

# Digital Britain: The Interim Report Response by the Internet Advertising Bureau (IAB)

## 1. Introduction

The Internet Advertising Bureau (IAB) is the UK trade body for the online advertising industry. We represent nearly 500 companies engaged in interactive digital advertising, including online media owners, agencies and advertisers.

The internet has revolutionised our lives in every way and many online services are supported by advertising. It plays a critical role in today's information society providing connected individuals with a wide range of education, entertainment and information as well as communications – email, instant messaging and networking; and access to goods, services and opportunities, regardless of socio-economic factors such as income, age, geography and background.

UK citizens are the most digitally advanced consumers in the world. UK consumers spend 14 hours per week on the internet, an increase of nearly 6.5 hours per week (between 2004 and 2008), the highest increase amongst the countries surveyed<sup>1</sup>. The current economic recession is expected to drive further take up and use of digital technology. It is likely to fuel further adoption of digital technologies and greater use of the internet. As household budgets get squeezed we can expect consumers to use the internet more to find the best deal. Spending online reflects this: UK online retail sales increased 13% in February 2009, compared to the same period in 2008<sup>2</sup>.

The IAB therefore welcomes the interim report's specific commitment to universal internet connectivity by 2012. We particularly welcome it's commitment to bridging the 'digital divide' and giving every UK citizen the opportunity to benefit from the internet. However, faster 'next generation' broadband is also imperative to the UK economy and, without it, there is a risk of creating another 'digital divide' by potentially denying some UK citizens even faster broadband and access to new and innovative online services – including public services. Such services will require greater bandwidth, supported by private and public investment in the broadband network.

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<sup>1</sup> Ofcom International Communications Report – November 2008

<sup>2</sup> IMRG CapGemini Sales Index - March 2009

## **SUMMARY:**

The IAB believes the interim report has omitted the very significant contribution and value that advertising makes to the UK digital economy and the UK economy at large. This is particularly the case during an economic downturn, when consumers increasingly select the internet as their communication platform of choice, and in the circumstances where they appear to be unwilling to pay for content. This is supported by the continued growth of the internet as an advertising medium.

It is a concern therefore that the interim report implies that online advertising is part of the problem rather than an important part of the solution. We believe that it would be a strategic error for the final Digital Britain report to create the circumstances for universal broadband connectivity without fully acknowledging the role of advertising in supporting the vast majority of the content and services delivered to consumers via broadband.

The IAB believes it is important that the final Digital Britain report:

- i. Acknowledges the importance of new advertising techniques in building strong revenue streams for digital media.
- ii. Acknowledges the importance of fostering the advertising market in order to continue attracting investment from pan-EU online businesses in the UK.
- iii. Acknowledges the value of advertising in driving ecommerce, boosting the UK retail industry currently worth 8% of UK GDP.
- iv. Supports a market structure which allows new entrants to easily develop advertising-supported business models and scale-up from a low base, rather than creating high barriers to new entry.
- v. Sets the expectation that all parts of the digital economy should adapt to changes in market structures rather than passing on inefficiencies to third parties in the form of costs.
- vi. Acknowledges the positive role advertising plays in informing consumer choice and decision-making in both the online and offline world, supporting other mediums such as television.
- vii. Acknowledges the complexity and challenges posed by uneven levels of expertise between industry and government in addressing online safeguards for consumers. The final report needs to allow industry the time to formulate additional – and in some cases – alternative ways to achieve this. We firmly believe a hasty ‘knee-jerk’ response by government would not be in the long-term interests of UK consumers.
- viii. Acknowledges the significant body of self-regulation and good practice already in existence within this field and commits to support government intervention only where it is likely to deliver enhanced outcomes for consumers.
- ix. Acknowledges the value of novel self-regulatory schemes and offers government support for such initiatives, thereby providing encouragement to others in the value chain to make similar commitments to internet users.

## 2. The importance of digital advertising to the UK economy

The IAB welcomes the interim report's acknowledgement of the growth of digital advertising – the fastest growing advertising medium in the UK<sup>3</sup>. Online media spend climbed by 21% (compared with H1 2007) and now takes an 18.7% slice of the overall UK advertising market<sup>4</sup>. World Advertising Research Centre (WARC) figures show that online advertising grew by 17.3% in the fourth quarter of 2008 (compared to Q4 2007)<sup>5</sup>.

Digital advertising makes a significant contribution to the UK economy and, in particular, its role in making the UK Europe's leading digital 'hub'. It is fundamental to the accessibility, affordability and dynamism of the internet: it is the lifeblood of the global digital economy, not just the UK's. Its success will be a fundamental component in delivering world-leading online content and services to all UK homes reached by (faster) broadband, as well as those who wish to access content and services on the move. We believe this argument is a fundamental omission from the interim report.

Below we set out five key contributions that digital advertising makes to the UK economy and why its continued success is paramount to the UK as the world's 'most advanced digital nation'.

### **A. Advertising supports many of the services and much of the content on the internet, making them available to UK citizens free of charge. As in traditional media, it is the business model for making (non-publicly funded) content widely available to the UK public.**

Internet users worldwide have become acclimatised to free access to internet sites and, in many circumstances, the goods and services that they offer. Advertising facilitates changing consumer behaviour by making a wide range of services and content available to users at little or no cost.

This includes:

- i. Communications services – such as webmail, chat, blogs, video/photo storage & sharing;
- ii. Information gathering tools (helping people to buy better) - such as search engines, price comparison websites, mapping services and knowledge engines.
- iii. Productivity suites – such as online office applications & tools; and
- iv. Social and professional networking environments;
- v. Education & employment services – access to job opportunities and training facilities; and
- vi. A vast array of rich content – such as news, video and entertainment.

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<sup>3</sup> IAB/PWC/Advertising Association/WARC – see Annex One, Figure 1.

<sup>4</sup> IAB/PWC/WARC – see Annex One, Figure 2.

<sup>5</sup> Advertising Association Quarterly Survey of Advertising Expenditure – March 2009.

New advertising techniques, such as behavioural advertising: a form of advertising based upon internet browsing activity currently making up around an estimated 20% of the UK online display advertising market (itself worth £600m in the UK), are helping to improve the return on investment on advertising inventory. This benefits content producers in the form of enhanced revenues and consumers in the form of more relevant advertising related to their interests. The IAB has developed some self-regulatory Good Practice Principles for behavioural advertising to help protect online privacy (see 3).

***It is therefore important that the final Digital Britain report acknowledges the importance of new advertising techniques in building strong revenue streams for digital media, as well as ongoing government support for self-regulation which aims to address privacy issues in a way that fosters innovation (see 3B).***

## **B. Digital advertising is today an UK industry worth over £3bn.**

The UK leads the world in digital advertising. As the interim report acknowledges, advertisers in the UK spend £1 in every £5 on the internet, more than any other country in the world<sup>6</sup>. New advertising techniques, such as behavioural advertising underpinned by new industry guidelines to protect user privacy, will help the UK to remain at the forefront of the global digital advertising market.

Digital advertising supports the UK's creative economy which, in itself, contributes £60bn to the UK economy. Advertising is the third largest creative industry in the UK and one of the country's most successful exports<sup>7</sup>. For many non-UK businesses, the UK is one of the most important markets globally, and is the European entry market of choice for many non-UK investors. More than two-thirds of pan-European advertising deals are managed through London. The UK market is by far the largest online advertising market in Europe<sup>8</sup>.

***It is therefore important that the final Digital Britain report acknowledges the importance of fostering the advertising market in order to continue attracting investment from pan-EU online businesses in the UK.***

## **C. Digital advertising drives UK online commerce, particularly at a time of economic slowdown and recession.**

UK ecommerce itself is worth over £46bn to the UK economy<sup>9</sup>. Online advertising is a gateway to consumer spending, both online and offline. 17 pence in every £1 is spent online in the UK – larger than all high street retail sales for clothing and footwear and equivalent to roughly half of all supermarket sales<sup>10</sup>. £26.5bn was spent on the internet in the first six months of 2008 – up 38% on 2007<sup>11</sup>. The current UK retail industry makes up 8% of UK GDP<sup>12</sup>.

<sup>6</sup> Ofcom International Communications Report – November 2008

<sup>7</sup> Creative Britain – February 2008

<sup>8</sup> IAB Europe 2007 AdEx Report – see Annex One, Figure 3.

<sup>9</sup> IMRG 2007

<sup>10</sup> IMRG CapGemini – July 2008

<sup>11</sup> IMRG CapGemini – July 2008

<sup>12</sup> British Retail Consortium 2008

Consumers' offline purchases are heavily influenced by online opinions and views, such as via price comparison websites, product/service reviews, blogs and forums. 49% of UK online shoppers have changed their mind about which brand to buy following research on the web<sup>13</sup>.

***The final Digital Report needs to acknowledge the value of advertising in driving UK ecommerce. Today 'etailing' is outperforming traditional 'high street' retailers and will help lead the UK's economic recovery.***

#### **D. Digital advertising helps fund UK content, innovation and entrepreneurialism.**

Advertising on the internet helps to fund new opportunities and businesses, particularly innovative new entrants and small businesses, seeking to challenge existing business models. It helps ensure a vibrant and competitive economy. "Oceans of creative content available online are supported by the advertising model."<sup>14</sup>

Search engines in the UK generate millions of pounds for publishing partners via advertising on their websites, sending traffic to these sites and enabling them to fund the content and services they provide.

***It is therefore important that the final Digital Britain report supports a market structure which allows new entrants to easily develop advertising-supported business models and scale-up from a low base, rather than creating high barriers to new entry.***

The IAB welcomes the interim report's specific reference (pp37-38) about the need for new business models to evolve in the digital age. The internet is a platform for innovation and new ways of doing business, supported by advertising as we set out above. We also believe that traditional business models need to adapt to this environment in their own approach.

A good example of this necessary evolution is in the existing system for licensing musical works in online advertising. Currently, rights holders are approaching online media owners, rather than advertisers themselves, putting the onus on them to obtain a license for music works in online adverts. This approach appears designed with traditional media in mind rather than new online business models or online advertising custom or practice. The IAB supports rights holders being properly compensated for music works used in adverts on the internet. Together with our members we are working with the rights holders to address this issue and reduce the costs of doing business across the industry.

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<sup>13</sup> EIAA 'Net Purchase Power' Study – January 2008

<sup>14</sup> Rt. Hon Andy Burnham MP, Secretary of State for Culture, Media & Sport: Speech to IAB Engage – November 2008

***The final Digital Britain report should set the expectation that all parts of the digital economy should adapt to changes in market structures rather than passing on inefficiencies to third parties in the form of costs.***

**E. Digital advertising supports changing consumer behaviour and traditional media.**

Many new online services – supported by advertising – are being driven by consumer demand. Consumers are increasingly ‘media meshing or stacking’ – using two mediums together at the same time. IAB/Thinkbox research supports this.

It found that:

- 61% of UK consumers with digital TV and broadband watch TV and go online at the same time at least weekly.
- The likelihood of buying or using a product increases by more than 50% when TV and online are used together.
- Using TV and online combined delivers up to 50% increase in positive brand perception, as well as a significant increase in likelihood of purchase.<sup>15</sup>

Offline and online messages and experiences together increasingly influence consumer behaviour. 39% of online searchers are influenced by offline messages before ultimately making a purchase<sup>16</sup>. 21% of people have made a purchase online as a result of a TV advert<sup>17</sup>.

***The final Digital Britain report needs to acknowledge the positive role advertising plays in informing consumer choice and decision-making in both the online and offline world, supporting other mediums such as television.***

### **3. Online Safeguards**

The extra-ordinary variety of content available online has developed in an environment where investment and innovation has not been discouraged by onerous regulation. However, we agree that across the online industry there need to be safeguards in place to protect consumers, whether children from inappropriate internet content or personal data and ensuring that users are aware of the actions and decisions they make online.

The interim report (p70) outlined three ‘online safeguard’ principles:

- i. protection for children;
- ii. empowerment for parents; and
- iii. informed consent for adults.

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<sup>15</sup> IAB/Thinkbox Research - May 2008. See Annex One, Figure 4.

<sup>16</sup> iProspect with Jupiter Research – August 2007

<sup>17</sup> IAB – May 2008

These are supported by five supporting guidelines:

- i. a safer online experience for children and families on which the UK Council on Child Internet Safety is leading;
- ii. effective removal of illegal content;
- iii. clear information on how personal data is collected, how it is used and where it is shared;
- iv. clear and effective labelling to help people avoid material likely to be harmful or offensive; and
- v. effective and readily available filters and other software that consumers can use easily to protect themselves and their families.

Spanning across the online industry – in the UK as well as across the EU - there are many self-regulatory initiatives and examples of good practice, reflecting the diverse and complex range of business models and business types. These initiatives - underpinning the five supporting guidelines outlined in the interim report - represent a good starting point for the Digital Britain Review team to make an initial policy analysis towards developing these principles in order to meet the online challenges and to provide reassurance to consumers.

***The final Digital Britain report needs to acknowledge the complexity and challenges posed by uneven levels of expertise between industry and government in addressing online safeguards for consumers. In this context, the final report needs to allow industry the time to formulate additional – and in some cases – alternative ways to achieve this. We firmly believe a hasty ‘knee-jerk’ response by government would not be in the long-term interests of UK consumers.***

Advertising has an effective track-record in self-regulation, dating back to the 1960s. The IAB is involved in a number of specific self-regulatory initiatives – in the UK and across the EU - helping to provide a safer online experience for children and families as well as providing clear information on how personal data is collected, how it is used and where it is shared.

#### **A. A safer online experience for children and families**

##### *Advertising Content:*

The self-regulation of advertising content, enforced and administered by the independent Advertising Standards Authority (ASA), is widely viewed as an effective regulatory body and as a ‘benchmark’ in self-regulation which has developed over many years as new advertising platforms have evolved.

The IAB is a member of the industry body, the Committee for Advertising Practice (CAP), which owns the self-regulatory rules (‘the CAP Code’) for non-broadcast advertising in print, outdoor, cinema, mobile and online media. This Code is widely viewed as effective and acknowledged to be so by the ASA itself. In its Digital Media Survey for 2008, it found a CAP Code compliance rate of 97%<sup>18</sup>. In a separate survey specifically on food and soft drinks (and particularly those rules designed to ensure that food and drinks are advertised responsibly to children), the ASA found the CAP Code had a compliance rate of 99%<sup>19</sup>.

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<sup>18</sup> ASA Digital Media Survey 2008

In addition, CAP is committed to ensuring that this framework is 'fit for the digital age'. The IAB has worked with the Advertising Association and other industry groups - under the auspices of a body called the Digital Media Group - to make specific recommendations for the extension of the CAP Code. The ASA is funded by a 0.1% levy on advertiser media spend and we believe that any extension to the CAP Code must continue to be funded in this way. The IAB is actively participating in industry discussions on this, and there are several options available. Our view is that the advertiser levy collection in a digital age should continue via the agency route which the largest advertisers currently use.

*Giving advertisers control:*

Under the banner of the IAB, the Internet Advertising Sales Houses (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 that inventory is not sold on pages containing barred or inappropriate content. This helps reduce the availability of advertising revenue to undesirable online content and protects advertiser brands. IASH currently covers over 40% of UK display advertising revenue and was supported by Dr Tanya Byron in her report to the Government on the impact of the Internet and Video Games upon children. This scheme is further supported by the IPA which recommends that all its members only buy inventory from sales houses that are members of IASH. This has strengthened the standing of IASH in the self-regulatory landscape. Further details can be found at [www.iash.org.uk](http://www.iash.org.uk).

**B. Clear information on how personal data is collected, how it is used and where it is shared.**

Privacy is at the heart of the future of the internet. Clear information on how personal data is collected, used and shared is fundamental to this. The success of new advertising techniques is dependent on advertisers, media owners and ad networks earning with the trust of the consumer.

The IAB recently published its Good Practice Principles for behavioural advertising, a set of self-regulatory commitments by leading providers of behavioural advertising. These Principles have been developed by major ad networks and providers of ISP-targeting technology who collect and use online data – both personal and anonymous – for this purpose. The Principles complement existing UK data protection laws safeguarding users' personal data with new practices governing the collection and use of all online data used in this type of advertising.

The Principles have been developed around three core commitments:

- **Notice.** A company collecting and using online information for behavioural advertising must give clear and unambiguous notice to consumers that data is being collected for this purpose.

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<sup>19</sup> ASA Food and Soft Drink Advertising Survey 2008

- **Consent.** A company collecting and using online data for behavioural advertising must provide a mechanism for users to decline behavioural advertising and where applicable seek a consumer's consent (e.g. where data protection law or specific regulatory guidance applies).
- **Education.** A company collecting and using online data for behavioural advertising must provide consumers with clear and simple information about their use of data for this purpose and how users can decline.

Supporting the publication of the IAB's Good Practice Principles is a new website – [www.youronlinechoices.co.uk](http://www.youronlinechoices.co.uk) – specifically aimed at UK consumers. The website provides internet users with clear and simple information about behavioural advertising, how it works, the benefits and how privacy is protected. The website also provides users with top tips for protecting online privacy and – when the Principles come into force – simple steps to decline behavioural advertising. The website also has a copy of the Good Practice Principles as well as a list of those initial businesses that have signed up. Further guidance at publisher, ISP, advertiser and agency level will build on the Good Practice Principles. IAB UK will also be spearheading good practice at an EU level.

As the UK trade body for digital advertising representing the breadth of the industry and many global media owners, the IAB is dedicated to developing self-regulatory initiatives where appropriate.

***The final Digital Britain report should acknowledge the significant body of self-regulation and good practice which already exists in this field and is sensitive to the organisations which govern these schemes. The Digital Britain Review should be guided by a commitment to support government intervention only where it is likely to result in enhanced outcomes for consumers.***

***The final Digital Britain report should acknowledge the value of novel self-regulatory schemes - such as the IAB's Good Practice Principles for behavioural advertising - and offer government support for such initiatives. This will add encouragement to others in the value chain to make similar commitments to internet users.***

For further information or any questions please contact Nick Stringer at [nick@iabuk.net](mailto:nick@iabuk.net).

Annex One:

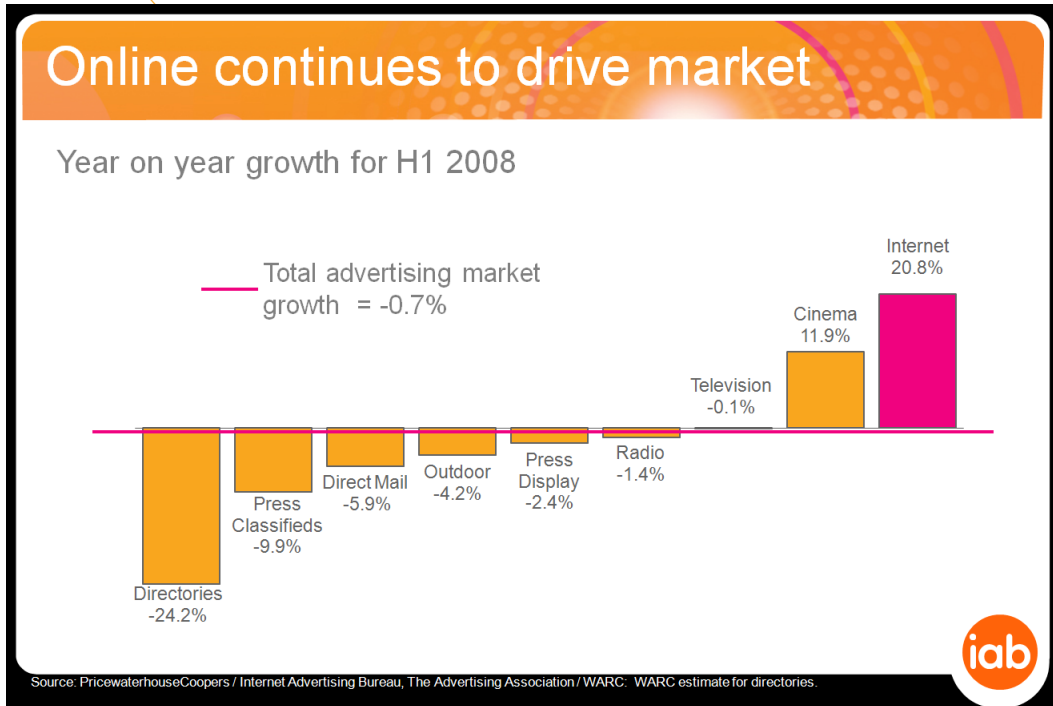


Figure 1: Digital advertising growth H1 2008

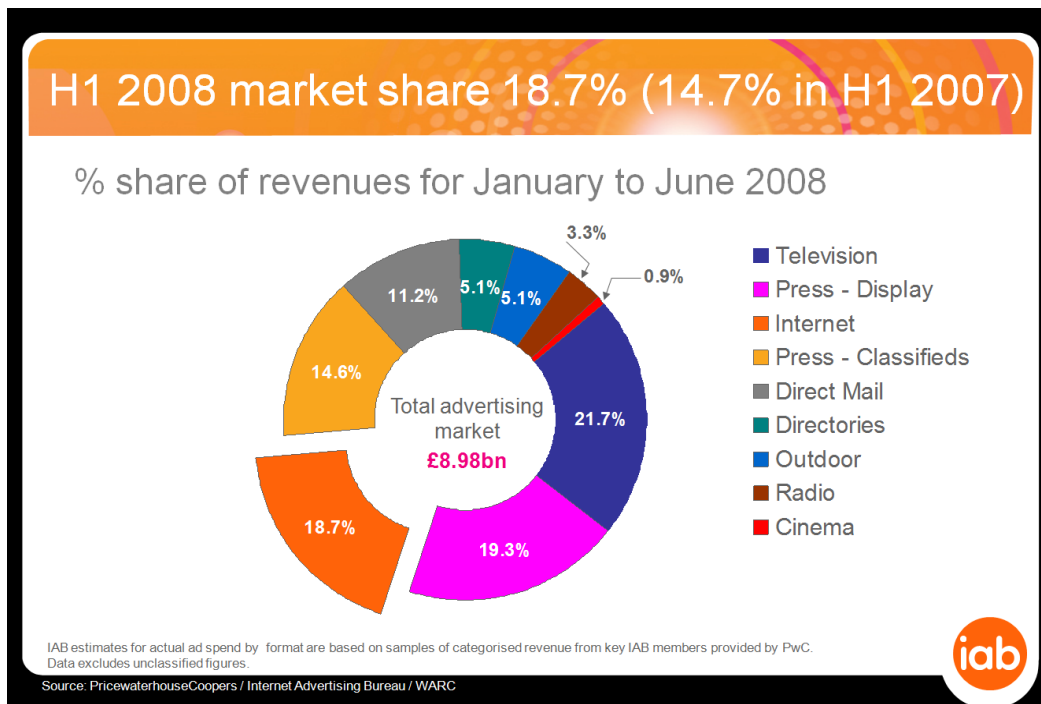


Figure 2: Digital advertising market share H1 2008

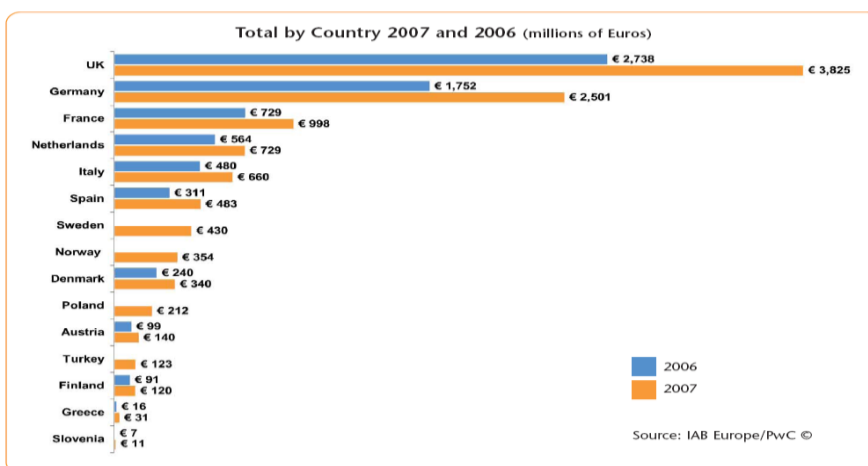


Figure 3: EU Ad Spend Expenditure 2006-07

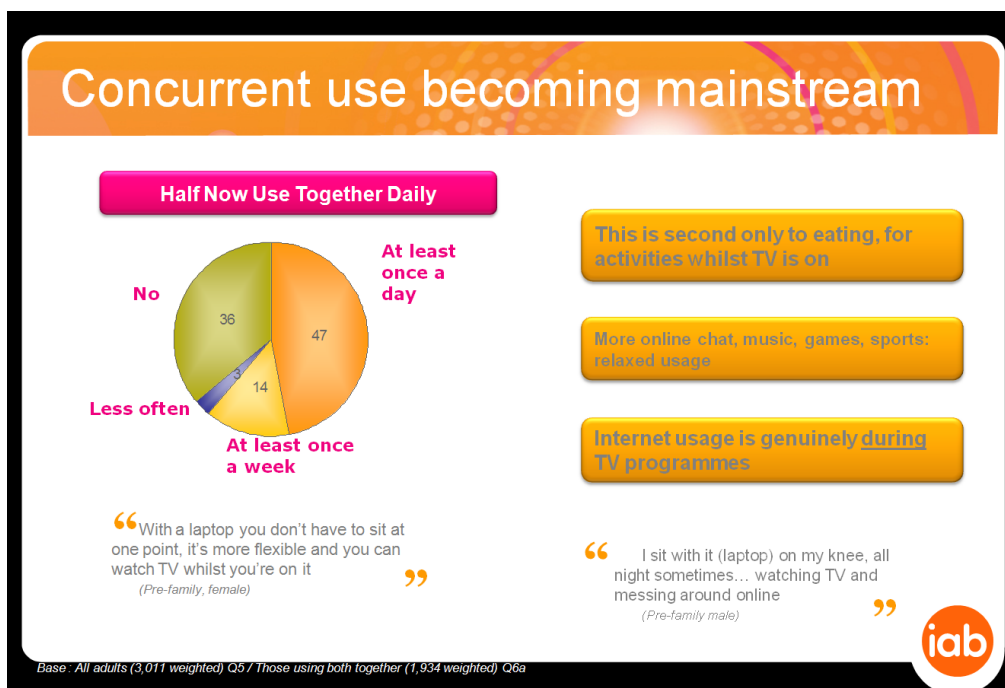


Figure 4: Concurrent TV and online usage