

# IAB UK response to the DCMS Committee inquiry into the impact of Covid-19 on DCMS sectors

19 June 2020

## Background

IAB UK is the trade association for digital advertising, made up of over 1,200 of the UK's leading media owners, advertising technology providers, agencies and brands. We have a Board<sup>1</sup> comprised of 25 leading businesses in the sector. Our purpose is to build a sustainable future for digital advertising, a market that was worth £15.69bn in the UK in 2019.

The IAB is actively engaged in working towards the optimal policy and regulatory environment to support a sustainable future for digital advertising. We also develop and promote good practice to ensure a responsible medium.

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## Digital advertising in the UK

The latest figures from the Office of National Statistics showed the UK's economy contracted by 20.4% in April 2020 as a result of the Covid-19 pandemic and its repercussions and, along with almost all other industries, this impact has been keenly felt by the digital advertising industry.

The digital advertising industry is cross-border in its nature and therefore highly susceptible to global economic trends. Advertising spend in the UK has plummeted, meaning companies within the digital advertising industry – many of them operating with low profit margins – are facing severe difficulty and anticipating a long advertising recession. Daniel Knapp, chief economist at IAB Europe – the European-level association for the digital marketing and advertising ecosystem, of which IAB UK is a member – explains in his May article on the impact of Covid-19: 'It will take the overall ad market about three years in total to recover from this downturn, with a 12 to 14-month time-frame for digital.'<sup>2</sup>

As well as attempting to weather the impact of Covid-19, the digital advertising industry was already dealing with and responding to a myriad of regulatory changes, reviews and market studies, all of which were presenting significant challenges. This context has not been materially altered by the pandemic. These ongoing challenges include: responding to new

<sup>1</sup> [https://www.iabuk.com/member-directory?title=&company\\_type=All&company\\_badges%5B%5D=board\\_member](https://www.iabuk.com/member-directory?title=&company_type=All&company_badges%5B%5D=board_member)

<sup>2</sup> <https://iabeuropa.eu/blog/iab-europes-chief-economist-features-on-warc-impact-of-covid-19-on-ad-expenditure-and-the-digital-new-normal/>

cookie guidance from the Irish Data Protection Commission<sup>3</sup>; anticipating imminent GDPR complaints, enforcement decisions and the new Age-Appropriate Design Code from the Information Commissioner's Office (ICO); implementing an updated version of the Transparency & Consent Framework; planning for Brexit; awaiting the Competition and Markets Authority's (CMA) market study into the industry plus other inquiries in Australia and Canada; and navigating uncertainty around the UK's new Digital Services Tax. These are just some of the live regulatory factors that companies operating in the digital advertising industry were already negotiating; Covid-19 means they must now do so along with the considerable reduction of adspend in the market.

Additionally, as Daniel Knapp notes, all three advertising recessions in Europe over the past 20 years (the dot com crash and 9/11 in 2001, the financial crisis in 2008/2009 and the Eurozone crisis in 2012) showed that advertising expenditure does not just follow economic trends; it amplifies them, particularly if economic growth is flat or negative.<sup>4</sup>

In forming its response to the pandemic, the Government should take time to understand what the new business landscape looks like and avoid hasty responses aimed at addressing the short-term situation that may have undesirable long-term consequences, particularly in regards to its objectives for encouraging an effective and competitive digital advertising market.

#### IAB UK: member survey

In March 2020 IAB UK surveyed its member companies on the immediate impact that the Covid-19 pandemic was already having on their business, and the short-to-medium term impact they were anticipating.

The headline figures from the survey suggested the following picture of the UK's digital advertising industry:

- -11% revenue decline in March 2020 vs March 2019
- -32% revenue decline in forecasts for Q2 2020 vs Q2 2019
- Businesses with a 2019 turnover of less than £20million forecast a greater impact
- Sales houses, media agencies and other suppliers were reporting a greater impact than media owners and ad tech companies
- Some areas of advertising have seen increases (Direct to Consumer brands were cited by members), but overall those increases have not made up for the areas that have decreased.

Please note that these results are not representative and are based on the 53 IAB member companies who participated in the survey.

<sup>3</sup> There are a number of digital advertising companies operating in the UK whose lead Data Protection Authority (i.e. regulator, for GDPR and ePrivacy purposes) is the Irish DPC

<sup>4</sup> <https://iabeuropa.eu/blog/iab-europes-chief-economist-features-on-warc-impact-of-covid-19-on-ad-expenditure-and-the-digital-new-normal/>

***Please see the accompanying annex for the full results of the surveys.***

The IAB will be rerunning this member survey in July, and would be happy to submit updated results to the DCMS Committee when available.

Significantly reduced demand for advertising is being caused by a range of factors that include: many advertising sectors have reduced their operations significantly or stopped them altogether (e.g. retail, travel, hospitality, entertainment); demand for/supply of other products has plummeted (e.g. automotive); advertisers are having to rethink and repurpose their advertising creative to adapt to the current circumstances which means spend is either paused while strategies are redeveloped or stopped if it is no longer appropriate to market the brand, product or service.

Additionally, as well as factors affecting supply and demand for products and services, there are of course business impacts of the economic crisis and associated uncertainty: marketing budgets are often the first to be cut in such circumstances, as brands/advertisers make difficult decisions about expenditure on advertising and marketing; lead times for digital marketing campaigns are short and therefore campaigns/spend online can be reduced/pulled/stopped more quickly and easily than in some other media; the digital advertising sector is also highly exposed to SMEs, who are particularly hard-hit.

#### **UK digital ad market: current size**

The IAB, with PwC, measure the size of the UK digital advertising market on an annual basis. The most recent figures were published in April 2020, and showed the market to be worth £15.69 billion in 2019, before the impact of Covid-19 had been felt.<sup>6</sup> In October the IAB will be compiling and publishing updated figures for the size of the market over the first half of 2020, which we would be happy to submit to the DCMS Committee when available.

#### **UK digital ad market: reduction forecasts**

Recent data published in April by the Advertising Association and WARC forecasts UK digital advertising spend dropping by over £2 billion in 2020 due to the pandemic, with the majority of that drop being seen in search advertising and display advertising, which includes things like standard display banners, native advertising, sponsored content and pre-roll videos.<sup>7</sup>

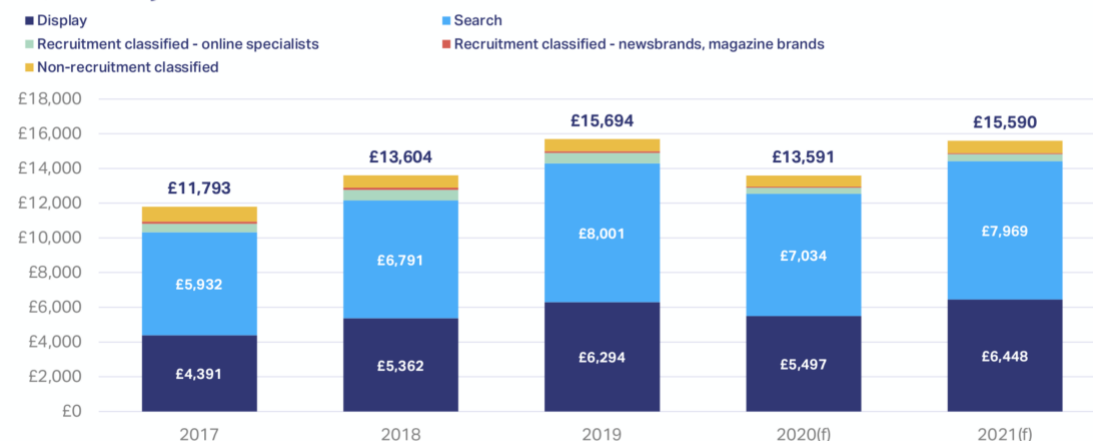
<sup>5</sup> Please note the full results set out in the accompanying annex is confidential and should not be shared by the Committee

<sup>6</sup> <https://www.iabuk.com/adspend>

<sup>7</sup> <https://expenditurereport.warc.com>

## Internet advertising expenditure by type, 2017–2021

£m, Current prices

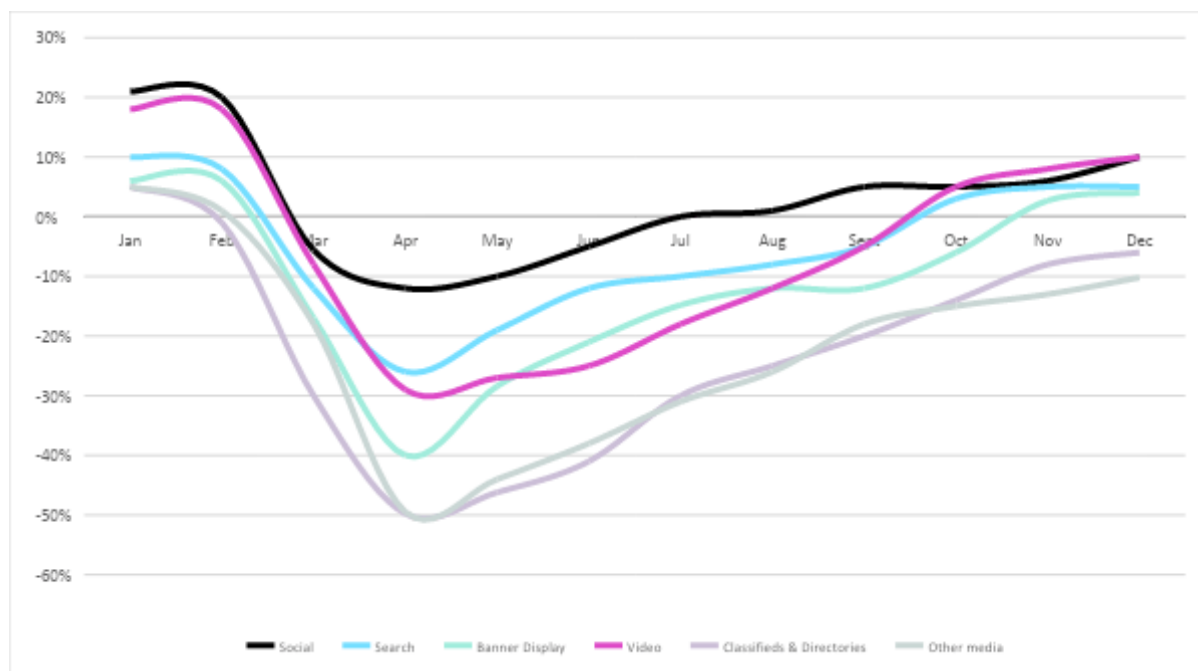


Note: Sum of all components equals the IAB total for internet advertising expenditure.

SOURCE: AA/WARC Expenditure Report, April 2020

IAB Europe’s Daniel Knapp has noted modelling conducted in May that suggests an estimated initial 13.3% decline of the total UK ad market.<sup>8</sup> Knapp says the speed of recovery from this is likely to differ across different media (see graph below), ‘but any stabilisation is built on quicksand’ and if current company outlooks falter ‘we may be approaching a -20% ad market scenario for Europe’. Online advertising businesses are anticipating a prolonged contraction in spend, leading to a smaller industry with a reduced workforce when the industry does recover. This situation will be further exacerbated if the economic recovery proves to be slower than anticipated or if the UK suffers a second wave of the pandemic.

<sup>8</sup> <https://www.iabuk.com/news-article/stay-engaged-session-6-impact-covid-19-digital-ad-market-iab-europe>



### IAB UK: SME research

A survey of 1,200 UK SMEs carried out by MTM in March 2020 for the IAB demonstrated that Covid-19 has hit SMEs particularly hard.<sup>9</sup> 64% of SMEs surveyed said they were concerned about their future, and 70% said they believed communicated with their customers is more important than ever in the current circumstances, bringing the need for effective advertising into sharp focus.

Encouragingly, nearly two thirds (64%) of the SMEs surveyed said that although the first few months were expected to be difficult, they expect to recover in the long-term. Additionally, half of the SMEs surveyed said digital advertising is more important to them during a crisis.

The survey sought to understand the role that digital advertising plays for SMEs and the support that businesses need to maximise results. To that end the IAB is looking to produce a guide for SMEs on how they can most effectively ensure they get the best value and return on investment from digital advertising.

### Government support

The Advertising Association, the trade body representing UK advertisers, agencies, media and research services in the advertising industry, has proposed that the Government introduces a tax credit for advertising and marketing services, with the aim of driving economic growth by stimulating investment and encouraging advertisers to continue, or return to, advertising<sup>10</sup>. IAB UK supports this proposal, as a tangible action the Government

<sup>9</sup> <https://www.iabuk.com/poweringup>

<sup>10</sup> <https://www.adassoc.org.uk/resource/this-week-in-public-affairs-29-may-2020/>

could take to supporting the industry, as a means to support both the advertising industry and wider UK business.

The Government should also continue to engage fully with all parts of the digital advertising industry on the merits and practicalities of any future interventions.