

A Communications Review for the Digital Age: Delivering Growth, Digital Content & Innovation, and Self-Regulation

Response by the Internet Advertising Bureau (IAB)

1. Introduction

- 1.1 The Internet Advertising Bureau (IAB) is the UK industry body for digital advertising, representing over 600 businesses engaged in digital marketing, including media owners and advertising networks. The IAB's role is to help marketers find the best role for online and mobile advertising, promote understanding and good practice and to ensure a responsible medium. Further information at www.iabuk.net.
- 1.2 The IAB welcomes the review of communications for a digital age and the ongoing dialogue in this process. As in traditional media, advertising plays a significant role in the digital environment in making content, services and applications available to UK citizens at little or no cost. Whilst the digital infrastructure is the enabling platform for business models to flourish and innovate, the focus of our response is on the role advertising plays in delivering economic growth, quality content and innovation. This is underpinned by established self-regulation for advertising content and evolving good practice to safeguard consumers as new data-driven models and techniques continue to grow.
- 1.3 The IAB welcomes the Government's aim to create the right environment for the content industry to thrive, underpinned by trusted self-regulation. However, there are other regulatory and legal frameworks that are important for growth and innovation. For example, data protection law and the current review of the EU Data Protection Directive will be an important factor in determining the success of data-driven digital advertising models, supporting a market structure which allows new entrants to develop advertising-supported models, and how these will also contribute to the Government's stated aim.

Key Points:

- **The IAB response sets out how digital advertising is helping deliver UK growth, content and innovation to the benefits of citizens, underpinned by evolving self-regulation to safeguard and empower them. The Government should recognise this.**
- **The evolving data-driven advertising business models that will play a significant role in the delivery of the Government's aim are not exclusively dependent on the existing communications regulatory infrastructure to provide the "foundations of growth". The Government should recognise that other regulatory frameworks, such as that for data protection, are also important in the delivery of this goal.**
- **The Government needs to acknowledge the value of self-regulatory schemes – some of them novel and evolving – in providing safeguards for consumers rather than supporting an interventionist approach in a way that may deter growth and innovation and not be in the long-term interests of UK citizens.**

2. Delivering Economic Growth:

- 2.1 The internet has revolutionised our everyday lives. It plays a critical role in today's information society providing UK citizens with a wide range of education, entertainment and information as well as communications and access to goods, services and opportunities regardless of socio-economic factors such as income, age, geography and background.
- 2.2 As the 16 May 2011 'open letter' acknowledges, access to broadband and therefore the content, services and applications we enjoy is increasingly important to the UK economy. UK penetration of broadband in internet homes is now 98%¹ and 54% of home internet users access the internet with a connection speed of between 2Mb and 8Mb². Ofcom estimates that around 3.6m households in the UK use their mobile devices for broadband access, which amounts to 17% of the population³. This is driven by the growth of smartphone ownership which now represents 36% of all UK mobile phone users⁴.
- 2.3 According to Ofcom, UK citizens are the most advanced consumers in the world driving the take up of digital content and services⁵. There is no sign of this declining even in times of economic hardship and the UK commerce figures (see below) support this growth. The latest research from PwC concludes that this is the *"golden age for the empowered consumer, with the demand for digital experiences increasing and becoming the norm"*⁶. According to research in October 2010 by the Boston Consulting Group, commissioned by Google, the internet contributes an estimated £100bn to the UK economy, the equivalent of 7.2% of GDP. This is expected to increase to 10% of GDP by 2015⁷. ***The IAB therefore welcomes the Government's aim to have "the best superfast broadband network in Europe by 2015"***.
- 2.4 Digital advertising – driven by consumer demand for content and services and quicker internet speeds - is the fastest growing marketing medium in the UK outstripping all other advertising sectors and weathering the economic recession. The UK leads Europe in digital advertising and no other country in the world has a higher share of its advertising market than online and mobile does in the UK.
- 2.5 UK digital advertising grew by 12.8% (on 2009) to £4.1bn in 2010. Digital now makes up 25% of the total advertising market and advertisers spend £1 in every £5 online or on a mobile device. Advertising on a mobile device (including tablet devices) grew by 116% (on 2009) to £83m in 2010, with search marketing representing the lion's share with £54.9m. This growth is driven by the adoption of smartphones⁸.

3. Delivering Digital Content, Creativity and Innovation:

- 3.1 Advertising is the lifeblood of the digital economy in the UK, EU and globally. As in traditional media, it is the business model for making (non-publicly funded) content widely available to UK citizens. It pays for much of the content and many of the services online: from search, webmail, social

¹ Kantar Media's Internet Monitor – December 2010

² UKOM APS/Netview April 2010

³ Measuring Mobile Broadband September – December 2010 <http://stakeholders.ofcom.org.uk/market-data-research/telecoms-research/broadband-speeds/main/mobile-bb-10>

⁴ Comscore December 2010

⁵ Ofcom International Communications Report – November 2008

⁶ Global Entertainment & Media Outlook 2011-2015 from PwC

⁷ BSG October 2010 www.bcg.com/documents/file62983.pdf.

⁸ IAB / PwC Ad Spend 2011

networking websites and price comparison sites, to productivity suites, blogs, video/photo sharing and the majority of news, information and video / entertainment sites.

Case Study: Guardian News & Media

Guardian News & Media generate around 60% of their income from advertising and the contribution to this from digital platforms is growing rapidly. The proportion of advertising income that is digital has increased at a rate of over 20% per year over the last five years and has now reached 29%. This is expected to continue to grow significantly over coming years as the Guardian transforms into a 'digital first' business, with ambitions to aggressively grow digital revenues over the next five years, from £47m in 2010 to £91m.

- 3.2 New data-driven advertising models allow advertising to be more relevant and customised to UK citizens. The greater efficiency of these models has reduced the barriers to market entry for businesses of all sizes, allowing the richest mixture of content and services to be made widely available to the public.
- 3.3 Online behavioural advertising is a growing form of advertising based upon previous web browsing activity. For example: a consumer searching online for a new car and therefore visiting vehicle websites may – in the same or a later online session – be shown car advertisements. Given that advertising helps to fund online content and services, it is important that it is relevant to the interests and preferences of consumers. It is also an increasingly important business model: helping businesses reach consumers that are more likely to be interested in their product or service, and therefore driving commerce, and providing web publishers with an improved return on investment for advertising inventory. This benefits web publishers in the form of enhanced revenues to invest in innovative content to the benefit of consumers.
- 3.4 The UK has led the way in the development of behavioural advertising technologies to the benefit of the consumer. According to a recent McKinsey report the value of services that consumers receive has been estimated to be €100bn in 2010 for Europe and the US and is expected to grow to €190bn by 2015⁹.
- 3.5 Digital advertising is a key driver of online commerce, itself worth £58.8bn to the UK economy and continuing to grow by 18% a year. The UK is ranked second in the world's ecommerce rankings¹⁰. In October 2010, UK consumers spent an estimated £5.2bn online, compared to £4.2bn in October 2009, an increase of 23%¹¹. Research reveals that mobile commerce is on the verge of a fourfold increase, which could boost the UK economy by £4.5bn by 2016 and a further £13bn by 2021. 51% of the UK population has engaged in mobile commerce¹².
- 3.6 The RaceOnline 2012 'Manifesto for a Networked Nation' found that offline households are missing out on an average of £560 savings per year and that everyone should seek to inspire people to get online to reap the significant economic benefits¹³. Advertising provides a mechanism to fund or subsidise widely accessible content and services regardless of socio-economic group thereby playing an important role in helping bridge any 'digital divide'.

⁹ http://iabeurope.eu/media/39559/whitepaper%20_consumerdrivingdigitaluptake_final.pdf

¹⁰ IMRG 2010

¹¹ IMRG e-Retail Sales Index November 2010

¹² IAB Consumer M-Commerce Study Oct 2010)

¹³ Manifesto for a Networked Nation July 2010 – RaceOnline2012

- 3.7 It is expected that digital advertising will continue to grow in the UK and that the revenue that it will create will represent important new sources of income for traditional media owners expanding onto new platforms and devices.

Case Study: Channel 4

372m people viewed Channel 4's on demand service in 2010, up 71% on 2009, with an average 31m programme streams each month. C4.com and E4.com attract more than 30m visits each month. Channel 4 reports that its total Future Media revenue (incorporating all online activities under C4.com and E4.com and VoD, both TV and PC across all platforms and devices) is £44.3m in 2010, up by 34% on 2009. This represents a 20% increase in the digital proportion of Channel 4's total revenue and is mainly the result of increased advertising inventory of 4oD and syndication deals with YouTube, SeeSaw and Playstation 3. This trend is expected to continue.

- 3.8 *The Government should acknowledge the significant importance of digital advertising in delivering widely accessible content, services and applications for little or no cost to UK citizens.***

4. Safeguarding Consumers - Digital Advertising Self-Regulation:

- 4.1 The vast array of content available online has developed in an environment where investment and innovation has not been discouraged by onerous regulation. However, the fast-moving nature of the digital world and the evolving commercial practices mean that robust self-regulation is required to safeguard UK citizens, in particular children who are often 'early adopters' of new technology and services. Digital advertising self-regulation needs to maintain pace with this environment, including new practices and data-driven techniques.
- 4.2 Advertising has an effective track-record in self-regulation, dating back to the 1960s, in the guise of the Advertising Standards Authority (ASA). From cinema, TV, radio, print to online and mobile, the ASA is a 'standard bearer' in ensuring advertising is legal, decent, honest and truthful. All 'paid for' digital advertising is covered by the rules (known as the 'CAP Code') and this system is widely viewed as effective and acknowledged to be so by the ASA itself. In its Digital Media Survey for 2008, it found a compliance rate of 97%¹⁴. In March 2011, the self-regulatory rules were extended to areas of 'non paid-for' media space such as within a website itself (as opposed to the media space made available for advertising) and within social media, such as on Facebook and Twitter. The IAB continues to help businesses to comply by developing practical guidelines to follow, for example in social media.
- 4.3 Under the banner of the IAB, the Internet Advertising Sales House (IASH) – those companies that connect websites offering online inventory with advertisers who want to run an online display campaign – have developed a self-regulatory Code of Conduct to vet their media to ensure inventory is not sold on pages containing barred or inappropriate content. This helps reduce the availability of advertising revenue to undesirable content and helps protect advertiser brands. IASH currently covers 40% of UK display advertising revenue and was supported by Dr Tanya Byron in her 2008 report to the then Government on the impact of the Internet and Video Games upon children. The scheme has cross-advertising industry support and in the autumn of 2011 will

¹⁴ ASA Digital Media Survey 2008

introduce new content verification technology to continue to protect brands. Further details can be found at www.iash.org.uk.

- 4.4 Evolving data-driven advertising models require the trust of consumers, regulators and policy-makers and broader industry to grow and help deliver innovative content and services. The UK has led the way in underpinning these models and benefits with safeguards to protect consumer privacy. In March 2009, IAB UK published a set of good practice principles based upon notice, choice and education. In April 2011, the advertising industry – including the IAB – published an EU self-regulatory Framework for online behavioural advertising to enhance transparency and consumer control, without disrupting their online experience¹⁵. The Framework – part of an European Advertising Standards Alliance (EASA) Best Practice Recommendation – sets out seven key principles for businesses to comply with:
- i. **Notice** – transparency about data collection and use practices associated with behavioural advertising, providing consumers with clear, prominent and contextual notice through multiple mechanisms, including an ‘icon’ in or around the advertisement itself with links for further information and control mechanisms.
 - ii. **User choice** – greater consumer control over behavioural advertising.
 - iii. **Data security** – appropriate data security and retention of data collected and used for behavioural advertising purposes.
 - iv. **Sensitive segmentation** – limitations on the creation of ‘interest segments’ to specifically target children and on the collection of sensitive personal data collected and used for behavioural advertising.
 - v. **Education** – for consumers and businesses about behavioural advertising and the self-regulatory Framework.
 - vi. **Compliance and enforcement** – mechanisms to ensure the effectiveness of the Framework, including a trading seal to be granted to compliant businesses once independently audited and which demonstrates to other businesses that the holder adheres to the obligations under the Framework.
 - vii. **Review** – regular review of the Framework to ensure it evolves with developing technology and business practices.
- 4.5 The Framework is underpinned by a pan-European website – www.youronlinechoices.eu – and available in different languages. Consumers can visit the site to find out more about behavioural advertising, how it works and how privacy is protected. The website also contains a pan-EU ‘one stop shop’ to switch off behavioural advertising.
- 4.6 The UK Government has been very supportive of this self-regulatory approach. In a speech to the CBI in March 2011, Communications Minister, Ed Vaizey, said: *“We are also supporting cross-industry work on the use of third party cookies in behavioural advertising...this is an example of where industry-led solutions can provide an answer.”*

¹⁵ <http://www.iabuk.net/en/1/europecommitstoselfregulation140411.mxs>

4.7 *In the next stages of this process, we believe the Government needs to acknowledge the value of such self-regulatory schemes – some of them novel and evolving – in safeguarding and empowering consumers rather than supporting an interventionist approach in a way that may not be in the long-term interests of UK citizens and may act as barrier to innovation and growth.*
