's PurchaseLoop product. The first is to use their own and third-party data to identify a target audience that would be most receptive to a mobile video advert. The advertiser's objective might be raising awareness of the brand or increasing store visits or purchases. The impact of this targeting is measured through customer surveys by comparing the response of consumers who saw the advert with those who have not.

This method has more than doubled the effectiveness of particular campaigns. The biggest uplift, however, is achieved through the introduction of artificial intelligence techniques. "The AI impact on effectiveness can be up to three times or more," says Upstone.

The artificial intelligence component narrows down the target audience still further. It also introduces a crucial real-time element by calculating the exact moment at which a mobile video advert should be delivered to the most likely potential customer in order to maximise the probability of a purchase being made. Vital data might include the customer's current proximity to a store or identifying those customers that have been recently researching the company's product.

The company is continually adding refinements to its PurchaseLoop product and is keen to expand its client base still further, particularly in North and South America. Upstone sees good times ahead for advertising and marketing technology companies, particularly those who have already navigated the highly competitive startup field of recent years. "Funding is now tighter for startups than it was a few years ago," he says. "With this reduction in startup competition, the opportunities for those established companies who get it right are absolutely huge," he says.



CHAPTER 3

WHY IS THE UK A LEADER IN ONLINE ADVERTISING?

Various circumstances have led to the growth of the online advertising market in the UK.

First and foremost, it is perhaps not surprising that online advertising has developed to such an extent when spending on advertising in general is so comparatively high. Total advertising expenditure relative to GDP is 0.9% in the UK, whereas in Germany for example, the corresponding figure is just 0.6%.

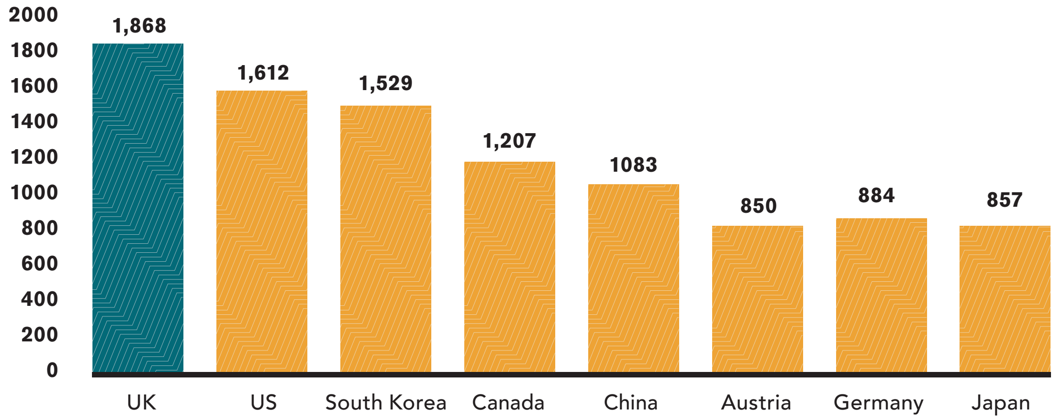
The other single most significant factor contributing to the growth of online advertising is the strength of the overall UK online economy.

STRONG ONLINE ECONOMY

UK retail e-commerce expenditure per capita is higher than in any other G20 market, and is behind only New Zealand and Norway among all the countries in the world.

International statistics highlight the strong relationship between online advertising expenditure and e-commerce retail expenditure. Throughout the largest consumer markets, the two figures are correlated.[13]

Figure 11:
Retail e-commerce spend/capita in 2018, top G20 countries ($)

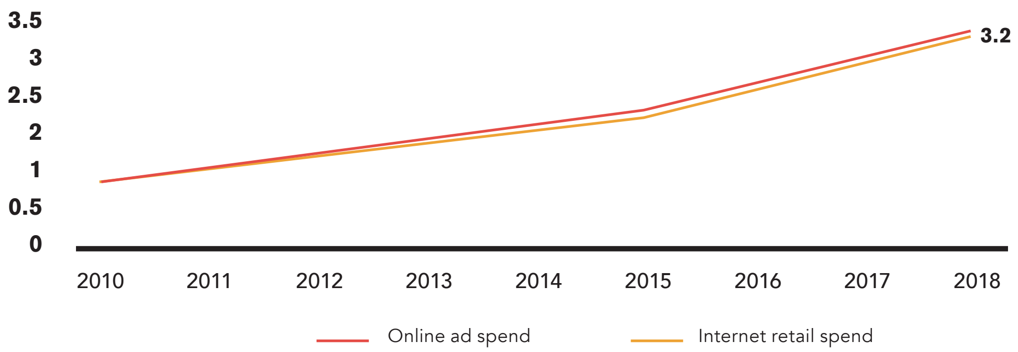


Source: eMarketer, World Bank, Enders Analysis

[13] There are some outliers such as China, where e-commerce expenditure figures also include consumer-to-consumer sales
[14] Measured by ONS, excluding all services and some retail categories like automotive and fuel. The eMarketer estimates in the above chart use a broader definition of ecommerce, and are designed to be internationally comparable.

There is certainly a strong historical relationship between the two statistics in the UK. Especially since the financial crisis, the correlation has been absolutely clear: both online advertising expenditure and internet retail expenditure have trebled since 2010.[14]

Figure 12:
Indexed UK online advertising and retail spend by year (2010=1)



Source: ONS, IAB/WARC, Enders Analysis

FAVOURABLE CONDITIONS FOR THE ONLINE ECONOMY

No one factor fully explains why the UK in particular has emerged as this world-leading online economy. However, we have identified a number of areas where the UK's infrastructure, demographic makeup, policy environment and other conditions are likely to have contributed to the growth of the online economy, in turn leading to the flourishing of online advertising.

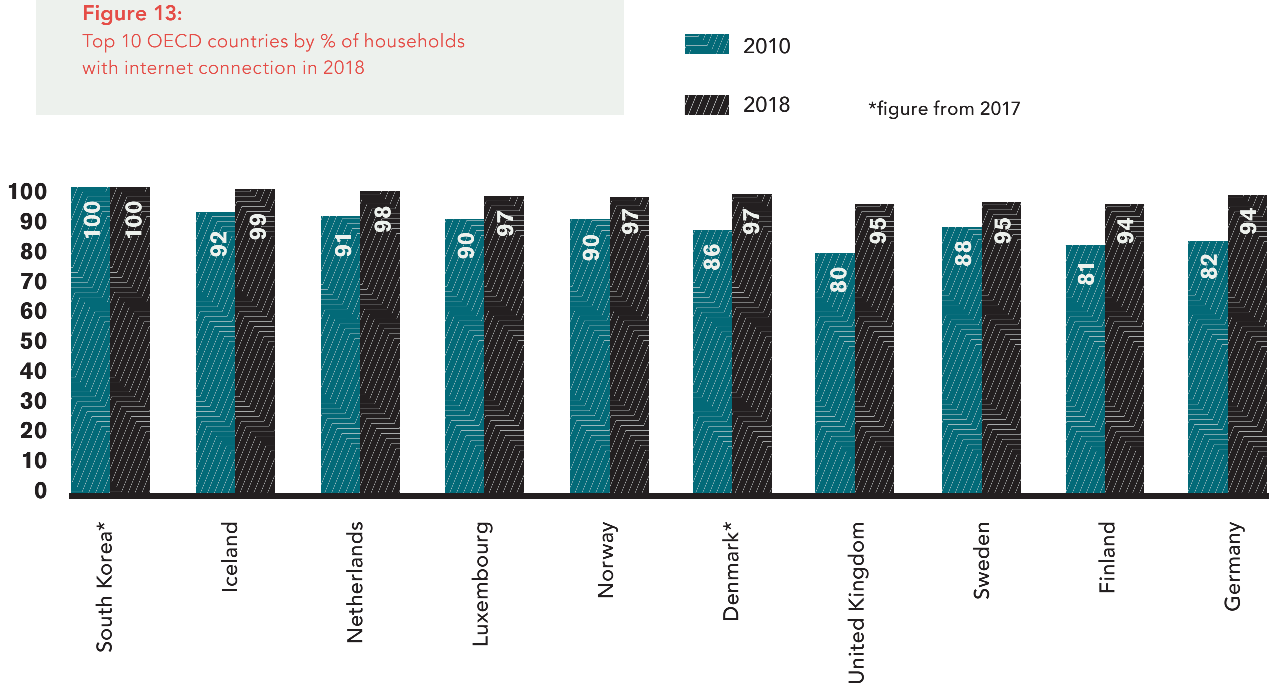
What makes the UK stand out internationally is not a globally pre-eminent position in any of these factors (although in some measures it is indeed at the very top globally), but rather a consistently solid performance by international standards.

ONLINE CONNECTIVITY AND SMARTPHONE ADOPTION

Every additional household or individual connected to the internet has broadened the market that can be reached by online advertising.

The UK attained an internationally high level of internet penetration relatively early, and is today one of the most connected markets in the world. The UK broadband industry has been particularly effective by international standards at providing access to rural areas, if falling somewhat short in average connection speeds. 95% of households have access to the internet, up from 80% in 2010 – the largest improvement in the top 10 of OECD countries by current level of internet access.

Figure 13:
Top 10 OECD countries by % of households with internet connection in 2018



Source: OECD, Enders Analysis

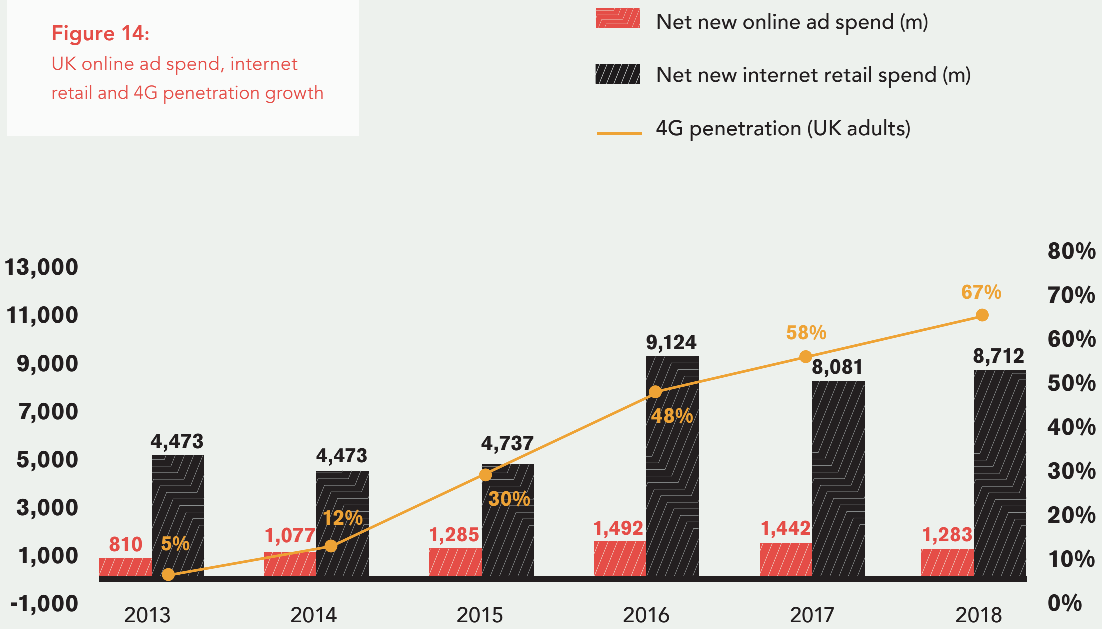
In more recent years, with internet penetration reaching a saturation point, the actual quality of internet access has grown in importance.

For example, the spread of 4G mobile data plans has coincided with the acceleration of online retail growth in recent years, which was in large part generated by mobile commerce. The absolute growth in ecommerce retail spend doubled in 2016, the year in which 4G internet access was available to almost half of UK adults.[15] However, the UK's overall smartphone penetration of between 65% and 72% of the population (depending on the estimate used) is not particularly impressive by international standards, illustrating how other factors that foster the UK online economy can outweigh any particular shortcomings.

Thanks to the country's broad internet access, fast mobile connection speeds and vibrant online media, UK consumers spend more time online than their peers in almost any other G20 market. This results in both online advertising supply (in the form of online advert views) as well as in demand, as advertisers always follow audiences.

[12] Ofcom, "Communications Market Report 2016" (https://www.ofcom.org.uk/__data/assets/pdf_file/0024/26826/cmr_uk_2016.pdf)

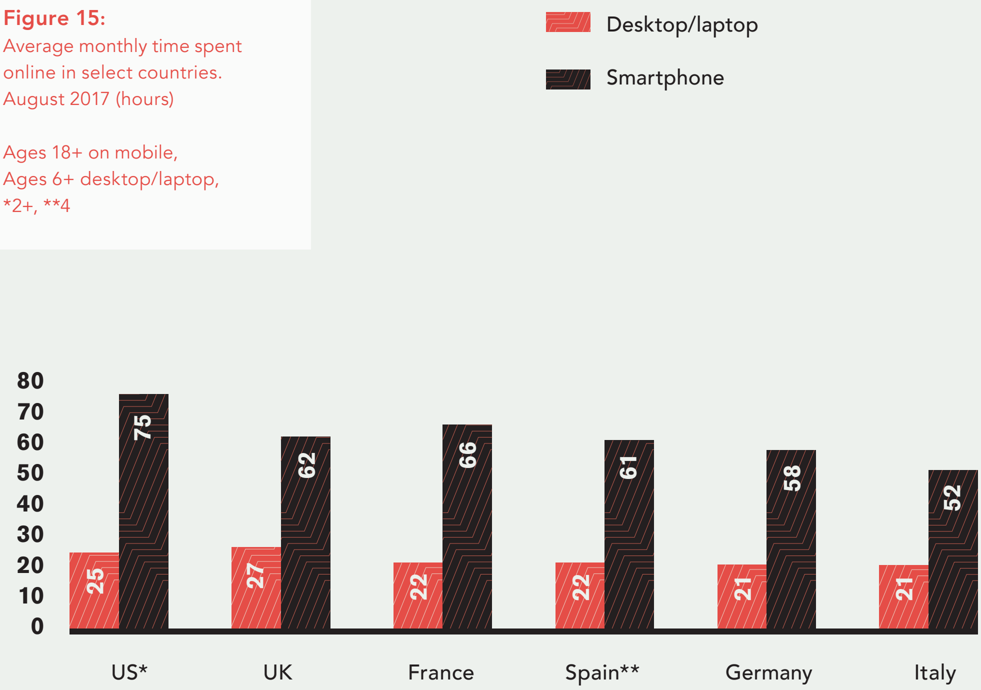
Figure 14:
UK online ad spend, internet retail and 4G penetration growth



Source: ONS, Ofcom Tech Tracker, IAB/WARC, Enders Analysis

Figure 15:
Average monthly time spent online in select countries. August 2017 (hours)

Ages 18+ on mobile,
Ages 6+ desktop/laptop,
*2+, **4



Source: ONS, comScore data in Ofcom's International Communications Market report

OTHER CAUSES OF ONLINE GROWTH

There are still further factors leading to the growth of the online economy, and hence to the conditions for a strong online advertising market.

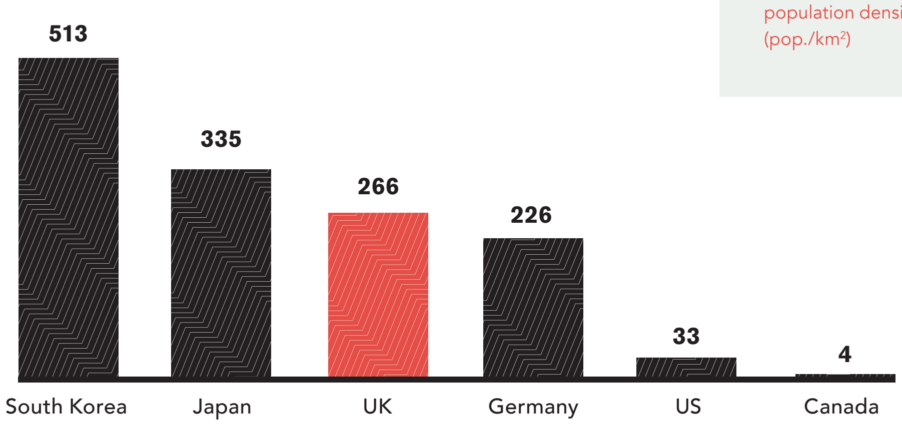
The UK has a high female labour force participation rate (57%) for a developed country. This means that both earners in the average household are consumers with a high degree of spending power and a willingness to pay for convenience. While this figure is less than in Scandinavian countries and emerging markets like China, it is also significantly higher than the rates in some other major online economies, such as South Korea and Japan (53% and 51% respectively).[16]

Another factor facilitating the growth of e-commerce is the country's strong and long-standing non-cash payments market. In 2017, for example, 21% of all the payment cards in the European Union (EU) were issued in the UK, and 33% of all card transactions took place in this country. This is also one of the factors holding Germany's online economy back: despite the size of the German economy, only 6% of EU card transactions took place in this cash-focused market.[17]

The UK's population density is high enough to make the logistics of e-commerce more cost-effective for companies (particularly in comparison to markets such as the US and Canada where sending parcels over long distances is necessary) – but not too high (to the point of making brick and mortar retail exceedingly convenient, as is the case in markets like Singapore).

Finally, the effect of culture, if hard to quantify, should not be discounted. In general, both UK consumers and advertisers have demonstrated a willingness to experiment with and trust new methods – a cultural factor perhaps shared by the other English-speaking, developed consumer markets which also all have relatively advanced online economies. We certainly see a marked contrast between the UK and Germany: in the latter market, business culture in general is more conservative, and consumer adoption of online services is slower.

Figure 16:
Top G20 e-commerce markets by 2017 population density (pop./km^2)



Source: UN DESA, Enders Analysis

[16] International Labour Organization, ILOSTAT database (2017)
[17] Figures from the European Central bank Eurosystem database

GOVERNMENT POLICY AND THE UK'S INTERNATIONAL POSITION

A generally supportive policy environment has facilitated several of the factors that make for a strong online advertising market. Some relevant initiatives have been specifically designed to support the online economy. As an emerging technology area, ad tech benefits from Innovate UK funding, while the new Industrial Strategy Challenge Fund allocates £33 million to immersive technologies in media. However, it is the indirect benefits from more general legal frameworks that have had the greatest impact.

We could point to all the following ingredients as crucial: an attractive environment for skilled overseas workers before the planned exit ofthe UK from the European Union, spanning areas such as education and freedom of movement, has helped to safeguard the supply of skilled labour throughout the online economy; the UK's integration with the European market for goods and services, pre-Brexit, has drawn in foreign direct investors from the United States; the UK's welcoming business environment (including flexible labour market rules, streamlined incorporation rules and VAT regime, and tax subsidies for investment in research and development (R&D)) has supported company formation and growth in the ad tech sector; light-touch UK legislation, compared to markets such as Germany, has given freedom for the online economy to flourish; and the overall Ofcom framework has promoted competition and investment in the UK broadband sector, a boon for the online economy.

In a European comparison, the UK government has not been at the very top when it comes to actively supporting the development of the online economy. That honour goes to the smaller Northern European states: for example, Sweden has a long history of aggressively subsidising broadband deployment (and even personal computers in homes until 2007), while Estonia has an advanced online personal signature system covering all government services and banking. But considered together with the other factors and market conditions mentioned above, it can be said that UK government policy has been sufficient to create excellent conditions for the online advertising industry to develop.

FOREIGN DIRECT INVESTMENT AND THE AGENCY SECTOR

Such propitious conditions have boosted both the supply and demand sides of UK advertising.

US-based ad tech firms and online media platforms in particular often select the UK to be the first office outside their home market, and often as the centre of European or even EMEA (Europe, Middle East and Africa) operations. The largest of these companies are - in order of UK advertising revenue - Google, Amazon (although not primarily a media company), Facebook, Twitter and Verizon Media. The only European city which competes with London as a European centre for the largest online advertising platforms is Dublin, where companies like Google and Facebook have their largest offices outside their home market.

The strong presence of these companies reflects not only the size of the UK online advertising market, but also the role UK advertising agencies play within the international marketplace, as well as the broader transatlantic links between the two English-speaking advertising markets.

The London advertising agency sector is second only to New York in its scale and the world's most international in terms of talent.[18] Due to the concentration of agencies and talent in the city, advertising campaigns running in several European markets are usually managed from London.

This is especially true for online advertising campaigns, where programmatic trading desks allow the large media agency groups to support, coordinate and run international online campaigns. There is also opportunity for smaller specialists: UK-founded media agency Infectious Media has built a global business which uses advertising technology to run campaigns all over the world from its operations hub in London.

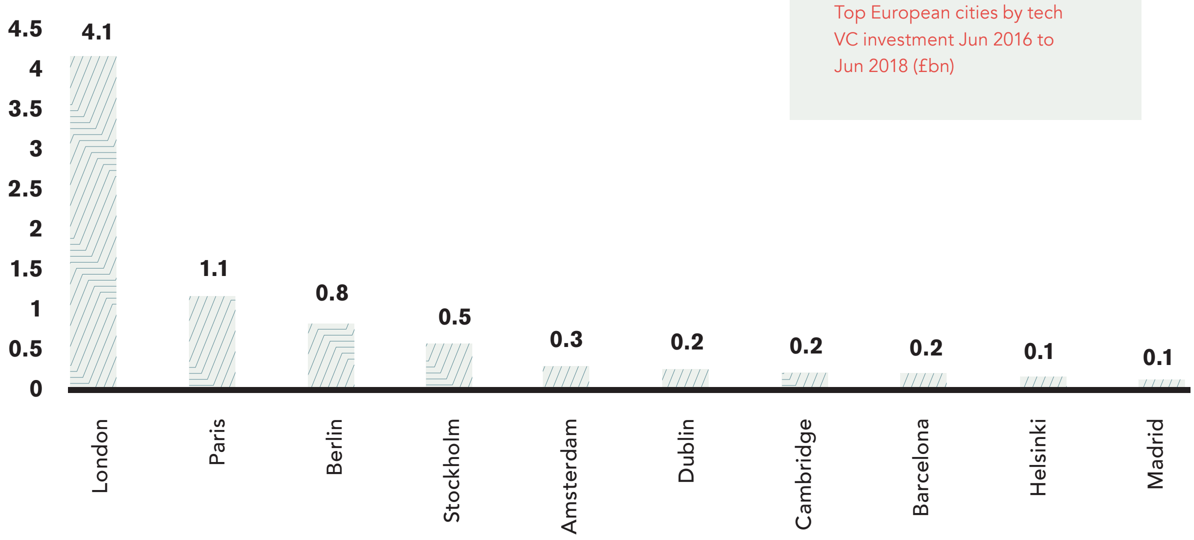
On the demand side for advertising, US e-commerce and online service companies have continued the tradition of US global brands investing early in the UK market. For example, Amazon UK started operations as early as 1998, the same year that the company expanded from selling books to being a multi-category retailer.

The UK consistently ranks high up in studies on the international ease of doing business,[19] which attests to the hospitable conditions for establishing and operating businesses in this country. This is particularly relevant for small and medium-sized advertisers, which contribute the majority of the revenue for online platforms such as Google and Facebook.

In addition to other foreign direct investment, London is the most important hub for venture capital in Europe, boosting the vibrant ecosystem of UK-headquartered ad tech companies described in the previous chapter.

[18] For a detailed study on how the abundance of available talent powers the advertising industry, see Advertising Pays 6: World class talent, world class advertising (https://www.adassoc.org.uk/advertising-pays-6-world-class-talent-world-class-ads/)
[19] See, for example, the 2018 World Bank study, where the UK ranked number 7 in the world (http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf)

Figure 17:
Top European cities by tech VC investment Jun 2016 to Jun 2018 (£bn)



Source: Pitchbook/London and Partners

RISKS TO FUTURE GROWTH

Despite the spectacular growth of the UK's online advertising sector in the past decade, there is certainly no room for complacency.

The online advertising sector in general will be exposed to particular pressures – from the growing pains of a maturing industry to a greater vulnerability to macroeconomic and regulatory risks. The UK ad tech cluster will also be subject to these dangers.

FAILURE TO SELF-REGULATE

As online advertising budgets are now such a major component of the marketing mix, advertisers have become more likely to scrutinise its effectiveness and the level of risk involved. The industry suffers from a twin problem of transparency: the largest companies in the space are hesitant to allow partners to fully vet or audit their systems; while the numerous intermediary ad tech firms form a complex supply chain of partnerships where it is difficult for advertisers and their agencies to manage outcomes.

Concrete symptoms include issues with fraud (whether in the form of bots i.e. non-human ad "views" sold as genuine; misrepresented ad placements or other schemes), brand safety problems (a brand appearing in an inappropriate context), or the leakage and misuse of personal data (data pertaining to identifiable individuals is routinely collected, shared and processed within the advertising technology value chain).

The industry's trade bodies, such as the Internet Advertising Bureau and the other member bodies of JICWEBS, have developed new self-regulatory standards in all of the above issue areas, and are working to comply with the EU's General Data Protection Regulation (GDPR). GDPR has fundamentally changed the way we handle personal data, setting high global standards for data protection. The upcoming refit of the EU's e-Privacy rules will be another impending challenge to industry.The Advertising Standards Authority (ASA) has launched an ambitious 5-year strategy centred on strengthening the regulation of online advertising in order to better protect vulnerable groups from harmful advertising messages and targeting.

However, calls for UK regulators to increase scrutiny of the sector are growing.[20] The UK Government recently published its Online Harms White Paper, which introduced a new statutory duty of care concept to put the onus on companies to take more responsibility for the care and safety of its users. The Centre for Data Ethics & Innovation (CDEI), a newly established independent advisor to the UK Government, has been tasked with reviewing the benefits and harms of online targeting. The recommendations of which will feed into the DCMS' wider review of online advertising. It seems likely that if the industry does not rapidly improve its collective governance efforts, then the authorities will step in to do the job for them.

[20] This was one of the recommendations in the Lords Communications Committee report "UK advertising in a digital age" (April 2018)

MARKET CONCENTRATION AND ACCESS TO FUNDING

Ad tech companies founded in the UK operate in an environment where the largest US online advertising platforms, led by Google and Facebook, have significant market share – both as media owners and as ad tech service providers. This has not gone unnoticed by governments worldwide, who are investigating or developing policy responses to curb monopolistic behaviour. The UK published its own report on digital competition in March 2019. Some of the key recommendations included commissioning the Competition & Markets Authority (CMA) to investigate competition in digital advertising, facilitating data portability between platforms, and taking a firmer and more holistic approach towards digital mergers and acquisitions.

In a tougher funding environment for ad tech companies worldwide, industry consolidation in the form of mergers and acquisitions has intensified. The largest platforms are able to offer flexible products covering a wide range of advertiser needs without having to rely on external partners, and benefit from their scale in terms of data collection and processing capabilities as well as R&D resources.

In this environment, smaller UK-established ad tech firms must develop their products and partnerships prudently, or risk being squeezed out by larger rivals. Of the UK-established ad tech companies we examined, only 22% reported an annual turnover greater than £10 million.

The pressure is not limited to small ad tech companies. Blippar, the most well-funded UK ad tech company with £110 million in investment, collapsed into administration in December 2018 after a failed emergency funding round. The company has since been rescued, but its struggles illustrate a narrowing room for error as the international funding environment changes.

MACROECONOMIC AND BREXIT RISK

The global economy has shown a marked increase in downside risks, but Brexit, of course, remains the UK's biggest and most immediate challenge. As the Brexit uncertainty continues, predicted UK macroeconomic scenarios range from stagnation or slow growth to outright recession. In the previous recession, overall UK online advertising expenditure grew throughout the consumer downturn, even as overall advertising expenditure fell 15% below the 2007 level before starting to recover.

Two main factors explain why online advertising outperformed the rest of the market: an ongoing shift of advertising budgets from other media (mainly press); and the growing appeal of self-serve advertising platforms (search advertising, and later social display) to small and medium-sized enterprises which had not previously advertised.

In a new recession, the first factor would not be as powerful: online advertising formats have already displaced most of the comparable offline media equivalents (such as search replacing print classifieds), whereas there are few direct online media substitutes of comparable effectiveness (and audience scale) for the remaining mainstays of offline advertising expenditure - TV, out of home and radio.

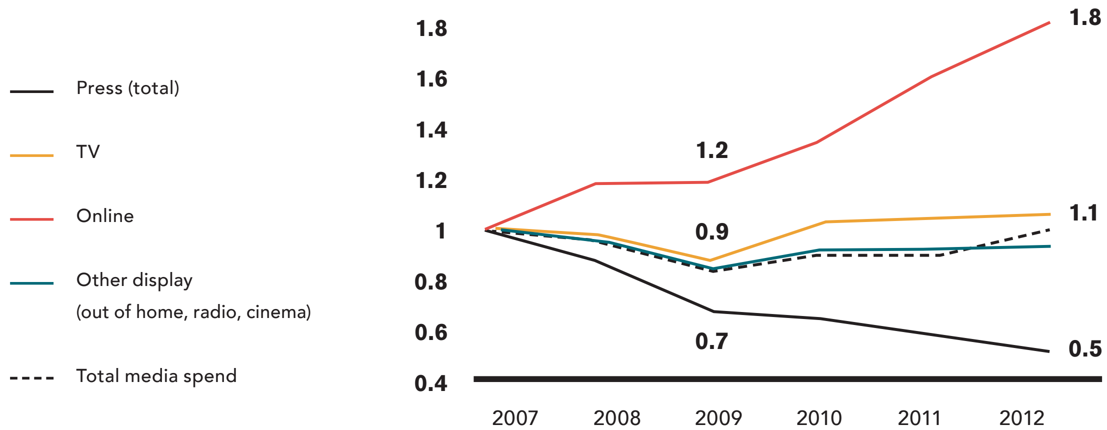
However, online advertising is still drawing fresh spending from small and medium-sized businesses and budgets which fall within marketing but were not previously spent on advertising. One example of the latter is in trade promotion: consumer retail brands are allocating some of the money that would have been previously spent on supermarket shelf promotions to ecommerce marketing or sponsored product listings on Amazon instead. In addition, TV, out-of-home and radio media inventory is gradually shifting online.

The largest online advertising channels search and social, with their flexibility and targeting options, would also benefit from a general advertiser tendency to become more tactical with ad spend in a downturn. It is likely that these factors together would enable online advertising to outperform other areas of the media market in another recession – but not to the same degree as in 2008-2009. As online advertisers can quickly adjust their level of advertising spend, it is too early to put an industry price tag on Brexit yet, but online advertising growth is expected to significantly slow down this year from the 15% rate last year.

In addition to creating a general pressure on advertising expenditure, Brexit poses a specific recruitment challenge for the UK ad tech cluster, with the prospect of a limit to freedom of movement and a weaker sterling already deterring immigration of skilled workers and students from the EU.

Finally, Brexit uncertainty and the threat of losing market access to the EU endangers future UK investment by US online advertising platforms and ad tech firms. The UK is heavily dependent on the free flow of cross-border personal data with EEA countries, but, as a third country, the UK will need to seek "data adequacy" status with the EU in order to maintain this free flow. It should be noted that the political agreement on the Brexit withdrawal terms listed facilitating e-commerce and cross-border data flows between the UK and EU as key priorities in the upcoming trade negotiations.

Figure 18:
Indexed ad spend by media through the last recession (2007 level)



Source: WARC, Enders Analysis

CHAPTER 4

HOW DIGITALISATION HAS TRANSFORMED BUSINESSES

As we've already established, digitalisation has impacted businesses involved in all aspects of UK advertising. In this section, we take a brief look at how one leading brand, one leading media owner and one leading agency group have changed and adapted in response to UK advertising's digital revolution.

CASE STUDY

COMBATING COMPETITION THROUGH INNOVATION

Direct Line is synonymous with innovation in the insurance world. In the 1980s, it was the first insurance company in the UK to underwrite policies using computers, and the first to sell insurance directly by telephone, cutting out the role of the broker. Its reputation is also notoriously customer-friendly, having been the first insurer in the UK to open a 24-hour help line.

Digitalisation has not altered this approach. Direct Line see it as the key enabler in making insurance easier and better value for their customers. "Digitalisation is implicit to our ongoing business transformation" says Mark Evans, Marketing Director at Direct Line Group. He continues, "Insurance sits at the confluence of a multitude of technology trends including driverless cars, connected homes, IOT, blockchain and AI. These will be critical in building the insurance ecosystem of the future to stay 100% consumer-focused and maintain our position in the market."

Digitalisation has greatly intensified competition in the insurance industry. With the advent of price comparison websites, it became more difficult for Direct Line to distinguish itself from competitors also claiming to offer efficient and convenient service at a relatively low cost.

In response, Direct Line has made use of various digital techniques in a bid to differentiate itself in a crowded market. Its Shotgun app, for example, was targeted at first-time young drivers with the goal of reducing the number of road deaths that occur during their first 1,000 miles of driving. The apps gamification and reward element ensured that it would appeal to the drivers themselves, while the focus on safety naturally would have pleased their parents.

The company has also used cutting-edge technology to change its public perception. For example, it has designed a modern-day version of the classic pedestrian crossing, using cameras and a specially designed road. The Smart Crossing, one of several road safety innovations tested by Direct Line, automatically widens to accommodate larger groups and turns road markings red if a pedestrian attempts to cross suddenly.

Evans has no doubt that new technology has made Direct Line more innovative and has helped to deliver a step change in the effectiveness of their marketing communications. However, he is keen to point out that “whilst there is an increasing need for Marketers to understand new technologies, it is still the case that Marketers need to master the fundamentals of Marketing 101 and remain media and technology agnostic. Technology is no substitute for a clear brand mission”.

> **“ DIGITALISATION IS IMPLICIT TO OUR ONGOING BUSINESS TRANSFORMATION**

CASE STUDY

TELLING A STORY THROUGH THE MEDIA

News UK

In days gone by, newspapers would make their money through print cover price and print advertising. With digitalisation rendering this business model unsustainable, many publishers have responded accordingly, introducing online subscription, developing new and adjacent revenue-generating brand extensions and revamping their advertising proposition for the digital age.

Digital advertising opens up the opportunity for greater interaction and engagement with the customer. "Advertisers are now looking for integrated branded content as well as traditional advertising," explains Dominic Carter, Chief Commercial Officer at News UK, the publisher of The Times, The Sunday Times and The Sun newsbrands. "They want to tell their story, explain where their brand fits into people's lives - and they see the benefits of working with media owners who are content creators and can tell that branded story in a way that genuinely adds value for consumers."

And it's not just happening on newspaper websites. The announcement in the autumn of 2018 that the UK's most popular radio presenter - Chris Evans - was moving from BBC Radio 2 to News UK's digital music radio brand Virgin Radio, was big news. Just as audacious was the commercial sponsorship deal News UK developed with Sky to support Chris's show - dropping traditional ad breaks completely, in favour of a far more fluid and creative partnership with Sky. "We wanted to lift and drop Chris's programme from it's ad-free BBC context into a commercial radio setting," says Carter. "And Sky wanted to have a different conversation with our audience. This is real commercial innovation but it feels perfectly natural. In many respects, in this ad break-free format, Sky are investing in on-air creativity, which really opens up exciting ways to tell their story in the fabric of the show."

The other main opportunity afforded by digital advertising is the ability to target customers more effectively through the use of analytics. The resulting data can be used to hone campaigns for advertising clients - and for News UK's own brands. "When consumers trust brands, they're prepared to share data, often at scale. For instance, we have over 900,000 people registered for our Sun Savers rewards programme, and over 500,000 paying subscribers to the Times and The Sunday Times. These consumers provides us with a huge amount of information on their preferences and opinions," says Carter. "This means we can better target our own offerings, such as Sun Bingo and the Dream Team fantasy football game, to the most likely customers. And of course - we can drive more effective outcomes for our commercial partners."

Carter believes there is an advantage to News UK moving to a subscriber model with The Times and The Sunday Times comparatively early, in 2010. "Because so much of the growth of digital advertising has been dominated by a few giant companies, it is very difficult to compensate for a drop in revenue from print journalism by advertising alone," says Carter. "We needed a combination of advertising and paid-for product. In that sense, the source of our revenue remains fundamentally the same as it was before the digital era."

He also flags partnerships like the Ozone Project - which sees leading newsbrand publishers including News UK, Reach, Guardian News & Media and The Telegraph join forces to offer a brand-safe programmatic ad network - as proof that 'old media' can reset to thrive in the digital economy. "Together, our brands have access to 42 million UK consumers a month, which puts

us on a par with Facebook. The Ozone Project is a great example of partnership innovation, building a credible alternative to the duopoly and unlocking potential new revenue from advertisers."

As the way people consume information continues to evolve, newsbrand publishers and their advertising clients will always have to find ways to reach them. "We are seeing the rapid rise of the connected home," says Carter. "Half of all search enquiries will soon be conducted by voice. Our job is to produce content, whether it be print, digital or audio. And the key challenge right now is how best to capture people's attention in this changing home environment."

> **"ADVERTISERS ARE NOW LOOKING FOR INTEGRATED BRANDED CONTENT AS WELL AS TRADITIONAL ADVERTISING**

CASE STUDY

TRANSFORMATION FOR FUTURE GROWTH

For Publicis Groupe, the advent of digitalisation meant one thing – transformation. That's the view of Annette King, CEO of Publicis Groupe UK, highlighting that "the disruptive power of technology has made the appetite for transformation both more necessary and more prevalent". In a company of 80,000 employees, across 200 disciplines that is no small thing, but nevertheless it is happening.

Transformation initially came the way of a massive restructure in 2015 of the existing holding company into four solution hubs: Publicis Communications, Publicis Media, Publicis Healthcare and Publicis Sapient. The aim was to breakdown silos and place clients at the centre of the business. According to King this allows her company to "bring the best of what we've got from across the entire Groupe platform to best serve our client needs". Internally, this new focus is called the Power of One – gathering end to end capabilities of Publicis Groupe in a customised way for clients as and when they need it.

Underpinning all of this, is of course, data. Perhaps the most ubiquitous result of digitalisation, it provides insights into customers behaviour previously unimaginable, it allows advertisers to understand how customers are responding in real time, and to connect with them in real time – and if used wisely, to provide personalisation at scale. Data's significance is highlighted by King who enthuses "data is at the heart of absolutely everything we do. It allows for dynamic creativity". King goes on to explain, "the big idea is still the big idea, vital to any creative but with today's data you can deliver that big idea in super relevant ways, and ultimately all driving a stronger conversion for your client".

Transformation comes in many forms for the Publicis Groupe but perhaps the most famous is Marcel. Named in honour of the founder of the business, Marcel Bleustein-Blanchet and developed through Publicis Sapient in partnership with Microsoft, Marcel is a conversational AI that match-makes talent, skills and experience across the 80,000 strong global network. The aim is that it will have access to the working details of all employees within the network to consider when choosing the best people to service a project. It will also learn about their abilities as they work on projects and develop a better understanding of them over time. King is in no doubt as to its future impact, saying "As a result we will run the company differently, in a better way. Its potential is limitless as it will be continually evolving and learning".

Whatever Marcel brings one thing is clear - the process of transformation is ongoing - specifically for the Publicis Groupe but also UK advertising in general. "In this industry you get cycles" King explains, "when tech really began in the late 90s, specialist companies began to pop up providing early search or display ads or whatever. Slowly but surely bigger agencies and holding groups develop or acquire that specialist capability themselves rendering the original need for the specialist extinct. It subsequently happened with social media and is now happening with data. Then the next will come… voice, AI and on and on". Whatever the next cycle, it will require transformation.

CHAPTER 5

THE DIGITALISATION BOOST FOR SMES

Small and medium-sized enterprises are of vital importance to the UK economy, creating and sustaining millions of jobs and making a significant contribution to national GDP

There are an estimated 5.7 million SMEs in the UK, constituting 99.9% of all private sector businesses in the country. This figure has undergone a dramatic 63% increase over the last two decades, jumping by 2.2 million since 2000.

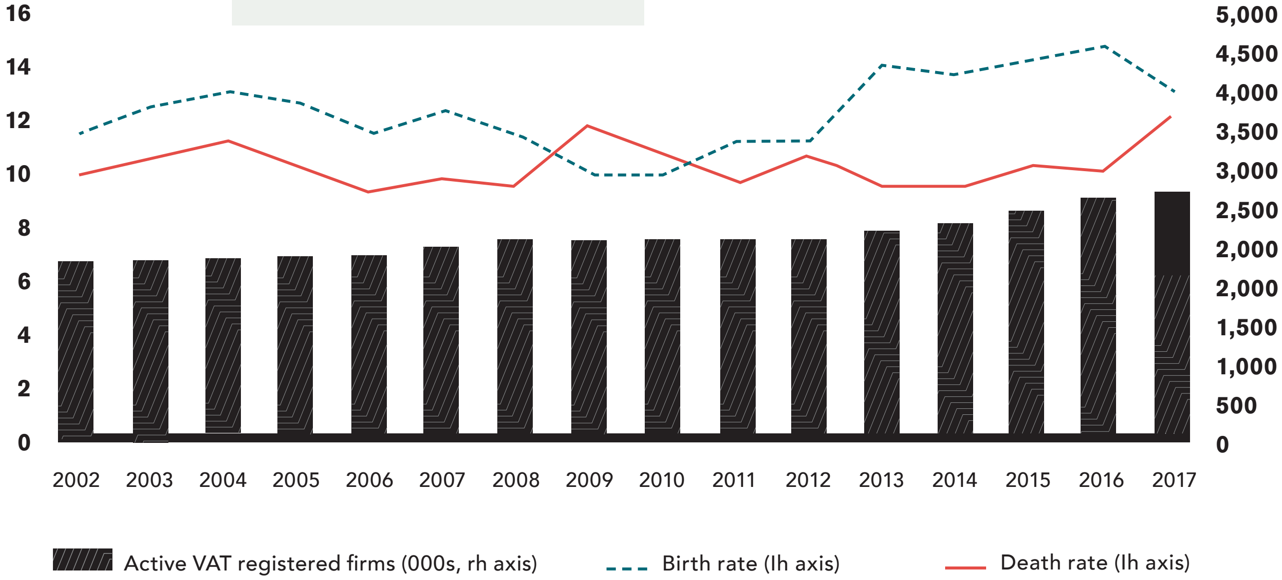
These companies now employ 16.3 million people, or 60% of all private sector employees. Again, we see substantial development in recent years. Employment by SMEs has increased by 16% in the years since 2010, or by 2.2 million people.

The combined annual turnover of SMEs in the UK amounts to £2 trillion, making up the majority (52%) of all private sector revenue.[21]

The self-serve advertising revolution among SMEs has been behind much of the rapid online advertising growth in the UK over the past 16 years, ever since Google launched the AdWords platform for search advertising in 2002. Estimates from Enders Analysis attribute over half a million UK advertisers to both Google and Facebook and over 200,000 with Amazon.

As highlighted in Figure 19, the massive increase in the business birth rate, particularly since the explosion in self-serve social media advertising suggests that the benefit is felt both ways. As spend on online advertising has increased so has the creation of SME businesses.

Figure 19:
UK registered business creation and death by year



Source: ONS, Enders Analysis

However, despite recent growth and their visible collective impact on the economy, individual SMEs can be especially vulnerable to fortune or events, particularly in their early years. Even one sale can make the difference between profit and failure. The statistics bear this out. In 2017, 382,000 new businesses were established. However, there were also 357,000 that ceased trading. The largest number of both business births (92,000) and business deaths (86,000) occurred in London. Business deaths outnumbered business births in four regions – Yorkshire and Humberside, the East Midlands, the East of England and the South West.[22]

As SMEs seek to establish themselves and grow, they need all the help they can get. The smallest win can create momentum and make a huge difference. This is where advertising comes in.

[21]For these facts about SMEs, see Business Population Estimates, BEIS (October 2018) https://www.gov.uk/government/statistics/business-population-estimates-2018
[22]House of Commons Library, Business Statistics, December 2018

CASE STUDY

FACEBOOK ADVERTISING AND THE EXPANSION OF A BARBER SHOP CHAIN

Adam Choudhry has no doubt about what it was that propelled the success of the Kings Barbers Club, the company he founded in 2009. "It wasn't until Facebook launched its Ads Manager tool that the business really took off," he says. "It proved to be a very smart way to focus our spending. Suddenly, we had a means with which to offer particular services and types of haircut to very specific groups of people."

Facebook Ads Manager allows businesses to select the specific location and particular demographics (age, gender, or even items such as relationship status and educational qualifications) of their target customer. After Choudhry had spent countless hours handing out leaflets to passers-by, Ads Manager suddenly transformed the fortunes of his first shop in Birmingham. A second outlet was opened soon afterwards. Now he has fifteen, spread across the Midlands, making it the UK's largest chain of independently-owned barber shops.

Choudhry is still not satisfied, pressing ahead with yet more ambitious plans. Facebook marketing is still central to this continuing expansion drive. For example, Kings Barbers Club has developed its own software to integrate an online booking service with its presence on the social media site.

Many SMEs in the UK have prospered as a result of Facebook marketing. Two million SMEs have Facebook pages, and more than half (55%) of them say they have increased their sales as a result of their presence and advertising on the site. Moreover, one in three companies in the UK that have Facebook or Instagram pages even say that they built their businesses on these platforms.

When one delves further into the statistics, the huge potential of social media to reach new customers is clearly evident. More than four in every five people (82%) on Facebook in the UK are connected to one local business or another through the site.

DIGITALISATION AND THE GROWTH OF SME ADVERTISING

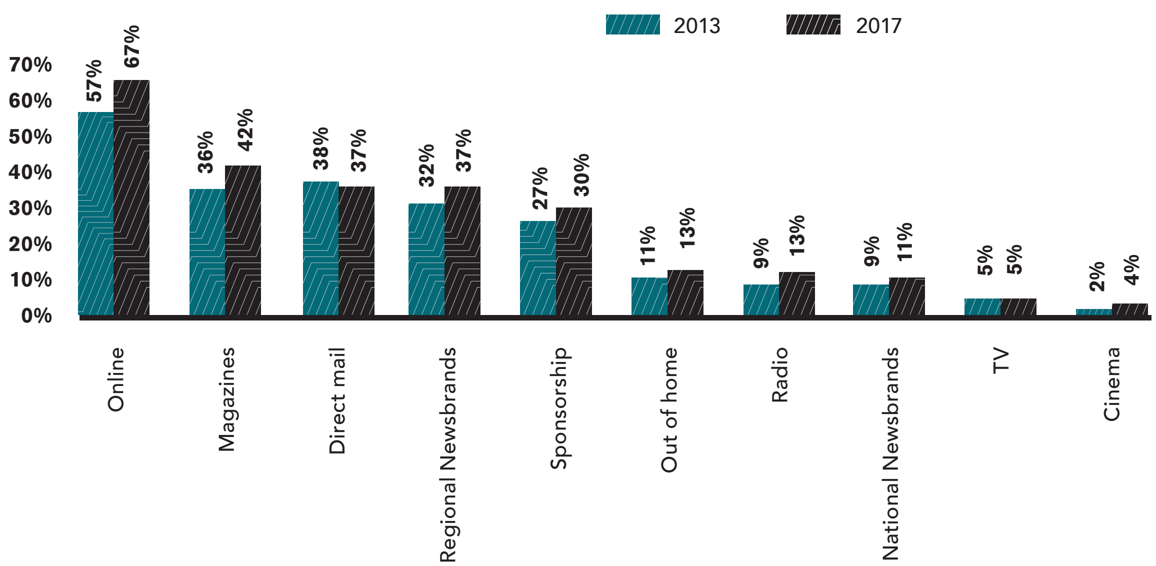
According to surveys by YouGov for the Advertising Association, the advent of digitalisation has encouraged more SMEs to advertise.[23] The percentage of SMEs which advertise rose from 30% in 2013 to 42% in 2017.

Between 2013 and 2017, there were significant increases in the proportion of SMEs which were advertising online, often on social media sites, or through magazines and regional newspapers (both online and in print) and radio (both online and analogue).

The proportion of SMEs making use of multi-channel campaigns also increased, from 40% in 2013 to 48% in 2017, suggesting that digitalisation has encouraged more SMEs to advertise through more than one channel.

We have seen a strong correlation between multi-channel advertising and strong business performance. Companies which used multi-channel advertising campaigns were more likely to report increased profits than those counterparts which only carried out single-channel campaigns (68% of SMEs vs. 62%). Moreover, high-growth SMEs were significantly more likely to use multi-channel advertising than single-channel campaigns.

Figure 20:
Channels of advertising most commonly used by SMEs in 2013 and 2017



Source: Advertising Association/YouGov SME Survey, Aug 2017

[23] Unless otherwise stated, all data on SME advertising in this chapter is from the Advertising Association SME Survey, YouGov (2013 & 2017), a nationally representative survey of 1,000 (2013) & 2,000 (2017) SMEs

CASE STUDY

SPREADING THE DIGITAL OUT OF HOME MESSAGE

8 Outdoor was founded in September 2015, with the aim of bringing digital out of home advertising to towns and cities throughout the country. In doing so, the company sought to challenge the prevailing notion that digital out of home is beyond the reach of all but the largest advertising budgets.

At the time of 8 Outdoor's launch, almost all, digital out-of-home advertising could be found in the country's largest cities, especially on huge screens in prestigious or highly visible locations, such as Piccadilly Circus or on the A4/M4 corridor leading west out of Central London.

Just over three years later, 8 Outdoor's disruptive ambition is bearing fruit. "Phase one of our strategy is to place digital screens right across the UK, in any town with a population of more than 100,000 people," explains Cennydd Roberts, the company's CEO. "There are 50 such towns in the country. By the end of Q1 2019, we should have a presence in over 30 of them, with up to 140 screens."

Such an approach appeals to those major companies, such as supermarkets and cinema chains, which are looking to reach a countrywide audience. However, 8 Outdoor has also managed to use the flexibility of digital out-of-home advertising to offer a cost-effective proposition to SMEs and local advertisers. Rather than purchasing an immutable poster display on a billboard for the traditional two-week period, at what is for them a prohibitively expensive price, SMEs can now convey timely messages to various audiences at selected times of day throughout the country.

In 2018, YourDentist.co.uk wanted to use the upcoming royal wedding between Prince Harry and Meghan Markle to promote its dental services. 8 Outdoor planned a national campaign, including prime placement by a busy section of the M25, with the slogan "Make your teeth sparkle like Meghan Markle" on digital screens. As a result of the campaign, enquiries to the company shot up by 1000%. "This was a good illustration of what digital screens can offer," says Roberts. "Relevant and imaginative, it captured the moment and engaged with the customer."

Given the rising demand from the sector, Roberts anticipates that SMEs and local advertisers will account for 40% of 8 Outdoor's overall revenue by 2021.

MORE ADVERTISING EQUALS MORE SUCCESS FOR SMES

Analysis for the Advertising Association by Deloitte reveals that spending on advertising has a disproportionate impact on SMEs. An additional £1 spent on advertising by an SME has eight times the impact on its sales growth rate, compared to when a larger firm spends £1 on advertising.[24]

Indeed, higher sales and the propensity to advertise seem to go hand in hand. SMEs reporting high growth in turnover were significantly more likely to advertise (53%) than SMEs with decreasing or flat turnover (34% and 33% respectively).

Most SME executives believe in the power of advertising to boost performance. More than two thirds (69%) of SME advertisers agreed that their company's advertising strategy had increased sales, while 60% agreed that it had increased profits. Overall, 67% of SMEs agreed that their advertising strategy had been a success.

[24] Advertising Pays 2: How advertising can unlock UK growth potential, Advertising Association/Deloitte (2014) (http://www.adassoc.org.uk/wp-content/uploads/2014/09/Advertising-Pays-2-How-advertising-can-unlock-UK-growth-potential.pdf)

CHAPTER 6

WHAT DOES THE FUTURE HOLD?

We asked industry leaders - as the digitalisation of advertising continues to develop, what is the most important challenge and most important opportunity for your business?

DIRECTOR GENERAL, INSTITUTE OF PRACTITIONERS IN ADVERTISING (IPA)

PAUL BAINSFAIR

There is no doubt that the digital revolution has helped to increase the potential effectiveness of most forms of advertising, including traditional media. It is not, however, without its challenges. We are very concerned that the obtrusiveness of many digital ad formats allied to excessive frequency has been a major contributor to falling levels of consumer trust in advertising. The IPA, along with ISBA are leading an industry-wide study into the issue of trust and favourability and we hope that one of the outcomes will be to curb these problem areas.

One of the big benefits of digitalisation is the ability to target one's advertising much more accurately. This in turn can lead to advertising which is designed to stimulate an immediate response. We know from recent analysis of the IPA Databank, however, that balancing long-term brand building and short-term activation is crucial; the magic combination seems to be around 60% brand and 40% activation. Broad reach campaigns are the best way to drive market share and profit. The industry must resist the temptation to focus on the efficiency that digitalisation offers and allow this balance to be skewed towards activation. Were this to happen we would see a decline in overall effectiveness.

CHAIR, NEWSWORKS

TRACY DE GROOSE

As with many things in life, our biggest challenge will be our biggest opportunity – the growth in digital readership and how we unlock its value. Newsbrands' readership is at record levels, having grown from 40 million[25] people a decade ago to 45 million in 2018.[26] Every day, 24 million[27] people are reading newsbrands, yet advertising investment does not reflect this.

Up until this year, we have not been able to effectively measure and quantify our total audience reach as readers shift online, making our growth largely invisible to advertisers. Neither have we evolved our trading models to adapt and deliver what we know they're crying out for – engaged digital audiences in brand safe environments.

Thanks to two new industry-wide innovations in 2018 – PAMCo and The Ozone Project – that's changing.

We have built PAMCo in partnership with the IPA, ISBA and the PPA to reclaim our expanded digital ecosystem and fully measure multi-platform, de-duplicated news audiences for the first time. PAMCo uses pioneering methodology to quantify newsbrands' total reach. Breaking down the silos between print and digital allows advertisers to effectively plan and buy across platforms.

The Ozone Project, the second innovation, allows advertisers to seamlessly buy growing digital audiences across titles. Open market place, digital trading can often prioritise inventory over audiences. Not only does this create an ecosystem rife with fraud, it also breeds reputational issues. Yet all our research shows that being in quality digital environments delivers better viewability, engagement and ROI. So how do we help advertisers unlock this value? The Ozone Project unites four major news publishers in a joint digital sales hub, allowing us to deliver digital audiences in a more controlled way via one point of access.

From measurement through to sales, PAMCo and Ozone encapsulate how newsbrands are harnessing digital opportunities and embracing a fully multi-platform future. With our effectiveness research highlighting how advertisers are missing out on £3 billion of additional profit,[28] these tools will allow advertisers to capitalise on newsbrands' true value.

> “ EVERY DAY, 24 MILLION PEOPLE ARE READING NEWSBRANDS, YET ADVERTISING INVESTMENT DOES NOT REFLECT THIS

[25] Monthly readership, NRS
[26] Monthly readership, PAMCo 2018
[27] PAMCo 4 2018 (Oct'17-Sep'18)
[28] Planning for Profit' Newsworks and Benchmarketing (2018)

FOUNDER,
ENDERS ANALYSIS

CLAIRE ENDERS

As a UK-based research company, we have a front-row seat to observe a pioneering market for online advertising and advertising technology. The innovation, skills and vitality of the sector should be celebrated as world-leading cornerstones of Britain's creative economy, which our contribution to this report demonstrates.

Across the technology, media and telecoms sectors we cover, online advertising has become a key part of what companies do – bringing in customers, generating revenue, or both. In just a few years, the online toolkit for advertisers has gone from niche to mainstream, from clunky to sophisticated, from experimental to essential.

With its unique data-based capabilities, online advertising attracts budgets which were previously not spent on advertising, and businesses which did not previously advertise. Because of these green shoots, the industry's growth has been far from a zero-sum game. Since the 2008-2009 recession, annual online advertising spend in the UK has grown by £10bn, with only 20% of this growth explained by the decline of other advertising media.

But, only a fraction of UK online ad spend reaches British content media: in 2018, newsbrands received 4% of the total, and broadcasters only 3%. The advertising technology industry has developed impressive technology for identifying the right audiences wherever they may be, but the consequence has been that the value of quality media contexts and deep audience attention is not fully priced in online.

As observers of digital ecosystems, we are concerned that five out of the six largest online advertising companies do not disclose the amount of money spent advertising to UK audiences – a glaring omission as the industry strives to become more transparent. As consumers, we would welcome yet more information and control over how our data is collected and processed by the services we use, and better protections for children and other vulnerable groups. We therefore welcome the recent step-change in initiatives to better self-regulate the sector, whether by industry bodies or the companies themselves.

In terms of rules and governance, it is still far from a level playing field between online and offline advertising, or even between different types of online. Delivering a UK online advertising ecosystem that fairly balances the needs of consumers, companies of all sizes, media owners and society in general will require self-regulation to be supported by informed legal and regulatory interventions. With this in mind, it is more important than ever that policymakers understand the scale, depth and diversity of online advertising with the same enthusiasm with which British companies have embraced it.

CHAIR, INTERNET ADVERTISING BUREAU (IAB)

RICHARD EYRE

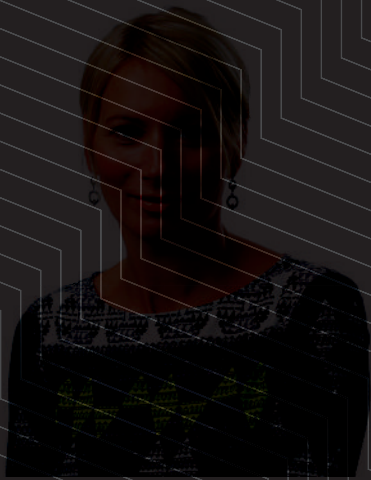
The most significant development of the next decade will be the growing ability of machines to emulate human intelligence. The effects of this on society will be enormous – in medicine, education, employment, lifestyle. Its impact on advertising, while less critical for the human race, will also be magnificent enough that to imagine our digital future just as more interruptive advertising online, is to settle for Bronze (or even DNF) when there's Gold on offer.

> **"ONLY THE BRANDS THAT BUILD A TRUSTED AND RESPECTFUL RELATIONSHIP WILL PARTICIPATE IN THIS HAPPY ARRANGEMENT.**

The public's current experience of our brilliance with intelligent technology is brand-stalking, but in the face of public disapproval, regulation and powerful initiatives like the IAB UK Gold Standard, advertisers and publishers will add 'respectful' to our 'legal decent honest and truthful' maxim of best practice.

The brands that don't bother will not participate in the Golden opportunity served up by technology as it connects devices, applications and human interactions: Your phone knowns that your partner is working late on her birthday. It knows her favourite restaurant from her reviews and via OpenTable that it has one table for two left at 8pm. It asks if you want the table and should it send flowers to her work, yellow roses of course, and maybe order an Uber (or your autonomous car) for 22:30? The answer may be no to all the above; she may prefer a Just Eat and a Netflix; but by learning from those eight data points, the technology serves up the kind of high-scale personalisation we'll tell our friends about, not block.

Only the brands that build a trusted and respectful relationship will participate in this happy arrangement. Advertising will have a continuing role at all points along the process, but its ultimate purpose will be to ensure that our technology knows the brands we like, or that when we call out a shopping instruction to our home assistant, we care enough to remember the brand-name. This is a mission requiring all our creativity – and it starts now.



CEO, AMPLIFY UK

PIPPA GLUCKLICH

'Simplifying the complex' is a phrase often heard in our sector. Yet somehow, whether through mass commoditisation of inventory, multiple routes to market, jargon or tech stacks, we've turned what ought to be quite a simple process of delivering communications messages to interested parties into a bit of a mess.

> **"IF MEDIA IS BEING MORE DEMOCRATISED, THEN THOSE WHO OFFER THE MOST INSIGHTFUL AND ACCURATE METHOD OF CONNECTING BRANDS WITH AUDIENCES IN A MEANINGFUL WAY WILL ALWAYS ADD VALUE.**

What digitalisation has brought, even though it promised to reduce complexity, is uncertainty, lack of relevancy, distrust, an explosion of messages and multiple acronyms. Yet it's also democratised media in an unprecedented way. Platforms such as Facebook and Google are the partner of choice for a new breed of D2C brands and the trend towards in-housing for many well-established brands is well documented. Increasingly, agencies must think about their relevance for newly established businesses and the role we play in this new world order. This is a challenge for agencies but one which most welcome as one of our biggest opportunities – and let's face it, our industry is adept at reinvention.

Understanding people has always been the core of what we do. If media is being more democratised, then those who offer the most insightful and accurate method of connecting brands with audiences in a meaningful way will always add value. And the opportunity for brands, marketers and their agencies to do this is by connecting with real people at personal level – not via the historical methods of models, proxies and let's face it, a lot of guesswork. Which is why Dentsu Aegis Network invested in Merkle, a leading global data-driven and technology enabled business. Through their M1 platform, we now have an un-paralleled view of people at an individual ID level, and importantly audiences that we can activate against in programmatic and addressable media, so it's 100% accountable. It takes personalisation to another level, delivering unique, relevant and tailored customer experiences in real time – and that really is a game-changer.

VICE PRESIDENT
& MD OF UK & IRELAND,
GOOGLE

RONAN HARRIS

Google turned 20 in 2018. When our founders created Search in 1998, they did so with a guiding principle in mind that continues to be our driving force today - focus on the user and all else will follow.

We are proud to have played such a fundamental role in advancing the digitalisation of advertising, particularly so in the UK, our second biggest market globally. The laser-sharp focus on the user - whether individual or advertiser - has meant that UK consumers now derive a £37 million surplus from using Google services and we can support £55 billion of economic activity here.

Over the years, we, as many others, have learned that opportunities for digital advertising lie in using technology to remove friction for advertisers, especially SMEs, to improve the usefulness and relevance for users. Getting this right is as true today as it was when digitalisation was first set in motion over two decades ago. And with AI now coming into its own, the next twenty years will unquestionably be as revolutionary as the preceding twenty.

However, the pace of technology has brought about challenges that we are, unfortunately, all too familiar with such as ad fraud, brand safety, and bad ads leading to a poor user experience.

> **“ THE DIGITALISATION OF ADVERTISING SHOULD RIGHTLY BE CELEBRATED.**

The relentless move towards digitalising all media will undoubtedly bring more challenges. Google, together with industry partners, have worked tirelessly in addressing many of these challenges but the common thread binding them all is trust in advertising, or rather, a decline in trust over recent years.

The digitalisation of advertising should rightly be celebrated. Through Credos, the AA has done pioneering work in understanding consumer sentiments towards advertising. It’s time for us to act on these findings. The AA is well placed to lead these discussions and we look forward to continuing playing an active role in them.

VICE PRESIDENT
NORTHERN EUROPE,
FACEBOOK

STEVE HATCH

Technology and digital advertising are a force for good — for people, businesses, and economies. I truly believe that, and I'm proud to be a part of this industry.

I also believe that the most important opportunity that the digitalisation of advertising has created a leveling of the playing field for businesses of all sizes. This helps businesses grow, creates jobs, and strengthen communities.

Thanks to digital advertising, small businesses — which create most of the jobs and economic growth around the world — get access to tools that help them thrive. According to research from Ipsos Mori, for small business that use digital technology to export, half of them have been able to employ new people as a result of that.

But it's also helping established business as well. For major brands, it's allowed them to be closer to their customers and serve them better than ever before. It's enabled businesses of all sizes to respect people's time, to not bombard them with irrelevant advertising but instead create relevant and meaningful experiences.

What this means is that digital advertising is an incredible force for good that drives growth. Its accessibility to companies of all sizes is enabling ideas to be exported around the world. It's helping to grow their organisations and employees, as well as to grow their brands.

This is the power of digital advertising, it has a real-world economic impact. We take that responsibility and the part we play in it very seriously.

The challenge that we face as an industry is to make sure that we are doing this responsibly, and that the pace of change doesn't move faster than consumer understanding. We have to work together to ensure, enforce and act responsibly with this new power that belongs to the advertiser, whatever their size and wherever they advertise.

It may feel like a challenging time, but we mustn't lose our optimism. We mustn't lose our passion to build digital advertising for good, which is what brought us here in the first place for the benefit of people, businesses and society.

> **“ WHAT THIS MEANS IS THAT DIGITAL ADVERTISING IS AN INCREDIBLE FORCE FOR GOOD THAT DRIVES GROWTH.**

CEO, ITV

DAME CAROLYN MCCALL DBE

For ITV the biggest opportunity the development of digital advertising has brought us is being able to offer the best of both worlds to advertisers - mass simultaneous reach on linear TV and a more targeted advertising proposition on The Hub.

The Hub now has over 27 million registered users and over 75% of 16-24's are registered already. This gives us the opportunity to deliver addressable advertising campaigns targeting specific viewers by filters such as age, location or the device they're using.

We've outlined our ambition to grow our targeted advertising capabilities in the future and are well advanced on how we grow and develop this going forward. It will be an exciting part of our business giving us the ability to meet a wider range of advertiser needs.

The most difficult challenge for broadcasters has been the swing towards the "new". The feeling that whether it's effective or not, "digital" has to be used and the financial incentives to do so have augmented that.

The push from advertisers for greater transparency in light of some highly publicised issues is welcome and I hope this will redress the balance. TV is under indexed. Human beings buy products not robots, and all programmatic advertising has to evidence transparently that it is working to stimulate purchase.

" HUMAN BEINGS BUY PRODUCTS NOT ROBOTS, AND ALL PROGRAMMATIC ADVERTISING HAS TO EVIDENCE TRANSPARENTLY THAT IT IS WORKING TO STIMULATE PURCHASE.

ITV will continue to communicate the enduring benefits of TV as the most powerful medium to reach millions of people every day in a fraud-free, brand-safe environment and our new addressable capabilities will provide a fantastically effective combination of both reach and targeting.

Digitally native brands already see the value of advertising on TV and the immediate response from consumers, and their spend has increased 10% year-on-year because of effectiveness. Whether that's spot advertising from brands like We Buy Any Car or Just Eat's sponsorship of The X Factor, to Missguided's product placement that increased sales by 40% . That's effective communication which results in growth for companies and that is what matters to advertisers.

FOUNDING PARTNER, adam&eveDDB AND FORMER CHAIRMAN, ADVERTISING ASSOCIATION

JAMES MURPHY

The rapid evolution of digital technologies has given agencies more opportunities to create value more profoundly for our clients. Where digital innovation may have initially been embraced enthusiastically as new ways to communicate with customers, agencies now know they can go way beyond comms to influence the whole customer journey. Why just make a promise when you can make digital products, services and experiences that make that promise live.

> **“AGENCIES NEED TO WELCOME AND ENTHUSE PEOPLE WITH A WIDER RANGE OF SKILLS, MIND SETS, PERSONALITIES AND PASSIONS THAN EVER BEFORE**

A central challenge we face is to continue to keep up with, and invest in, innovation – and to compete to employ the specialist talent that can deliver it. This is why diversity of talent and thinking is so vital – agencies need to welcome and enthuse people with a wider range of skills, mind sets, personalities and passions than ever before.

Ironically, the large agencies that are often accused of being traditional and conservative, are the businesses that have the scale and resources to invest in this, while the smaller start-up end of the industry will pursue open and innovative ways of partnering with the broad range of specialists that will enable them to deliver what clients need as we enter the twenty-twenties.

But digitalisation isn’t just using the best digital channels and social platform, today it also ensuring we employ the latest in AI and machine learning for the benefit of our clients and their brands. AI will be a new frontier for everything from customer service to creative development, and the UK ad industry is currently at the forefront of seizing the opportunities it brings.

The spectrum that agencies now work across would be unrecognizable to an agency staffer from twenty years ago – but that huge and evolving range of capabilities means agencies are still some of the most exciting (and personally developing) places to work.

CEO, ADVERTISING STANDARDS AUTHORITY (ASA)

GUY PARKER

The ASA's regulation of UK advertising in all media has changed profoundly because of digitalisation. Over 80% of the 7,099 ads or ad campaigns we had amended or withdrawn in 2017 appeared online in whole or part.

Over half of our work today involves regulating online 'advertiser-owned' advertising, content that was not covered by our Advertising Code as recently as 2010. And more and more of the ads we regulate offline are digital too, from digital TV and radio ads to ads on digital outdoor screens.

The most important challenge has been keeping up with the pace of change and ensuring that we apply media-neutral regulation – on behalf of the public, society and responsible businesses – to advertising content that simply did not exist ten years ago. From companies' claims on their own websites and social media spaces (including YouTube, Facebook, Twitter, Snap and Instagram), their advergames and apps, to their advertising in partnership with social influencers, online publishers and affiliates, the ASA system has moved with the times. And that's on top of our regulation of more conventional online paid ads, including rules on the processing of data for marketing purposes.

We've met the challenge of extending our regulation to respond to the digital revolution but we are not complacent. Getting even better at regulating online ads is at the heart of our new 2019-23 strategy: More Impact Online. Taking the opportunities afforded by digital technology, including using machine learning to regulate better, will be key to us delivering that strategy, thereby taking another big step towards our ambition of making every UK ad a responsible ad.

> **"WE'VE MET THE CHALLENGE OF EXTENDING OUR REGULATION TO RESPOND TO THE DIGITAL REVOLUTION BUT WE ARE NOT COMPLACENT.**

DIRECTOR GENERAL, INCORPORATED SOCIETY OF BRITISH ADVERTISERS (ISBA)

PHIL SMITH

Relevance. It is all about relevance. For our members at ISBA, the most important challenges and opportunities created by digitalisation are tied up with the issue of relevance. Unfortunately, too much industry activity is concerned with what we can do. We want to know what we can create. We naturally want to know what we can advertise and how much reach we can obtain with that advertising?

But we worry too much about what can be created, rather than whether we should be pushing so much advertising and content at our audiences.

These are the questions that matter:
What do people really need?
What does an individual find relevant?

In one way, it's about getting back to the original internet dream. Remember how Google used to claim that success was getting users off its web site as quickly as possible? Let's all get back to being as focused on the customer need as much as possible.

This concerns all aspects of communication, from targeting to frequency. We know that, often, as frequency goes up, irrelevant messages get more irritating and, of course, there is much less perceived value.

We've ignored the issue for too long. The Advertising Association's research shows us that consumers continue to see advertising as a positive force but they also acknowledge some big downsides, from retargeting to disruptive advertising.

> **"THE MOST IMPORTANT CHALLENGES AND OPPORTUNITIES CREATED BY DIGITALISATION ARE TIED UP WITH THE ISSUE OF RELEVANCE.**

It's a delicate balance at the moment and, unfortunately, I think we are in danger of tilting the equation towards the negative.

Advertising needs to empathise with people. It needs to use data properly to power that connection.

As McKinsey & Co's recent report on personalised marketing tells us, people want to be communicated with, but the consumer is asking for "relevant recommendations I wouldn't have thought of myself".

As an industry, we ignore these pleas for relevance at our peril. But the good news is that the rewards for getting it right are high.

UNILEVER

KEITH WEED

The pace of change in the sector is exponential, driven by technology rapidly changing consumer behaviour and impacting our understanding of how we meet consumer needs. Challenges arise when bad actors manipulate technology, by misusing data, bots, or bombarding people with adverts.

Last year it became obvious that the issues we were experiencing in digital publishing and media were no longer purely business or industry issues, but societal issues. Our biggest challenge is a decline in public trust. At Unilever, we have been very clear and consistent about calling for a better digital ecosystem and going beyond just setting the right standards and approaches for Viewability, Verification and Value. Last year, our Responsibility Framework extended our approach to partner engagement. We announced we would promote responsible content, only work with partners committed to creating a positive impact in society, and partner with organisations to create a One Measurement system that improves the consumer experience.

We also addressed the transparency issues in influencer marketing, aiming to combat fraud, create better consumer experiences and improve brands' ability to measure impact on social media. Since then, our partners have removed over 1.6 billion fake accounts and content from their platforms.

We have also made significant steps towards building a Cross Media Measurement Model for brands to help them understand campaign impact across the media landscape. We are working closely and proactively with partners including Google, Facebook, Twitter, Kantar Media and Nielsen to meet this industry need. To further accelerate this solution, we are working with the World Federation of Advertisers to invite other brands, platforms and publishers to join in our efforts.

Today we have more opportunities to connect with our consumers than ever before. We have the technology to serve people with more relevant messages, understand what does and doesn't work and change it in real time. By working together to address the challenges, we can maximise these opportunities and make marketing noble again.

> **"WE HAVE THE TECHNOLOGY TO SERVE PEOPLE WITH MORE RELEVANT MESSAGES, UNDERSTAND WHAT DOES AND DOESN'T WORK AND CHANGE IT IN REAL TIME.**

THE ADVERTISING ASSOCIATION WOULD LIKE TO THANK THE FOLLOWING FOR THEIR SUPPORT IN PRODUCING THIS REPORT:

FRONT FOOT MEMBERS

CREDOS ADVISORY BOARD

ENDERS ANALYSIS

OUR MEMBER ORGANISATIONS

ALL CONTRIBUTORS

FOR FURTHER INFORMATION PLEASE CONTACT:

7th Floor North,
Artillery House,
11-19 Artillery Row,
London, SW1P 1RT

Tel: +44 (0)20 7340 1100
Email: AA@adassoc.org.uk
adassoc.org.uk

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ASSOCIATION