

Submission to the Department for Culture, Media and Sport (DCMS)

A Communications Review for the digital age

July 2011

1.1 About this submission

This submission stems from a report by Dubit to the All-Party Parliamentary Group (APPG) on Children's Media & the Arts. Dubit presented evidence to the group in June, and Baroness Benjamin subsequently requested this to form the basis of this group's submission to this review.

Dubit is a consultancy specialising, among other things, in children's media consumption. The APPG on Children's Media & the Arts focuses on improving cultural provision for children, with a particular focus on television.

2.1 Submission

Q10. Are there disproportionate regulatory barriers to investment in content? If so, what are they and how can increased investment in UK content production be encouraged?

Q13. Where has self- and co-regulation worked successfully and what can be learnt from specific approaches? Where specific approaches haven't worked, how can the framework of content regulation be made sufficiently coherent and not create barriers to growth, but at the same time protect citizens and enable consumer confidence?

2.2 Introduction

Much of this consultation focuses solely on 'growth' and the government's deregulatory agenda. This submission does not call for deregulation per se, it instead provides a considered analysis of the key issues facing the 'youth communications' sector, particularly online.

As the internet has evolved, the way in which advertisers engage with consumers, increasingly with young people, has changed beyond all recognition. Product development has been shaped in the vacuum between technological innovation and government regulation, self-regulation, brands' own guidance and in some cases – a complete lack of any code-making body or case precedent.

The reason why this submission deals with these issues is alluded to in Q13. "Consumer confidence" is the ultimate long-term barrier to growth. The last two government-commissioned reviews of children and the commercial world highlighted 'new media' and 'newer marketing techniques'¹ as hotspots of concern for parents. The best strategy for long-term growth, we feel, is to identify the root-cause of that concern, and ensure that the practitioners are acting responsibly when working with children as 'digital natives'.

This submission will therefore explain; what children are doing online (3.1), how it is monetised (3.2), the key ethical issues are for practitioners (3.3), the role of regulation (3.4) and finally, how to boost growth in the sector (3.5).

¹ Buckingham, D. (2009), *The impact of the Commercial World on child's wellbeing* and Bailey, R. (2011) *Letting children be children* An independent review for the Department for Education

3.1 What are children accessing online?

Fig.1 shows what children (aged 7-15) use the internet for. There are five types of online media that this submission will explore in more detail; Online TV/Video, Games, Social Games/Virtual Worlds, Social Networking Sites and Communication.

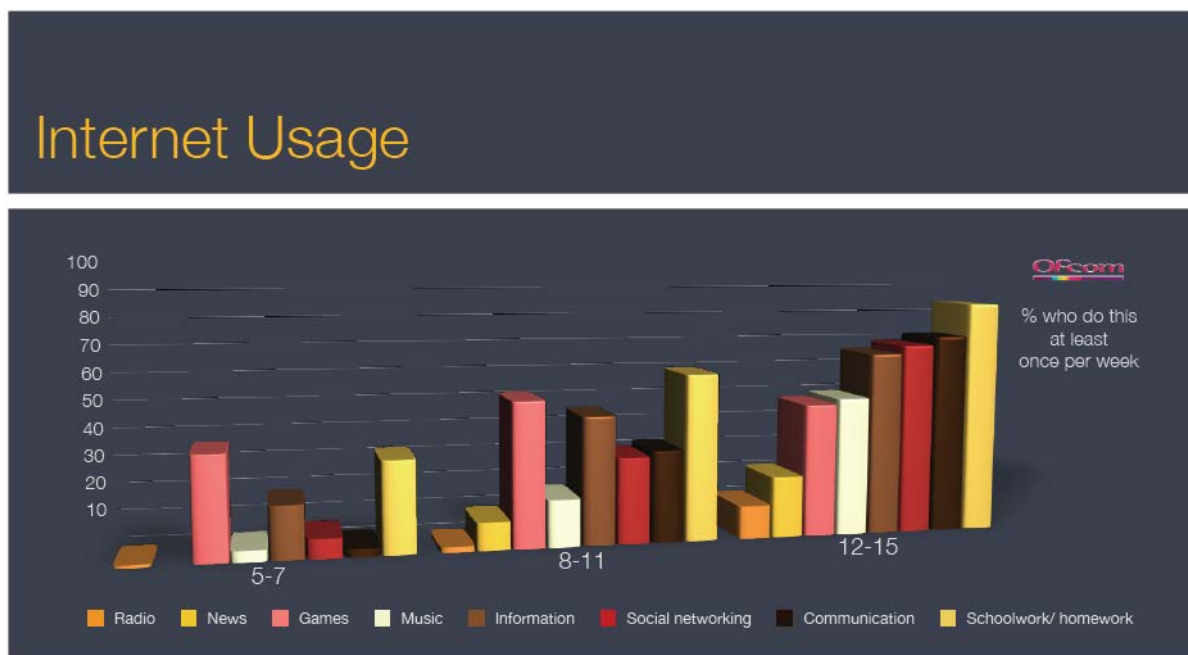


Fig.1 Internet usage across age groups

Children spend a lot of their time playing online games right from five years old and upwards. Older children are particularly heavy users of social networks and online communication.

3.1.1 Online TV/Video

Over 70% of children, across all age groups, are watching videos online. Even the content provided by the major broadcasters (iPlayer, ITVPlayer and 4oD) lacks a robust age verification mechanism. There is no 'watershed' as with traditional TV, and entire back catalogues are available to every user. Fig.2 demonstrates the gap between the amount of time kids spend online unsupervised, and the amount of time their parents think they are spending.

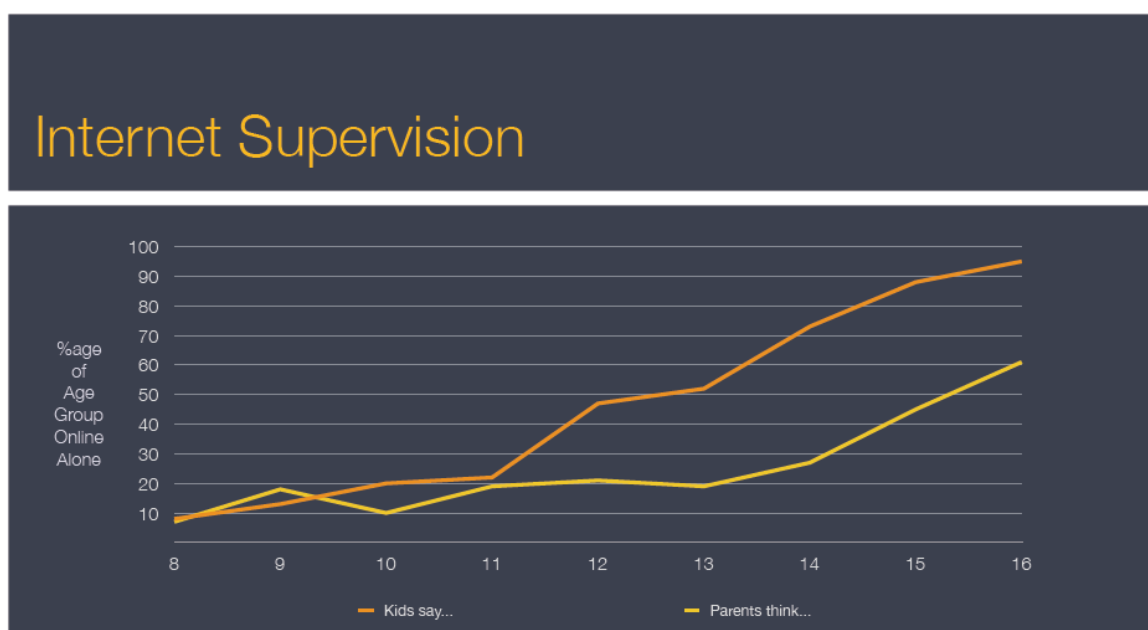


Fig.2 Internet supervision by age

3.1.2 Online games

Ofcom (Fig.1) reports that roughly one-third of children 5-7 play online games at least once a week, as do around half of children over eight.

Minigames are particularly popular amongst children. The genre of game can range from 'shoot-em-ups' to dress-up games. Websites such as www.mousebreaker.com and www.miniclip.com host hundreds of simple browser-based games.

Advergaming broadly take the form of a sponsored interactive game, featuring a brand, product, good or service. They are hosted both on brands' own websites and external sites, as well as mobile phone applications. Rather than adverts being served in or around the game, the game itself is the advert.

3.1.3 Social Games & Virtual Worlds

Social games and virtual worlds are more immersive online games. The user can save their progress, or play with friends (real and virtual) and generally have more choice and ownership than they would for a basic online game. They are often embedded into social networks, allowing users to find their friends.

Over a third of children under 16 play social games, and Zynga has been particularly successful at recruiting a huge user base through social networks. Farmville commands 58 million monthly users, Cityville 18 million daily users and Mafia Wars has 20 million monthly users through Facebook alone.

Popular virtual worlds, such as Disney's 'Club Penguin', Mattel's 'Barbie Girls' and Habbo Hotel tend to be stand-alone websites. The latter has 43 million users aged 11-16 globally.

3.1.4 Social networking

According to figures from UK Online Measurement/Nielsen, just over three million under-18s in the UK use Facebook and nearly one million are under 12, despite the fact that users have to state they are 13 to register. Formspring.me, Myspace and Bebo are other examples – albeit with a fraction of the user base. Each of these sites is California-based. The only UK site in the top ten 'member communities' for under-18s, is bbc.co.uk (h2g2, 6-0-6 and Switch)².

3.1.5 Communication

'Instant messaging' allows messages to be sent and received between friends - instantly, through a program on a computer or mobile phone, such as BBM (Blackberry Messenger), MSN Instant Messenger and Facebook Chat. Fig.3 demonstrates how popular these programmes are, particularly amongst older children.

² Advertising Association (2011) *Parents, children and the commercial world: Facts, issues and solutions*

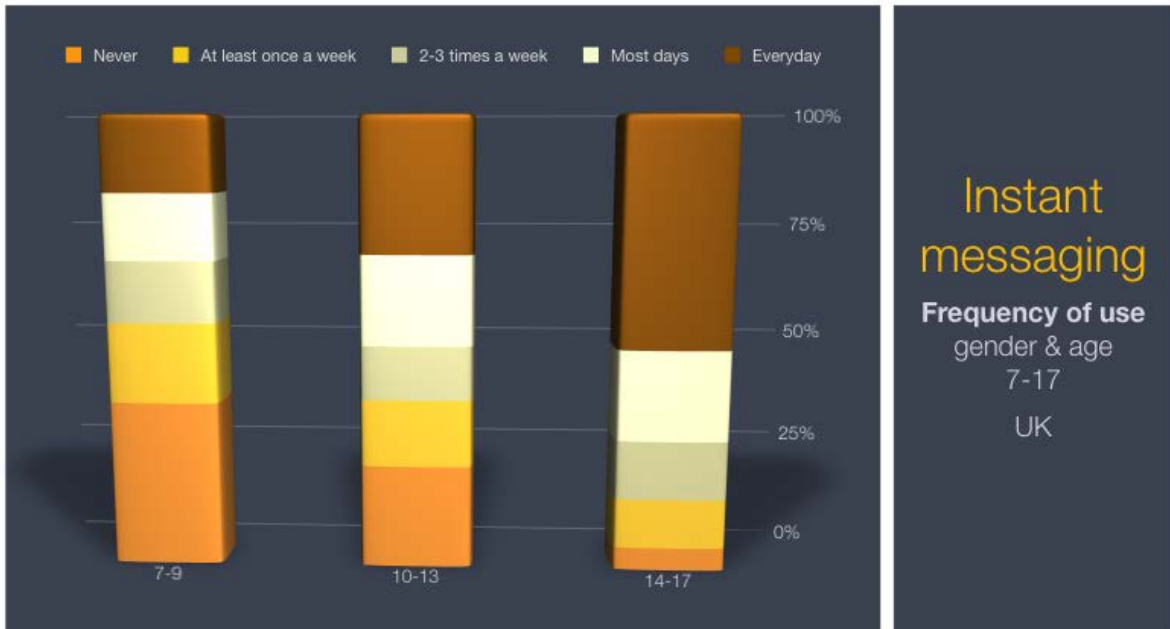


Fig.3 IM frequency by age group

3.2 How is it monetised?

The top four websites for young people (under 18) in the UK are; Google, YouTube, Facebook and Windows Live/MSN. Each is a free service, provided for by third-party advertising. This is also true for much of the content made especially for children (e.g. Disney website). Increasingly, however, innovation in the digital sector requires new forms of monetisation, such as pre-pay. This section will explain how each type of online medium is monetised.

3.2.1 Online TV/Video

Most free online TV and video content is paid-for by third-party advertising, and delivered in a variety of ways. Banner and display ads will often feature on the landing page, along with pre-loaded video advertisements and sponsorship idents.

Video-sharing websites such as YouTube are also free to use, and much of the content is produced by everyday users. As online behavioural advertising becomes more common, it will be easier to target advertisements based on the individual viewer. Content providers will then be able to charge for ad space based on the quality of the audience, rather than the sheer quantity. This could have a knock-on effect for children’s content, as advertisers spend far less money just advertising to children³.

3.2.2 Online games

Again, many websites popular with children are funded by third-party advertising. Fig.4 demonstrates how the advertising space simply doesn’t correlate with the target audience. Adverts for broadband and expensive digital cameras probably appear on kids sites as recycled inventory – or on the understanding of a certain number of ‘hits’ rather than the make-up of the audience. This is a potentially problematic funding model.

³ Advertising Association (2011) *Parents, children and the commercial world: Facts, issues and solutions*



Fig.4, SPILL and Miniclip, odd advert placement

3.2.3 Social Games & Virtual Worlds

Monetising social games and virtual worlds tends to be slightly more intuitive. Farmville, for example, cost £300,000 to build and is free to play – but it generates £900m per annum in the US alone.

Farmville can make money without relying on advertising, as it charges users to make upgrades and improve their farm within the game. It is free until users wish to accelerate the progress of their lot. The user gets a farm and plants crops. As the crops grow over time, users harvest them to earn virtual coins, which can be used to make extra additions to the farm (buildings, new crops, etc). By inviting peers, users can see their friends' farms and compete for the biggest, fastest or best farm. 47% of players go back over seven times in a day to play.

Advertisers can then 'buy-in' to this hugely popular community, and either purchase virtual ad space or sponsor gifts and additions. Fig.5 is a screenshot of Bing advertising on Farmville, a promotion that generated 400,000 extra Facebook 'fans' in one day⁴.

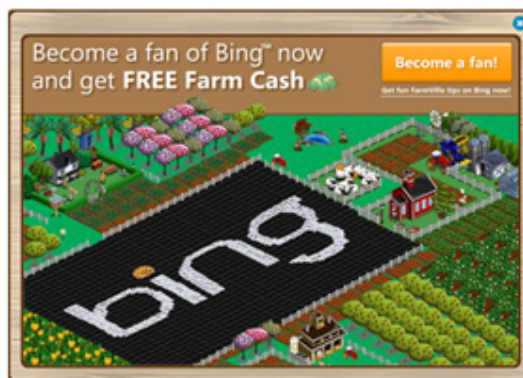


Fig.5, Bing advertising on Farmville

Social games are far more lucrative to advertisers because they offer the opportunity of reaching entire peer groups. Fig. 6 shows how many children receive referrals through friends, or act as the advocate themselves.

⁴ www.allfacebook.com (2010) Bing advertises on Facebook <http://www.allfacebook.com/bing-advertises-on-farmville-acquires-400000-facebook-fans-in-one-day-2010-03>

Refer a Friend

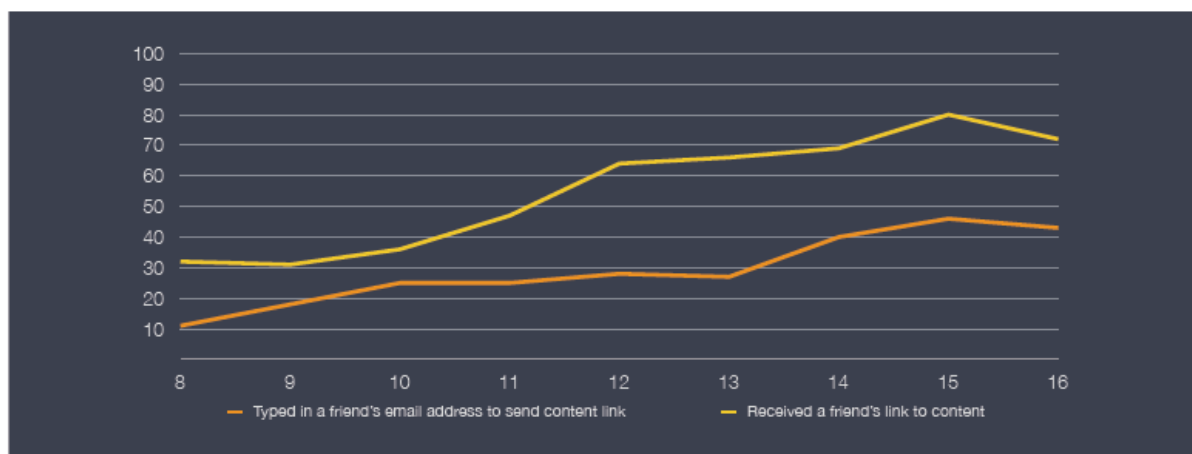


Fig.6, Refer a friend online, by age

Virtual worlds can be monetised in a number of ways. Club Penguin is a site for younger children, and features no third-party advertising, but costs £3.95 per month to play. Club Penguin also makes merchandise based on the characters in Club Penguin.

Habbo Hotel, a Finish-based site, costs just £1 per month to play, but users are invited to purchase additional items to improve their standing within the game. Habbo also accepts third-party advertising. UKOM/Nielsen data suggests that there are 58,000 unique users under 12 in the UK alone⁵.

Spending on virtual goods reached \$5bn worldwide by 2009⁶. By charging actual money for virtual products, the producers have 100% profit margins.

One in five children (aged 7-15) pay to play an online game⁷, and there are a number of ways in which children can wield purchasing power (Fig.7).

⁵ Advertising Association (2011) *Parents, children and the commercial world: Facts, issues and solutions*

⁶ New York Times (2009) *Virtual Goods Start Bringing Real Paydays*

<http://www.nytimes.com/2009/11/07/technology/internet/07virtual.html>

⁷ ID Dubit slide 48 – reference?

Kids Purchasing Online



Fig.7, How children buy things online

3.2.4 Social Networking

As with much of the content covered in section 3.2.1, social networks are mostly free to use. Initially, brands used Facebook to advertise in the 'traditional' way (display, banner, etc), but increasingly advertisers are becoming part of fabric of the site. The promotion below (Fig.8) generated 14.5 million 'Likes', as clicking the button allowed users to access more of that content. The 14.5 million 'Likes' were each individually re-posted to each user's friendship group. Red Bull, and other brands, can effectively 'earn' advertising through peer groups.



Fig.8, Red Bull brand page

Fig.9 shows a fairly high conversion rate of children (8-16) visiting a branded Facebook page, and becoming advocates for that brand.

Facebook Advertising

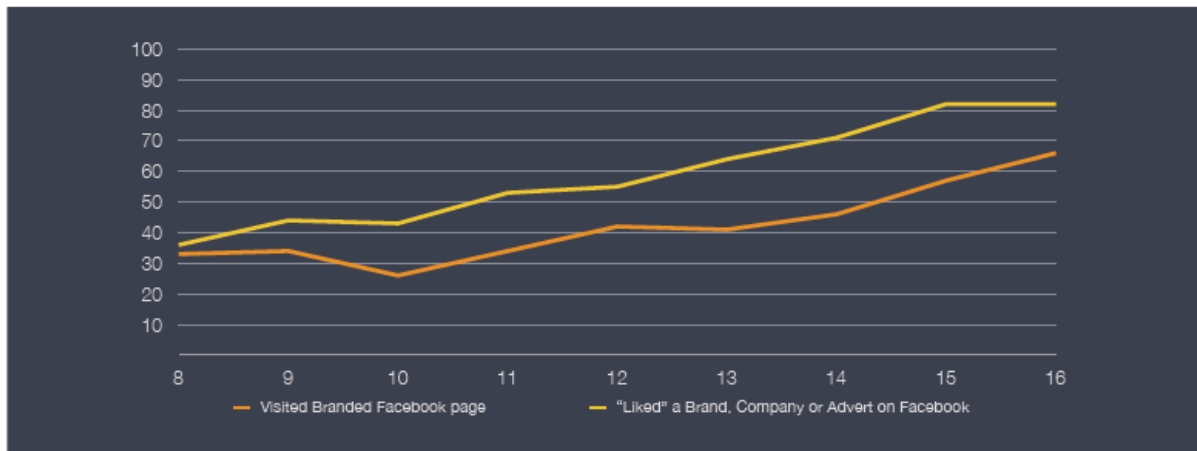


Fig.9, Facebook advertising and 'Likes'

3.2.5 Communication

Brands can pay to be part of Instant Messaging (IM) networks. Fig.10 is an example of the Government drug-awareness campaign 'Talk to Frank', which uses MSN messenger to talk directly to children.



Fig.10, Talk to FRANK on MSN

Commercial brands can also use IM, perhaps to inform their 'contacts' of new products and programmes, or to share links and games. The IM-user (if they consent) can have a two-way conversation with a brand or licensed character.

3.3 What are the key ethical issues for practitioners?

This section will outline the key ethical issues for practitioners in the digital space, when marketing to or with children.

3.3.1 Inappropriate ad targeting

The delineation between adult and non-adult content on video-sharing websites can be unclear. Fig.11 is a screenshot of an animated cartoon called ‘The Justin Bieber Show’. Whilst the content itself is clearly for a young audience, the overlay advert implores the user to “Date Pretty Chinese Girls”. Fig.12 shows just how many children say they have been exposed to inappropriate advertising and nudity online.



Fig.11. The Justin Bieber Show

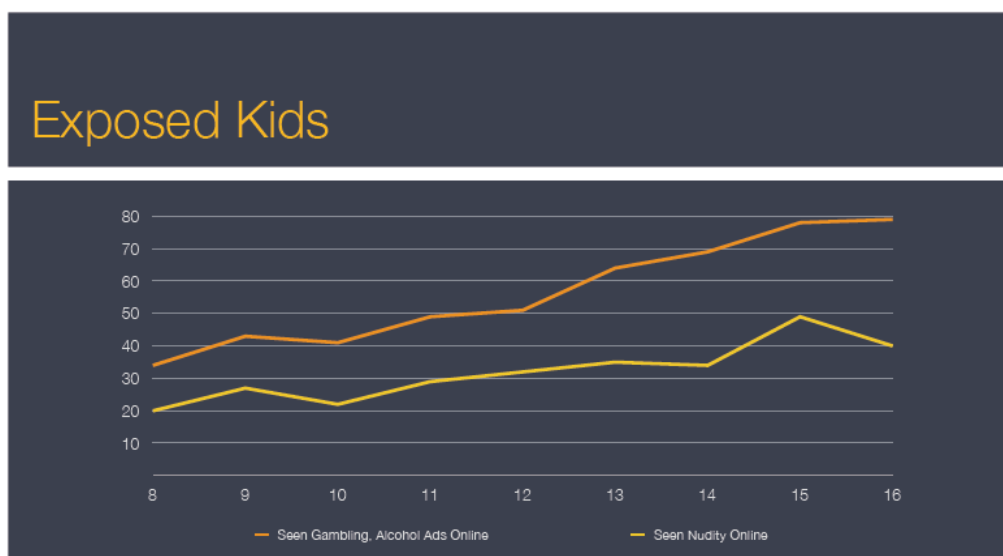


Fig.12, Children’s exposure to inappropriate content

3.3.2 Age verification

Age verification is a big issue for both commercial and non-commercial sites. Online video content and social networks often assume a child is over 13, when in reality the barriers to deception, and levels of supervision (3.1.1 Fig.2), are low. Fig.13 shows the proportion of younger children signing-up for Facebook.

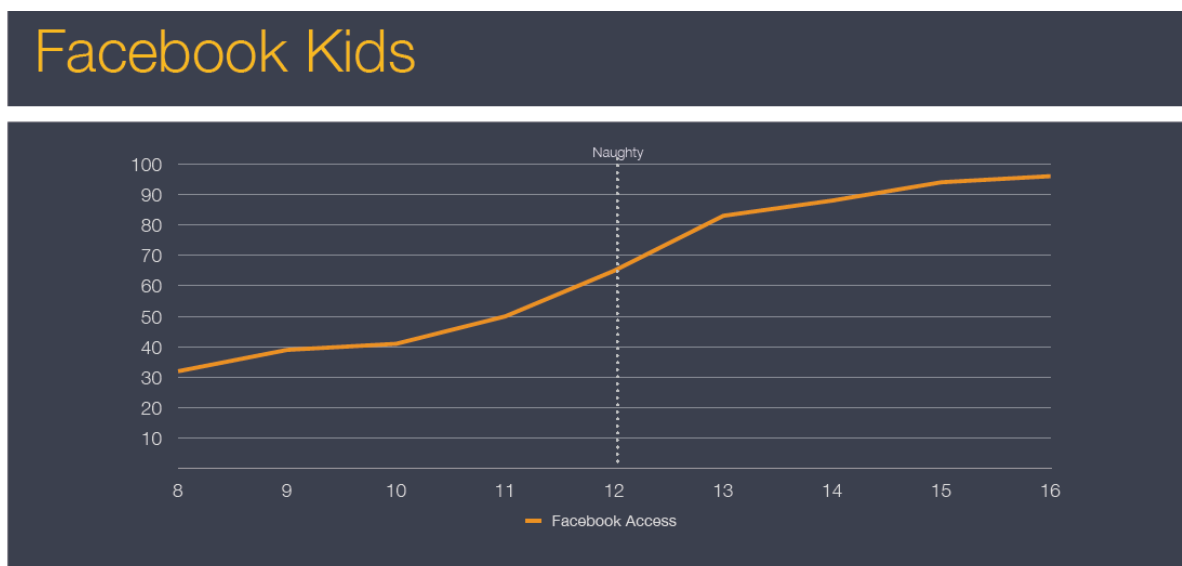


Fig.13, Children using Facebook 8-16

The reality is that adverts, games and commercial features used to market to Facebook users are based on understanding they are 13+. As a result, they are often inappropriately (and inadvertently) targeted at younger children. Blogger, Twitter and Myspace have the same issue, which stems from sites adhering to the US Children’s Online Privacy Protection (COPPA) Act⁸.

3.3.3 ‘Safe’ searching

Ofcom reports (Fig.14) that across all age groups, the majority of parents do not use ‘safe search’ browser settings either because they believe they do not have such settings, or do not know if they can.

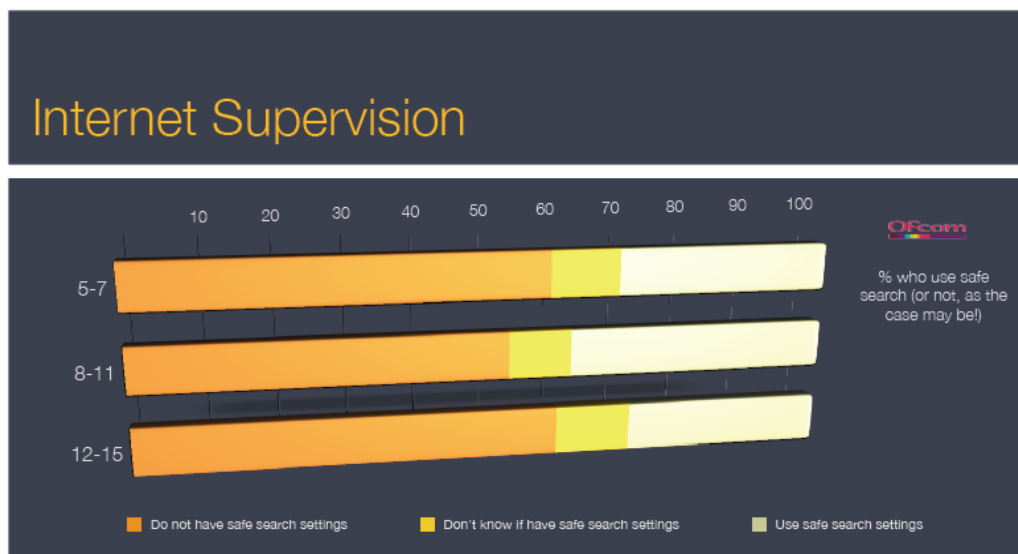


Fig.14, Parents using safe-search settings

⁸ COPPA <http://www.coppa.org/>

3.3.4 Links

Suggested links provided on video-sharing and social networking sites tend to be based solely on key search terms, rather than content that is of the same level of appropriateness. One of the suggestions in Fig.15, on the sidebar of a Rapunzel-inspired animated Disney movie Tangled, is for an adult-themed movie.

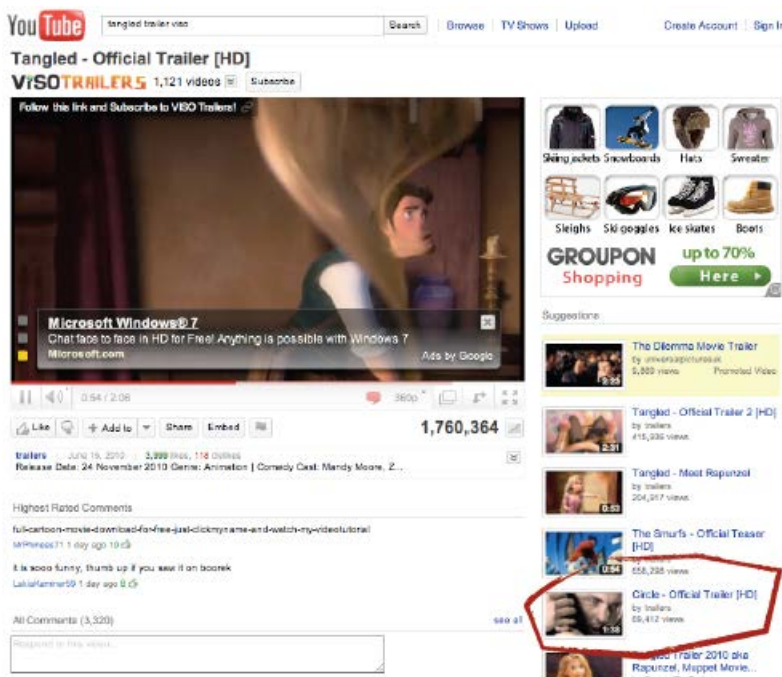


Fig.15, YouTube 'suggestions'

3.3.5 Blurring of commercial and non-commercial

Advergaming was specifically referenced in the Buckingham Report, in relation to concerns from the National Consumer Council that they constituted a 'stealthy technique'⁹. They essentially put a brand at the heart of the gaming experience, and bad-practice is easy to find. Fig.16 shows how a game called 'Table Top Cricket' on Miniclip has been sponsored by a spread-betting website.



Fig.16, Examples of 'Advergaming'

3.3.6 Personal data

⁹ Buckingham, D. (2009), *The impact of the Commercial World on child's wellbeing*

The widespread practice of referrals (outlined in 3.2.3) raises questions over the value placed on a child's ability to pass on personal data about others. Many games and features provided through social networks are only granted once the user has agreed that the application can harvest the data of the user's friends. This practice is technically banned for under-13s by the Data Protection Act, but this cannot account for the younger children who lie about their age at the point of registration (3.3.2). The ethical question for marketers is whether children understand the sort of data they agree to share, and why it is important.

3.3.7 Product placement in virtual worlds

Virtual worlds often use celebrity endorsements or brand tie-ups to create exclusive items for users to buy. There are question-marks about who (if anyone) is monitoring this, and whether it is appropriate for the audience. Certainly, fast-food brands are heavily involved – despite the fact that they are prohibited from advertising around children's TV programmes.

3.3.8 Payment mechanisms

Fig.7 (3.2.3) shows that children have many ways of purchasing things online, be it via their parent's credit card or iTunes account. The easy payment mechanisms make it quite easy to buy things, and 'pre-paid' credit result in it being spent faster. There is also a lack of safeguards for age-restricted items.

3.4 The role of regulation

Broadly, the regulation of advertising and marketing in the UK is clear and comprehensive. The Advertising Standards Authority (ASA) is widely respected in other countries¹⁰, and in March 2011 their remit was extended further into the digital space. There are however, a number of issues where regulation appears to be disconnected, or makes a disproportionate impact on the marketplace.

3.4.1 Online/Offline

Advertising regulation in the UK is complaints-based. It only takes one complaint to trigger an investigation, but investigations can only take place when there has been a complaint. This system has a strength, particularly in mass media, where complaints reflect the broad will of the people. The Advertising Codes¹¹ also have robust rules around advertising to children. For example, you cannot make a direct exhortation to purchase (e.g. Buy Now).

Though the rules apply across all media, niche online services for children are arguably less likely to attract complaints. Low levels of parental supervision (3.1.1 Fig.2) could make it difficult for the regulators to know what is going on.

3.4.2 Beyond advertising

Only marketing communications are covered by the advertising codes, but many of the commercial mechanisms online, as outlined in this submission (3.3) appear to have no regulations at all. This makes it difficult for practitioners to know what they can and cannot do, but is also confusing for children and parents.

3.4.3 Difficult products (e.g. HFSS)

There are products that are restricted in different ways for different types of media. Adverts for products high in fat, salt and sugar (HFSS) and product placement (for all products) are banned in or around children's TV programmes, but permitted online. The major impacts of this regulation is threefold; i) HFSS food manufacturers' advertising spend has presumably¹² shifted from TV to online ii) producers of kids TV content have fewer sources of funding and iii) the potential to stifle innovation – if a campaign can only run in certain media it is less likely to be digitally integrated.

¹⁰ Bailey, R. (2011) *Letting children be children* An independent review for the Department for Education

¹¹ CAP Code <http://www.cap.org.uk/The-Codes/CAP-Code.aspx>

¹² Exact figures in this area are difficult to come by

3.5 How can the UK Government boost growth in the sector?

This section will suggest how the UK Government could go about removing barriers to growth and separately, stimulate growth in the digital communications sector.

3.5.1 Barriers to growth

In the case of HFSS and product placement (3.4.3), a deregulatory legislative approach would be likely to increase investment in children's content.

Although the UK has a confusing regulatory regime, the wider European context is just as muddled, as most nations struggle to grapple with regulation the internet. The UK would be a more attractive place to investors if it had a slightly-less confusing set of rules. By removing statutory intervention (e.g. HFSS) and allowing a true 'one stop shop' in the ASA, it would be possible for UK-based media owners to have a competitive advantage.

These short-term measures should be supplemented by a long-term strategy to ensure communications regulations are fit for the digital future. Otherwise, the sector will lose consumer confidence (online advertising, incidentally, is seen as a 'less trusted' medium). The current lack of regulations around many commercial mechanisms online should be dealt with, comprehensively, be it through guidelines, statutory measures, or otherwise. The UK could follow the example of the US Federal Trade Commission. The US COPPA law, though in itself imperfect, is continually reviewed, with practitioners, in an open and transparent way. The UK should be careful not to 'over-regulate' and deter investment, but a lack of order in the digital space, and the potential for tabloid 'horror stories', is not good for the sector long-term.

3.5.2 Boosting growth

Currently, the government offers no incentive for digital agencies to operate in the UK. This puts British agencies at a disadvantage to other countries that invest in the digital sector. Canadian start-ups have Research & Development costs matched, making it easy to undercut competitors. It is no accident that Club Penguin, sold to Disney for \$700m in 2007, was created in Canada.

On investing in the country's future and the on provision of content, the UK could learn from initiatives such as the Canadian Media Fund¹³, a joint-initiative by the government and media organisations.

¹³ Canadian Media Fund <http://www.cmf-fmc.ca/>