

House of Lords Select Committee on Communications
Inquiry: The Advertising Industry

1. Introduction

1. The Internet Advertising Bureau (IAB UK) is the industry body for digital advertising in the UK. It represents over 1200 businesses engaged in all forms of online and mobile advertising, including media owners and advertising technology businesses. Our purpose is to build a sustainable future for digital advertising.
2. The IAB is actively engaged in working towards the optimal policy and regulatory environment for the digital advertising market to continue to thrive. We also seek to promote good practice to ensure a responsible medium. Further information is available at www.iabuk.net.
3. IAB UK's written evidence provides an overview of the UK digital advertising market, its role in and contribution to the digital economy. Our submission also provides information about digital advertising to the Committee to assist its thinking, as well as addressing the inquiry questions that are specific to the digital advertising sector.
4. Advertising – increasingly underpinned by consumer data – plays a significant role in the internet and its development. It is the lifeblood of the digital economy in the UK, EU and globally. As in traditional media, it underpins the commercial model for making (non-publicly funded) content widely available to UK citizens for little or no cost and promotes media diversity and plurality. It helps fund a wide range of content and services that have become part of our everyday lives – from search, webmail, social media and price comparison sites, to video- and photo-sharing tools and the majority of news, information and entertainment services.
5. **In funding content, services and applications, digital advertising helps to make them widely available at little or no cost to internet users, regardless of who they are or where they live. The Committee and the Government should explicitly recognise the role advertising plays in helping pay for online services.**
6. Digital advertising is the fastest-growing marketing medium in the UK, outstripping all other advertising sectors (see paragraph 50).
7. From a global perspective, the UK is the major hub for digital advertising in Europe and beyond. There is a real risk of investment and jobs moving away from the UK if the future relationship between the UK and the EU does not serve the needs of the industry in areas such as access to talent and the continued free flow of data.

8. Digital advertising in the UK is regulated by a combination of legislative rules (including the [Data Protection Act of 1998](#); the [Privacy and Electronic Communications \(EC Directive\) \(Amendment\) Regulations 2011](#), and the [Consumer Protection from Unfair Trading Regulations 2008](#)) and self-regulatory schemes such as the [UK Code of Non-Broadcast Advertising and Direct and Promotional Marketing](#), the [EDAA principles on behavioural advertising](#) and the [Digital Trading Standards Group](#).
9. Self-regulation and good practice complement legislation and achieve objectives that the law does not or cannot, often going beyond what the law requires, and offering an easily-accessible route for educating consumers, resolving disputes and providing the flexibility to respond to issues and adapt to new technologies and business models. This is particularly important in fast-moving markets like digital advertising where statutory legislation may not be able to or be the right tool by which to achieve the desired policy goals.

The Government's digital charter work programme

10. We share the Government's ambition to make the UK the best and safest place for online advertising. We want the country to represent a gold standard in digital for others to admire, follow and emulate and ensure that the UK retains its leading role in ecommerce and digital advertising.
11. The UK digital advertising sector has a strong track record of self-regulation which has been recognised by the Government. Through continued Government support we believe that self-regulation remains the best approach to addressing issues that have the potential to undermine consumer and business trust in digital advertising.
12. There are a number of existing cross-industry initiatives which aim to address key issues and the IAB has recently launched its Gold Standard initiative, with a public commitment from 23 of its Board members – leading businesses in the digital advertising sector – aimed at driving up standards in the industry. The Standard commits signatories to:
 - 1) Reducing ad fraud by implementing ads.txt¹
 - 2) Improving digital advertising experiences by adhering the Coalition for Better Ads principles² and not using the 12 'bad' ads³
 - 3) Increasing brand safety by working with JICWEBS with a view to becoming certified or maintaining certification⁴

¹ Ads.txt is a technical tool to increase transparency in the programmatic advertising ecosystem in order to address domain spoofing by publishing details of companies that are authorised to sell advertising space on behalf of a publisher.

² See <https://www.iabuk.net/resources/standards-and-guidelines/lean-faqs-2016>

³ More details available at <https://www.iabuk.net/blog/positive-steps-to-make-people-s-online-ad-experiences-better>

⁴ See <https://iabuk.net/policy/briefings/iab-factsheet-minimising-the-risk-of-advertising-misplacement> for more information

13. The initiative is now being rolled out to other IAB members involved in buying and selling digital advertising in the UK. Full details including a list of the initial signatories are available at <https://iabuk.net/gold-standard>.
14. It is important that the Government and Government officials have a sound understanding of the digital advertising industry in order to understand the challenges it faces and to have informed discussions about how these can best be addressed. **The Government should ensure that it engages closely, and on an ongoing basis with those in the digital advertising industry - such as the IAB - who can provide information and education and can enable it to keep up-to-date with developments in the market, so that it can develop evidence-based policy and support us in developing solutions to our challenges.**
15. **We also ask that the Government adopts a streamlined approach within its digital charter workstream to developing policy relating to digital advertising, so that discussions can be had in one place and in a way that ensures that issues are not considered in isolation but take into account the wider considerations.**

2. Skills

What specific skills are required to support the advertising industry in the production and distribution of advertising?

16. The Advertising Association's response outlines the advertising industry's wide and varied skills needs and its recent *Advertising Pays 6* report explores this in more detail.⁵
17. To add to that, there are specific skills needs in relation to digital advertising. While many of the skills needed to design and plan an advertising campaign are the same, irrespective of the medium, digital advertising is executed using technology. The industry therefore not only needs people who can use that technology (as highlighted in the AA's submission) but also the people with the technical and scientific skills to be able to conceive, design and develop the tools and infrastructure that enable digital advertising to work in practice.
18. As a constantly-innovating industry we need experts who are at the cutting edge of the development and application of technology and the smart use of data. As advertising becomes increasingly digitised, it will be important that everyone has a good, broad understanding of how digital technology works in practice. We support the recommendations put forward by techUK in its 2015 white paper on

⁵ <https://www.adassoc.org.uk/advertising-pays-6-world-class-talent-world-class-ads/>

how to deliver the digital skills children and young people need, and to create the skills needed for jobs in a digital world.⁶

3. International

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

The regulatory environment

19. Many businesses in the UK digital advertising industry operate in other EU and global markets. A stable and consistent regulatory regime is important and businesses seek consistent and predictable regulation, particularly in relation to data (see below) and consumer protection, rather than different standards for different markets. This will be an important consideration as the UK leaves the EU.
20. **As the UK leaves the EU, the Government should create close alignment with existing legal frameworks for consumer protection, that have originated in EU legislation, and ensure as far as possible that there are harmonised rules and standards.**

Data flows and data protection

21. Data is key to the UK's economy and powers today's digital media and services. It is crucial to providing and personalising digital services to users, advertising and marketing communications as well as the continued success and sustainability of the wider digital economy in the UK.
22. Specifically, data enables content services to be personalised to individual users, and enables advertising to be tailored for, and targeted to, particular audiences, improving its efficiency and effectiveness. Cross-border data flows and a practical, proportionate data protection regime are pre-requisites to the effective functioning of digital advertising businesses and to the UK's attractiveness as a place to innovate and operate digital businesses.
23. The advertising and media ecosystem depends on scale for its growth and long term sustainability. Advertising delivery often involves complex value chains of partners, working together to provide digital services. The UK acts as a hub for data used in digital advertising in the EU and therefore the free flow of data between the EU and the UK after the UK exits the EU is crucial so that services and continue to be provided seamlessly across multiple markets in the future, to

⁶ *We're just not doing enough: Working together to meet the digital skills challenge*, techUK, July 2015. Available at <https://www.techuk.org/insights/reports/item/5077-techuk-proposes-11-recommendations-to-meet-the-digital-skills-challenge>

ensure long-term sustainability.

24. The EU's General Data Protection Regulation (GDPR) comes into force in May 2018 and the industry is preparing for implementation. This is complicated by the fact that guidance from European Regulators will come very late in the day, only a few months before the compliance deadline.

25. Additionally, the proposed ePrivacy Regulation threatens the future of the data-driven digital economy and could greatly undermine the investments made in GDPR implementation efforts. Even though the UK may have left the EU at the time of its application, UK businesses may in practice have to adhere to it to ensure continued provision of services to EU markets. As such the development of the Regulation still needs the full involvement of UK authorities. **This is critically important as the Regulation reaches a crucial stage of the negotiations.**⁷

26. The Data Protection Bill will implement the derogations afforded to Member States under the GDPR into UK law. From the IAB's point of view, it is crucial that the Government uses this opportunity to set the age to obtain parental consent at 13, as offered by the GDPR and proposed in the Bill. At the same time, we believe Government should be careful not to 'gold plate' the GDPR in other areas where flexibility is given to Member States.

27. **We encourage the Committee to support the findings of the Lords European Union Committee's inquiry on 'Brexit: the EU data protection package', particularly in the area of data transfers after Brexit.** The Committee's report, published in July 2017, said:

'The Government has said that it wishes to secure unhindered and uninterrupted flows of data between the UK and the EU post-Brexit, to facilitate both trade and law enforcement cooperation. We support this objective, and note that any arrangement that resulted in greater friction around data transfers between the UK and the EU post-Brexit could hinder police and security cooperation. It could also present a non-tariff barrier to trade, particularly in services, putting companies operating out of the UK at a competitive disadvantage. The Government must not only signal its commitment to unhindered and uninterrupted flows of data, but set out clearly, and as soon as possible, how it plans to deliver that outcome. We were struck by the lack of detail in the Government's assurances thus far.'⁸

28. We welcome Government's commitment to ensure the continued flow of data between the UK and the EU post-Brexit as set out in the Government's paper on

⁷ <https://www.iabuk.net/news/european-parliament-committee-s-approach-on-eprivacy-would-harm-european-media-and-citizens>

⁸ Paragraph 110, <https://publications.parliament.uk/pa/ld201719/ldselect/ldeucom/7/702.htm>

the exchange and protection of personal data.⁹ As a next step, we encourage the Government to seek recognition from the EU to find agreement on this chosen approach in order to build business confidence. Given the novelty of this approach, and the lack of precedent, it is critical that this issue is addressed as early as possible as part of the Brexit negotiations.

29. The Government should prioritise this work, and in particular:

- **Encourage clarity from Data Protection Authorities, including the UK Information Commissioner's Office (ICO), on forthcoming GDPR guidance on key issues like consent.**
- **Prioritise putting in place adequate data-sharing agreements to ensure the free flow of data between the UK and the EU and the UK and the U.S. as part of Brexit considerations.**
- **Work with industry to develop common thinking on future compliance issues as a result of opinions issued by the European Data Protection Board.**
- **Continue investing sufficient resources into advocating for a pragmatic approach to the proposed ePrivacy Regulation.**
- **Encourage ICO support for voluntary industry approaches, if any sector chooses to explore this, both in the UK and at European and international level.**
- **Ensure that the Data Protection Bill and other implementing legislation implements comprehensive GDPR exemptions for freedom of expression and information and other derogations including those vital to free flow of data across borders.**

Promoting UK businesses overseas

30. The IAB is involved in discussions through the Advertising Association with the Department for International Trade (DIT) about an industry-Government partnership to promote the British advertising industry overseas and help British advertising businesses expand into international markets. **We welcome DIT's interest and agree with the AA that this as an important priority for the Government to resource for 2018.**

International trade

31. We support the Advertising Association's view that the Government should include the industry in Government discussions about future Free Trade Agreements, so that the needs of the advertising and marketing industries can be considered along with other industry sectors.

How could immigration policy better support the industry?

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/639853/The_exchange_and_protection_of_personal_data.pdf

32. As stated above, digital advertising businesses often operate on an international basis, across different global markets. Many have, and need, mixed nationality workforces and all their non-UK national staff are likely to be affected by immigration policy. The Advertising Association's recent *Advertising Pays 6* report explores the international nature of the UK's advertising workforce in detail.¹⁰
33. Indications are that the current sponsorship arrangements for non-EU nationals are onerous for businesses. Their priorities, in relation to immigration and non-UK nationals, are the ability to:
- retain existing staff
 - move existing staff seamlessly between offices in different countries. Many companies are structured based on global regions. Their staff need to be able to travel easily within those regions, and companies need to be able to allocate resource and expertise according to demand and provide staff training and development.
 - recruit new staff from outside of the UK to meet demand for specialist skills and expertise.
34. We echo the AA's position that **it is of fundamental importance to digital advertising businesses that future immigration rules allow easy access to European and international talent, and that whatever processes are put in place that they enable quick and easy access to skilled workers from outside the UK.**

4. Digital

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

The UK digital advertising market

The growth of the market

35. Digital advertising is:

- Online advertising viewed on a desktop PC or laptop, accessed via an internet connection
- Advertising that has been specifically tailored and served on a tablet device, accessed via 3G, 4G or wifi
- Advertising that has been specifically tailored and served on a smartphone device, accessed via 3G, 4G or wifi

¹⁰ <https://www.adassoc.org.uk/advertising-pays-6-world-class-talent-world-class-ads/>

It comes in different categories and formats:

Formats	Categories
Display	<ul style="list-style-type: none"> • ‘Banner’ ads (e.g. at the top or side of a webpage) • Video • Content (paid-for sponsorship, advertisement features) • Native (in-feed & native distribution units, e.g. ‘recommendation engines’)
Search	Sponsored or promoted listings in search engine results
Classifieds	Listings for jobs, property, cars, tradespeople, etc.
Other (e.g. audio, lead generation)	

36. The IAB has measured the size of the digital advertising market in the UK in conjunction with PricewaterhouseCoopers (PwC) since 1997. Results from the IAB/PwC Adspend study are released twice a year – in the autumn for the first half of the year (e.g. October 2017 for H1 2017) and in the spring for the full year (e.g. April 2018 for Full Year 2017).

37. In 2016, £10.3 billion was spent on UK digital advertising. The market grew by over 17% on a like-for-like basis (versus 2015), the highest growth rate since 2007.¹¹ Figures for the first half of 2017 show a continuing trend for growth, with digital advertising spend increasing by £675m to 5.56bn for the half year, compared with the same period in 2016 (a 13.8% year-on-year increase).¹²

The UK market in context

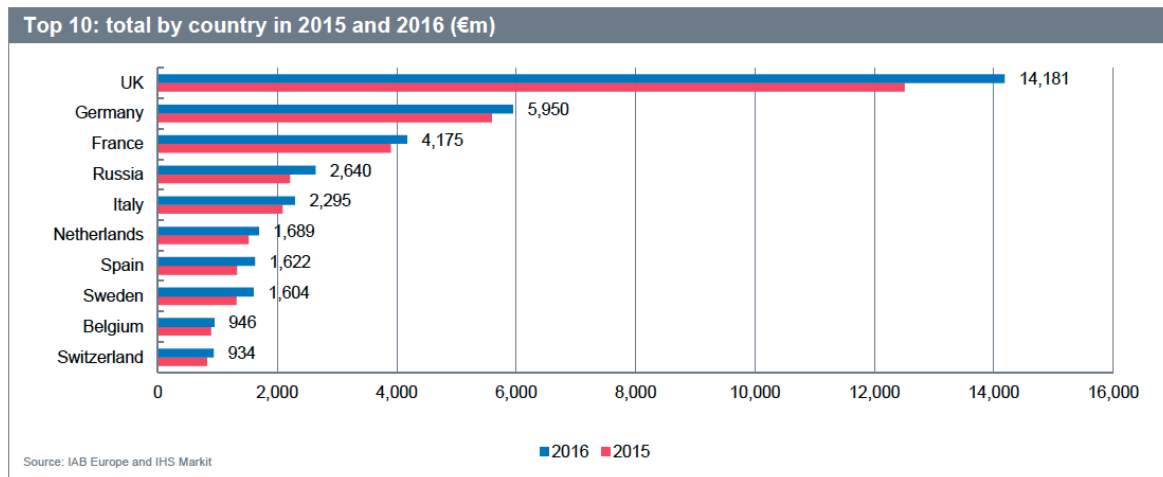
38. UK digital advertising leads Europe. Online advertising expenditure in Europe (including UK figures)¹³ in 2016 totalled €41.9 billion (approx. £34.34bn) in 2016, up 12.3% on a like-for-like basis from €37.3 billion (approx. £30.57bn) in 2015. The £10.3bn spent on digital advertising in 2016 in the UK represents a market that is larger than its German and French counterparts combined.

Figure 1: Digital adspend by country 2015 and 2016

¹¹ <https://www.iabuk.net/research/library/full-year-2016-digital-adspend-results>

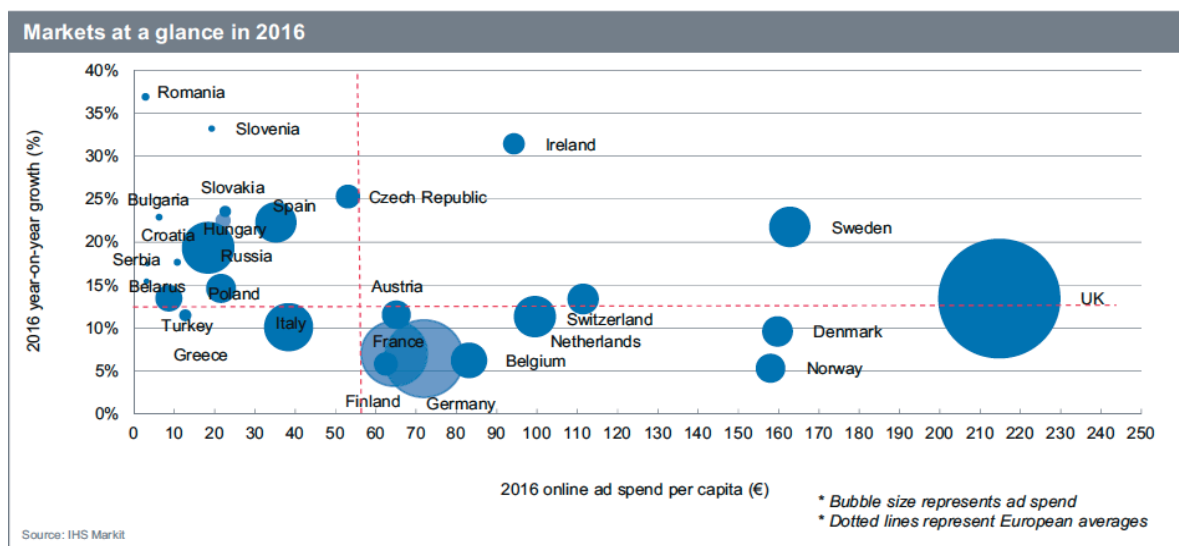
¹² <https://www.iabuk.net/research/library/h1-2017-digital-adspend-results>

¹³ *IAB Europe AdEx Benchmark 2016, European Online Advertising Spend*, Published June 2017. This report covers the following countries: Austria, Belarus, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Norway, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, UK.



39. All 'European' markets included in this study recorded absolute growth in digital ad spend in 2016. The UK, however, has the highest spend per capita (€215), as shown below.

Figure 2: European markets compared (total and per capita spend)



40. Digital advertising spend in the U.S. is growing at a higher rate than the UK – it saw a 22% like-for-like increase between 2015 and 2016. While the U.S. market is larger than the UK, the UK has a higher per capita spend (U.S. per capita spend in 2016 was approximately \$203 compared to €215 in the UK).¹⁴

41. IAB U.S. publishes 'Internet Advertising Revenue Reports' which are available at <https://www.iab.com/insights/iab-internet-advertising-revenue-report-conducted-by-pricewaterhousecoopers-pwc-2/>. The U.S. data shows a very similar picture to the UK in terms of the shift in media spend and trends in the market.

¹⁴ Based on a total spend of \$72.5 bn in 2016 as reported by IAB U.S.

Trends in the digital advertising market

Growth in mobile advertising

42. Mobile advertising (i.e. advertising that has been specifically tailored to and served on a smartphone device, accessed via 3G, 4G or wifi) now accounts for over half of all display advertising and is currently driving the majority of the market growth. In terms of formats, the largest increases in spend have been in those that are particularly suited to a mobile environment. Video was the fastest growing format in 2016, up 56% on a like-for-like basis since 2015, followed by content and native advertising which grew by 28%. Social media display advertising (all categories) grew 38% to £1.7 billion in 2016.

The adoption of 'programmatic' technology

43. Advertisers (and agencies on their behalf) can buy mainstream display advertising in a number of ways. In recent years, advertisers have increasingly made use of 'programmatic advertising' in an effort to improve the effectiveness and efficiency of their campaigns.

44. Programmatic advertising automates employs technology to streamline and simplify the process of buying and selling digital advertising placements. In 2016, 72% of total UK display advertising was traded programmatically.¹⁵ Advertisers (buyers) can use programmatic technology to place ads in an automated way with publishers (sellers) they have a direct relationship with, for example through private marketplaces. 49% of display advertising was sold this way in 2016.

45. Advertisers can also use programmatic technology to target audiences rather than buying space on a specific website, in order to increase the scale and efficiency of their campaigns. During this process, known as real-time bidding (RTB), advertising space is sold via an auction process and advertisers 'bid' in real time to show their ads to audiences who meet their target criteria (24% of display advertising was sold this way in 2016).

46. RTB allows advertisers to reach audiences on any number of publisher sites openly through an auction even if they may not have a direct relationship with the publisher, therefore broadening the reach of their campaigns. This auction is triggered when a user visits a site and takes place in milliseconds. The seller signals to prospective buyers that an opportunity to show an ad has become available and describes what that opportunity is, based on data such as demographic information and/or inferred categories of user interests, e.g. female between 25-34 interested in cars. Advertisers then decide whether they want to bid for the chance to show their ad, based on this information. In practice this means that individuals visiting the same website or viewing the same piece of online content may be shown different ads, according to which advertisers' criteria they meet and which advertiser 'wins' the bid.

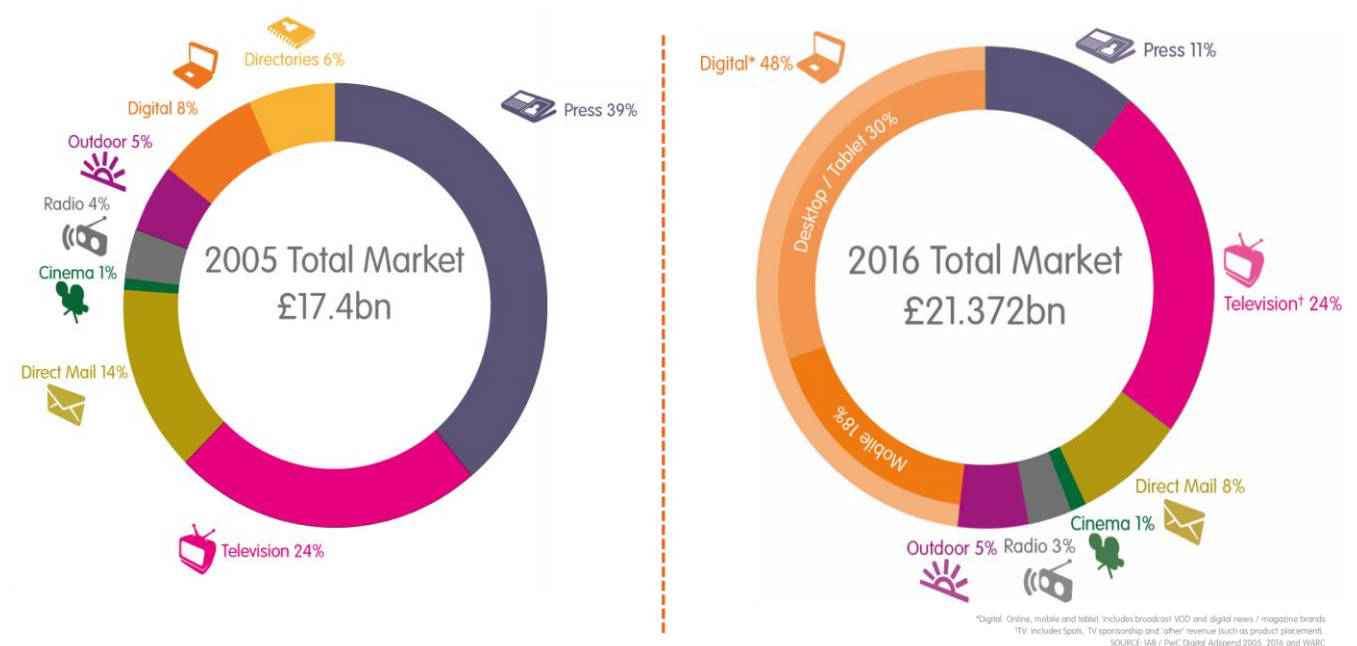
¹⁵ <https://iabuk.net/about/press/archive/mobile-drives-digital-ad-spend-past-10-billion-threshold>

47. Programmatic advertising has grown rapidly since 2013, when 28% of all digital advertising was traded this way, a figure that stood at 72% in 2016. It is forecast to continue to grow over the next three years and is expected to account for 80-90% of display ad spend in 2019.

The shift to digital advertising

48. Digital advertising now accounts for half of the total £20billion UK advertising market.

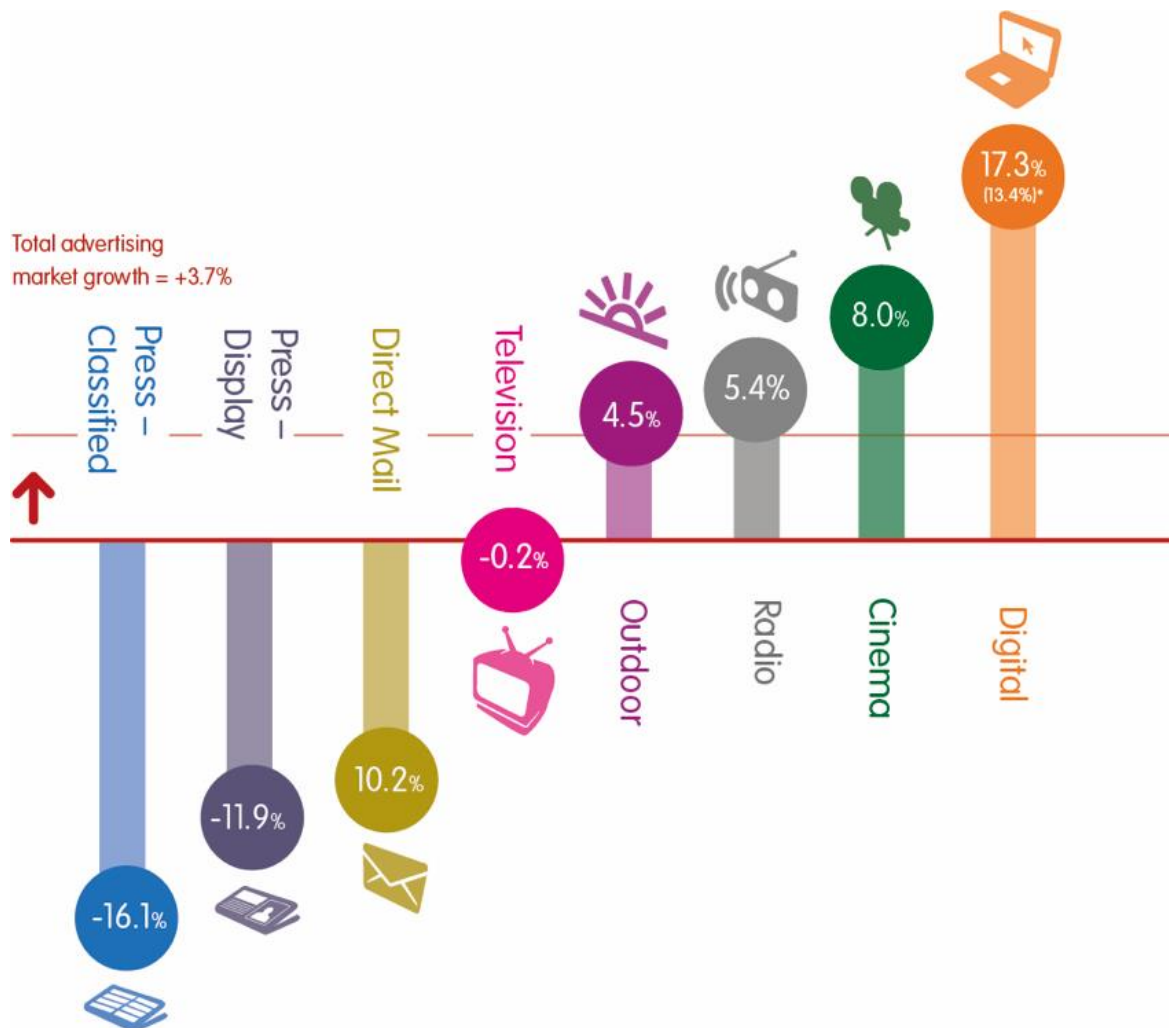
Figure 3: change in advertising market share by media type, 2005-2016



Digital: Online, mobile and tablet. Includes broadcast VOD and digital news / magazine brands
†TV: Includes Spots, TV sponsorship and 'other' revenue (such as product placement).
SOURCE: IAB / PwC Digital Adspend 2005, 2016 and WARC

49. Digital advertising's increased market share appears to be primarily accounted for by a shift from press (i.e. print) and classified advertising to digital (as can be seen in the diagram above, other media such as TV and radio have held a consistent market share during this period). This shift is driven by changes in consumer behaviour (see paragraph 52), particularly the trend in people accessing content and services on mobile devices (smartphones and tablets) and the emergence of a 'mobile first' generation of users. There is therefore also a shift to digital delivery in news and magazine publications (as well as in TV and audio content), reflecting an increasingly digital society in the UK.

50. Of all advertising media, digital showed the strongest growth in 2016. While digital media offer more choice and opportunities for advertisers to reach their audiences, they are not necessarily in competition with more traditional media. Digital has the biggest market share, but other sectors are also seeing growth, as illustrated in Figure 4, below.



*Digital: Like for like growth (absolute growth)
 For growth purposes, digital includes broadcast VOD and digital news / magazine brands.
 (These are also included in TV and press respectively).
 SOURCE: IAB / PwC Digital Adspend 2016 and WARC

Figure 4: Change in advertising spend by media, 2015-2016

51. Digital technology has created a new advertising environment - it has made new advertising space available to advertisers in addition to the more traditional media that have been around much longer than digital's 20-year history. It is perhaps unsurprising that as a relatively 'new' medium, digital is showing greater growth. Other media such as TV and radio are also continuing to grow (in terms of advertising spend), but at a slower rate.

The drivers for growth in digital advertising spend

Audience behaviour

52. The changes in advertisers' media spend are the result of a number of factors. We know that people's behaviours have changed hugely in the last ten years, and that is driving changes in advertising: advertisers go where their audiences are, and they are increasingly online, and specifically on mobile devices.
53. According to Ofcom data, 83% of UK adults (16+) have broadband internet access at home and 76% have a smartphone. Two-thirds of UK adults (66%) say they go online via their mobile phone (among 16-24s this is 89%, compared to 22% of those aged 65+).¹⁶
54. The rise in mobile video ad budgets in particular reflects online YouGov data showing that in the six months to April 2017, 54% of British smartphone users watched video clips on their phone, with two in five of these saying they do more of this than a year ago. A significant number have also watched TV programmes (17%) and films (11%) on their smartphones. This behaviour is much more prevalent among 18-24 year olds, with 75% watching short clips, 44% watching TV and 33% watching films on mobiles. Six in 10 people who watched short clips, TV or film on their phone did so whilst 'out and about'.¹⁷
55. The IAB and UKOM, the official cross-industry standards body that measures online audiences using approved comScore data, publish figures on how long people actively spend online each day. The latest data, published in October 2017, shows that over-18s spend on average 3 hours per day online. Of this, 49% of online time is on smartphones, 37% on desktop / laptops and 15% on tablets.¹⁸ The time people spend watching short video clips appears to have almost trebled over the last three years (Sept 2014 to Sept 2017): from 51 minutes to 2 hours 21 minutes per week, according to YouGov data.¹⁹
56. UKOM's digital market overview²⁰ also shows how smartphones are creating 'new' online time, rather than replacing time spent on desktop computers.
57. Additionally, the UK has a very mature e-commerce market which enables advertisers to direct people to make purchases online, making digital advertising ideal for driving online retail sales. According to the IMRG Capgemini eRetail Sales Index, e-commerce in the UK was worth €153 billion/£176 billion in 2016.²¹

¹⁶ https://www.ofcom.org.uk/_data/assets/pdf_file/0018/105507/internet-use-attitudes-bulletin-2017.pdf

¹⁷ <https://iabuk.net/about/press/archive/mobile-drives-digital-ad-spend-past-10-billion-threshold>

¹⁸ <https://iabuk.net/research/library/time-spent-online-jan-jun-2017>

¹⁹ <https://iabuk.net/about/press/archive/online-video-spend-overtakes-banner-ads-for-first-time>

²⁰ See page 7, UK Digital Market Overview – June 2017

http://www.ukom.uk.net/uploads/files/UKOM_Digital_Market_Overview_June_2017.pdf

²¹ via <https://ecommercenews.eu/ecommerce-uk-worth-e153-billion-2016/>

Effectiveness

58. Digital media also attract advertising revenue because they offer scale and audience targeting capabilities that deliver efficiency and effectiveness for advertisers. Rather than, for example, everybody listening to a radio programme hearing the same advert, digital ads can be targeted at groups of users visiting the site or app, if they fall into a defined audience (i.e. a group of users) that an advertiser want to reach (in the same way as other advertising can be targeted, as described in paragraphs 46-48). Using data to target advertising is not a new innovation, nor is it limited to digital media. Advertisers have always tried to use audience data to target their advertising, and media owners have provided that data (e.g. BARB data for TV viewing and RAJAR data for radio). However, with digital media there is more data available, and it's more precise. Digital advertising also offers scale, because - in theory - you can reach audiences in multiple places online.

Content is increasingly published and delivered digitally

59. The changes seen in media spend can also be accounted for, in part, by changes in how content is produced and delivered. As internet access in the UK has become near-universal, and mobile, and people spend increasing amounts of time online, businesses have had to adapt to their audiences' needs and preferences.

60. Many traditional news and magazine publishers have diversified their business models so that they increasingly publish content both in print and online, reflecting shifts in user behaviour. Others, such as the Independent, have moved to a digital-only publication model. Some news publishers have come into existence in the digital age, and rely on digital ad-funded business models to fund their content production, for example BuzzFeed and HuffPost.

61. As with print media, brand-funded sponsorship and 'advertorial' content are popular types of digital advertising (and as explained in paragraph 42, content and native advertising is driving growth in the market). Many traditional news and magazine publishers are using their skills and expertise in producing engaging content to set up content creation studios, separate from their news journalism and editorial functions, that specialise in producing branded content and are a key source of advertising revenue.

62. Recent figures indicate that some 'traditional' news publishers are successfully adapting to the digital era. In October 2017, the Daily Mail and General Trust issued a trading update for the previous 11 months showing a 22% growth in advertising revenues for the MailOnline, its digital arm, which has offset losses in print advertising revenue.²² Trinity Mirror's quarter 3 results for 2017 show a 4% growth in digital revenue.²³ The Guardian Media Group has reported a 2% jump in revenues, supported by a 15% boost in digital revenues and a 360% increase

²² <https://www.dmgtrading.com/news-and-media/news-articles/2017/q3-trading-update>

²³ <http://www.trinitymirror.com/trading-update-october-2017-final.pdf>

in its paying members to 230,000.²⁴ English language news services have also been successful in building significant digital audiences overseas, including in the U.S. and Australia, which provide a new source of advertising revenue.

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

63. As all media in the UK have become - at least in part - digital, advertising is increasingly likely to be bought and delivered digitally across the board.
64. TV and radio/audio content are now delivered digitally as well as via traditional broadcast channels; print publications have moved online (as described above) and out of home advertising has also moved to digital screens as well as traditional posters and billboards.
65. Industry data shows that all these media saw increases in their digital ad income in 2016: national newsbrands (up 25.4%), radio (up 8.1%), broadcaster VOD (up 7.2%) and out-of-home (up 27.6%) rose strongly.²⁵
66. Digital advertising is demonstrably effective, and can be used by itself, but its strength also lies in complementing other media. It is a key part of the 'media mix' for advertisers as they look to build brand awareness and drive sales. As outlined in paragraph 58, digital advertising offers advertisers both reach and scale, and the capability of very specific targeting. And it has an infinite supply.

Advertising is increasingly bought and sold using digital technology

67. In addition to digital delivery of content, digital advertising techniques and technologies are starting to be applied to other media. For example, ads on both linear TV (TV that is aired live) and non-linear TV can be bought and sold programmatically in order to target audiences, based on set-top box data, as opposed to buying ads based on content (i.e. targeting all the viewers of a particular programme).
68. Further to this, a number of key broadcasters have begun to adopt 'addressable' advertising for both non-linear and linear TV which uses technology and data to allow them to sell their advertising inventory in a digital way, and enables advertisers to target ads more specifically. 'Addressable' ads take advantage of broadcasters' data sets (from subscriptions and set-top boxes, for example) and other information typically used to target digital advertising, such as geographic, demographic and behavioural data, to target ads on a household basis and in real time. It works in very much the same way as RTB works for digital display advertising.

²⁴ <http://www.thedrum.com/news/2017/07/25/guardian-revenues-up-2-paying-members-grow-230000>

²⁵ https://www.warc.com/NewsAndOpinion/News/UK_advertising_spend_grows_at_slowest_rate_for_four_years/39044

69. Programmatic technology is also used for buying and selling of radio advertising, as an increasing amount of 'live' radio is streamed on digital devices. This enables 'addressable' ads to be delivered to different people listening to the same programme, and means that in addition to relying on the reach and scale of traditional broadcast audio content, advertisers can also target audiences much more specifically. In addition, using digital technology gives advertisers the ability to measure how many people hear their ads, what demographic groups these listeners fall into, and, potentially, get insights into their activities post-listening.
70. Companies that deliver out-of-home advertising are digitising their operations, making it more efficient for advertisers/agencies to buy media space and - coupled with digital screens - enabling them to sell multiple ad slots in one location, which can be tailored to a particular location or time of day, for example. This gives advertisers have more choice and more targeting options in a traditional 'mass reach' medium.
71. The future of media is therefore likely to be a hybrid of non-digital and digital content delivery, and an increased digitisation of advertising delivery.

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

72. The digital advertising ecosystem is complex and within it, there are several 'markets'. Broadly speaking, businesses in this sector fall into one (or more) of four categories: advertisers; agencies; advertising technology companies, and media owners. To consider the 'digital media market', the Committee should consider its constituent parts separately, as they have different features and characteristics. Even within constituencies, businesses have very different business models and offerings, and some may fulfil one or more functions.
73. The digital advertising industry as a whole is a very competitive one, and that competition drives innovation. The market changes quickly and often. As spend on digital advertising grows, companies are competing for their share of that money. Mergers and acquisitions are common as companies vie for business in the same space and look to develop or buy in capabilities that will give them a competitive advantage. The fast-paced nature of the industry means that companies are constantly developing and improving their products and services to offer the best possible solutions to advertisers' needs. Barriers to entry are also relatively low, meaning that it is open to businesses to enter the market and compete with existing players. For example, in June 2017 the fifth most popular digital property in the UK (i.e. a site or app) by time spent was Spotify, the music streaming service that has only been available in the UK since 2009, that generates revenue from both advertising and subscriptions. Eighth in the list was Snapchat, an app that launched in 2011 and also relies on advertising to generate revenue.
74. The 'currencies' of digital advertising are 'traffic' (i.e. people) and data - or a combination of both. Companies that can offer or facilitate access for advertisers

and agencies to the right audience, insights and targeting capabilities at a competitive price and at scale are likely to be successful in attracting advertising revenue. This has always been the case with advertising, and digital advertising is particularly effective at achieving those things at scale and at a relatively low cost. Advertisers spend their budgets where they are likely to get the best return on investment in terms of achieving their campaign objectives. That often means spending money on digital advertising alongside advertising in other media.

75. The digital advertising market has responded to demands from advertisers and the need to compete with other media to introduce processes and standards aimed at providing efficiency and effectiveness for marketers. For example, buying advertising programmatically (see paragraph 43) can involve a complex supply chain connecting the buyer and the seller via advertising technology businesses which facilitate programmatic advertising.²⁶ Third party platforms grew up to meet the need to aggregate supply or demand in the marketplace to enhance efficiency, and the introduction of RTB ‘auctions’ taking place in open marketplaces has opened up the opportunity to any buyer to compete to buy advertising space on an equal basis, and to any publisher to compete to host advertising,²⁷ allowing individuals and small publishers to attract advertising revenue along with bigger publishers.
76. The industry has developed standardised protocols such as ‘Open RTB’ which enable advertising inventory to be traded using a common ‘language’, which makes it easier for advertisers to communicate their needs to the market and for publishers to compete for their business.
77. The pressure on and from advertisers to produce engaging, relevant ads and advertising content, and attract the attention of their audience in an increasingly ‘busy’ online environment, will continue to drive competition and innovation in the industry. A thriving and competitive digital advertising should remain Government policy.

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

78. The Advertising Standards Authority (ASA) regulates advertising in all non-broadcast media and this has had the flexibility to encompass new online formats as they developed including display, search marketing, native and social media placements. Its remit was extended in 2011 to incorporate advertising on a company’s own website or in other non-paid-for space online under their control (e.g. social media).
79. The ASA enforces the advertising rules set out in the UK Code of Non-broadcast Advertising, Sales Promotion and Direct Marketing (the CAP Code), which are equivalent rules to those that apply to broadcast adverts (the BCAP Code). The

²⁶ See our ‘Guide to digital display advertising’ at <https://www.youtube.com/watch?v=efHVOWcNJZo>

²⁷ Subject to compliance with relevant terms and conditions, companies’ own acceptance criteria, etc.

Committee of Advertising Practice, of which IAB UK is a member, keeps the Code under review to ensure that it is up to date and responds to changes in the market and that there is consistency in the regulation of broadcast and non-broadcast advertising. For example, new rules were recently introduced to the CAP Code to restrict the marketing of foods and drink high in fat, salt and sugar to children. Equivalent rules existed in the BCAP Code covering broadcast advertising placement restrictions in relation to children's media.

80. Similarly, consumer protection rules, such as the Consumer Protection from Unfair Trading Regulations 2008²⁸ which set out unfair and misleading marketing practices, enforcement of which is the responsibility of the UK Competition and Markets Authority, also apply to digital advertising.
81. The UK self-regulatory system is robust and effective, supported by legal backstops. In the vast majority of cases advertisers comply with ASA rulings that will usually require them to amend or remove an ad that has breached the Code. For those who do not comply, there is a range of sanctions the ASA can use to achieve compliance, ranging from negative publicity, which can be damaging to the reputation of the advertiser, agency or publisher, to more formal steps. In the most serious cases, the ASA will refer the case onto Trading Standards or Ofcom.
82. The self-regulatory system in the UK has shown it can adapt to developments in digital media. For example, industry developed the EU Good Practice Principles on Behavioural Advertising (see paragraph 8) which envisages a specific role for member state self-regulatory organisations, including the ASA in the UK.
83. The use of personal data for advertising purposes is subject to relevant data protection and other legislation (see paragraph 8) and regulated by the Information Commissioner's Office in the UK.
84. **We believe that the existing regulatory framework is robust, proportionate and effective. Together with industry self-regulation, the existing approach is appropriate to ensure that the digital advertising industry operates responsibly and can have a sustainable future.**

²⁸ <https://www.gov.uk/government/publications/consumer-protection-from-unfair-trading-regulations-traders>