



Digital Britain

An interim report

IPA response

March 2009

Digital Britain

The IPA welcomes the opportunity to submit some observations on the interim Digital Britain Report.

A About the IPA

The Institute of Practitioners in Advertising is the trade body and professional institute for UK advertising, media and marketing communications agencies. Our 259 corporate members, who are based throughout the country, handle over 80% of the UK's advertising business agency business with an estimated value of £18 billion in 2007 (Source: Advertising Statistics Handbook, 2008), on behalf of many tens of thousands of their client companies and organisations.

B General observations

As the trade body for advertising and communications agencies carrying out their business across the entire media spectrum - both "traditional" and "new" - we are vitally aware of the importance of the issues addressed in the Digital Britain Interim Report.

Our members are dependent on such media as vehicles to deliver the advertising messages on which not only their own livelihoods are based, but also those of their clients, the nation's commercial media owners - and ultimately the healthy working of the UK economy in an increasingly competitive global marketplace.

Against such a backdrop, it is essential that the UK does not lag behind its competitors in the digital revolution that will affect us all.

As such, we support the Report's broad key themes and action points with regard to:

- Government assistance in boosting broadband development to ensure the UK can compete effectively and on equal terms with its neighbours;
- Effective internet regulation (in which area, we have been working closely with all the key trade bodies in a drive to future-proof the self regulatory system in the digital age, under the highly respected and successful Advertising Standards Authority);
- Minimum broadband delivery speeds of 2 MB (and preferably significantly higher in key centres) to ensure all can benefit from digital advances;

- The importance of public service broadcasting to the nation (and, more self interestedly, as a means of attracting broader audiences to the media).

We recognize that the advertising market is changing and that to be prepared for the future, the advertising industry needs to be prepared to invest in new technologies.

C Specifics

Having stated our broad support for the Digital Britain Report and its recommendations, we should like more specifically to put forward our observations on its proposed Action 16 "To establish" (*...in the final report...*) "whether a long-term sustainable second public service organisation providing competition for quality to the BBC can be defined and designed".

1 The importance of public service broadcasting (PSB) to the ad industry

1.1 Perhaps surprisingly for a commercially orientated body, the IPA membership is a firm believer in PSB.

1.2 The stance derives from two sources:

Social responsibility – in that we believe that public service broadcasting has played, and continues to play, a key role in the very fabric of UK society (i.e. it is important in itself), and

Commercial – in that PSB helps set benchmarks for the quality of broadcasting as a whole, while drawing into the media, a wider cross-section of the community, to whom our members can then deliver their commercial messages on behalf of their clients.

1.3 Thus, although the BBC's public service output will not offer our members direct commercial opportunity, it will nevertheless be valuable in setting standards and ensuring that lighter and more upmarket listeners and viewers maintain their relationship with the media – while the PSB programming broadcast by the terrestrial TV commercial stations, for example, will draw in sections of the population for whom their more general programming might be less attractive.

1.4 This ability to deliver commercial messages to more difficult-to-reach audiences on TV is currently most valuable to advertisers in relation to Channel 4.

1.5 While IPA members would generally be content to allow the remaining PSB commercial stations to be freed of their current public service obligations to pursue more mass-market

audiences, Channel 4's founding principle "to encourage, innovate and experiment in the form and content of programmes to cater for interests that ITV does not" has enabled it to attract a steady 10% share of overall viewing, with a particularly strong following among much sought-after young, light and upmarket viewers.

- 1.6 The maintenance of a healthy commercial PSB alternative capable of delivering these audiences is thus of major concern - and an area where we recognise specific action is required if our members are to continue to be able to tap into these normally difficult to reach, extremely valuable sections of the population.
- 1.7 Having said all that we do believe that on the broadcasting spectrum ranging from 'ratings-chaser' to 'market failure', the BBC has moved too far towards the former and away from the latter. We see no good reason why the BBC should me-too content and channel formats produced by commercial broadcasters, thus rendering them uneconomic. In contrast we argue that instead the BBC should be focussing on making programmes which are 'un-commercial' but for the social good. In this context we look to the BBC Trust to take a much more robust stance and rein in the BBC to its true PSB remit.

2 The need for action

- 2.1 Both Ofcom and the Digital Britain Report have highlighted the dilemma facing public service broadcasting in the UK and the need for positive action.
- 2.2 While leaving PSB to become the sole preserve of the BBC may be undesirable to the public (and the Government) on plurality grounds – we believe that from an advertiser's point of view, it holds additional, equally important concerns.
- 2.3 We have already mentioned the significant loss in targeted audience terms, which would occur if Channel 4, as the current principal commercial PSB TV supplier, were forced to adopt a mass-market approach to its programming - alongside this, we should also be concerned about the potential future attitude of the BBC in a situation in which it, alone, represented public-service output to the nation.
- 2.4 Put simply, if this were the case, we should worry that the Corporation would feel it incumbent on itself to embark on an expansionist programme under a public-service banner to the detriment of existing commercial competitors.
- 2.5 Ofcom has highlighted the likelihood that BBC funding will continue to grow in line with the rise in the number of households paying the licence fee and increased profits from

BBC Worldwide. And this growth is outwith that created by the BBC's license fee settlement in 2007 granting a 3% increase from 1st April for the subsequent two years rising from £131.50 to a maximum of £151.50 in 2012. At the time the Director General expressed disappointment at this settlement, but presumably his attitude may have changed at interest rates have fallen and with it inflation to close to zero or even deflation.

- 2.6 In these circumstances, we would have real concerns that a cash-rich Corporation, with a crusading cause, would be inevitably tempted to spread its activities to areas unnecessary and harmful to its commercial rivals, whom it would then crush through a combination of cross-promotion and financial might.
- 2.7 At a practical level we see the BBC as having created massive wage inflation both within its own ranks and in terms of the artistes it employs, with Jonathan Ross being the most conspicuous example. No longer does this public service broadcaster pay public sector wages, and this has had two effects: firstly to attract top talent away from the private sector and secondly to increase the remuneration expectations of those that remain.
- 2.8 While we are pleased with the actions taken to date by the BBC Trust to contain the Corporation, we are unsure that it would be able to block expansionist activity when confronted with a justification based on PSB diversification. We do not believe that this would be to the good of the market.
- 2.9 Thus, while we would endorse the BBC remaining "the cornerstone of public service broadcasting the UK", we agree with Digital Britain, that it is vital that other exponents remain in the field.

3 Observations on PSB future funding options

- 3.1 Ofcom's Second Public Service Broadcasting Review put forward four possible sources for future PSB funding. Although these may not be directly comparable to funding the more far-reaching PSB entity envisaged in Digital Britain, the comments we made on these at that time may be useful in considering how such a new set-up might be supported:

Direct public funding: leaving aside the Treasury's prevailing attitude to public spending, we would be concerned at the linkage of PSB to political influence and believe it to be too important to be left to variable/uncertain sources like lottery funds or hypothecated proceeds from spectrum awards.

The supply of regulatory assets: each of the various assets suggested holds concerns for our members. We are unsure that access to spectrum at lower than market prices would be anywhere near sufficient to meet the needs of a second PSB supplier, while increased TV advertising minutage could potentially damage broadcast quality/viewer enjoyment - and could tie PSB dangerously to the volatilities of the advertising market.

Industry funding for public-service content: levies on broadcasters, equipment sales and ISP subscriptions do have a certain appeal, but we are unsure how this approach has worked in Canada and Finland, and are concerned that impositions on ISPs could potentially inhibit the growth of broadband. A combination of levies and the reallocation of part of the BBC licence fee, however, could offer a potential option.

The BBC licence fee: for the reasons given above, we would see considerable merit in redeploying some of the existing BBC licence fee to other providers – and, in most immediate terms, the monies currently ring-fenced for the Digital Switchover Help Scheme and Digital UK’s marketing budget, whose reallocation would have no impact on the Corporation’s overall funding and output quality.

4 Observations on Investment in Content

- 4.1 We note the concern about the concerns expressed in relation to the relative lack of new investment in original UK children’s programming, and the reference to the Ofcom report on the matter.
- 4.2 The IPA’s concern about the Ofcom report, as expressed at the time, was that it did not make mention of Ofcom’s own banning of advertising of HFSS foods to children, whom they re-defined very near the end of their consultation process as being up to 16 years in age.
- 4.3 The IPA view is that the Ofcom decision was a major nail in the coffin of UK children’s programming and the culmination of a long-term and inexorable lobbying process. This has been one of increasing restrictions, and then bans, on very significant tranches of the foods and drinks markets. This led initially to voluntary and then to forced withdrawal by major advertisers and thus to the disinvestment in programming by commercial broadcasters. Quite obviously if they are unable to sell advertising time, then there’s no money to fund the programming which might carry it.

- 4.4 The result of this process, culminating in the Ofcom ruling of 2007, has been, as predicted, a significant drop in investment in new UK-originated children's or young person's programming and an increase in low cost imports, often of US origin.
- 4.5 We look forward to reading more about this important topic in the final Digital Britain report. While it may be too much to ask for the Ofcom ban to be completely rescinded, we would welcome a robust rebuttal of those who continue to campaign for further restrictions on advertising to children and request an evidence-based review of the age definition of a child. We simply don't accept that a sixteen year-old is a child – after all some believe they're old enough to be given the vote!

5 Observations on Intellectual Property

- 5.1 In Westernized economies there has been a growing acceptance of the increasing importance of intangible assets to companies' value. This is the context in which the service sector of the economy, and the creative industries in particular, should be viewed, and where the Digital Britain Report could prove to be of great help.
- 5.2 Intangible assets account for a significant proportion of companies' market value, as corporate performance and profitability are driven more and more by the exchange and exploitation of ideas, information, expertise and service, and less and less by control over physical resources. Intangibles include patents, strategic alliances, customer lists, employee know-how, and other forms of non-physical assets, but in many companies the most important intangible assets are brands. Intangible assets have therefore always existed, but only recently have they begun to be valued properly. For example in some sectors brands comprise up to 70 per cent of companies' market capitalization.
- 5.3 But although intangibles are now key drivers of our modern economy, they are still rather poorly understood by management, investors, and politicians alike. Happily the Government's 'Creative Britain' report of February 2008 http://www.culture.gov.uk/reference_library/publications/3572.aspx and the Work Foundation's precursor 'Staying Ahead' http://www.culture.gov.uk/images/publications/stayingahead_epubki_foreword.pdf have led to a significant increase in the appreciation of the value of the creative industries and the intellectual property they create. The recession has resulted in the near-collapse and near-nationalisation of the financial sector and this means that the number two sector, the creative industries, is now even more important than ever to the future of UK plc. In this context the need for greater protection and

monetization of intellectual property is a key area to focus on as a support for the UK's positioning as 'Creative Britain', one of the world's leading 'hubs' for the creative industries, originating and exporting globally applicable intellectual properties in advertising, architecture, film, games, music etc.

- 5.4 In order to mitigate the damaging effects of intellectual property theft, we see an urgent need to develop an internationally accepted online micro-payment system. This would be along the lines of the Apple i-tunes model, but enabling much smaller payments.
- 5.5 Producers of IP such as music, newspapers, magazines, and book publishers are already in crisis because of the piracy of their content, and commercial broadcasters are not far behind. Their inability of the vast majority to monetise their content through subscriptions when advertising revenues are in recession is forcing them into a downward spiral where journalists and other creative sector workers are being laid off. This is leading to poorer content, thus fewer readers and viewers, meaning reduced advertising revenues and even less chance of selling a subscription.
- 5.6 An answer could be provided if there was an online analogy for cover price with users being able to click on an item and pay pence or less for it. The UK Government and its agencies could take a lead in supporting the development of such a system with global application and standards. Having this technological underpinning to Creative Britain would help the creative industries enormously and provide a platform for their future success.



Institute of Practitioners in Advertising
44 Belgrave Square, London SW1X 8QS
telephone: 020-7235 7020 fax: 020-7245 99