



Core activities:

Consumer research and insights
Management of client marketing activity/communication plans
Identifying consumer tastes and responses
Creation of advertisements, promotions
PR campaigns
Media planning, buying and evaluation
Production of advertising materials

1 Advertising

Related activities:

Creative studios and freelancers
Editing facilities
Brochures/publications
Photography, filming and digital recording
Digital content generation
Multimedia and Internet production
Marketing consultancy
Exhibitions

Related industries:

Public Relations
Promotions
Direct Marketing
Design
Television & Radio
Film
Market Research

1 ADVERTISING

REVENUES Gross: £3 billion (1998)^a
 EXPORTS £815 million (1998) £774 million (1999)^b
 EMPLOYMENT 84,900 (1998) 92,800 (2000)^c

^a ONS, 2000: *Sector Review of Service Trades*. Gross revenue is £16bn from which £13bn as reported as revenue by other creative industries has been deducted to avoid double counting. ^b ONS, 2000: *Balance of Payments Pink Book*. ^c ONS, 2000: *Labour Market Trends*, October, 1999, 2000.

INDUSTRY REVENUES

The UK advertising sector had gross revenues of £15.988 billion exclusive of VAT in 1998.¹ However an estimated £13 billion is reported as revenues by other creative sectors. This includes the purchase of media space, some of which payments are also included in the revenues of the publishing, television and radio sectors.

Net revenues (earnings) in 1998 were approximately £1.420 billion before taxes and capital expenditures and £1.115 billion after taxes and capital expenditures.² The average profit margin of the top 50 UK advertising

agencies in 1998 was 6.5%.³ The average profit margin in 1999 was estimated to be 8.8%.⁴ Profit margins in advertising are somewhat distorted by the practice of agencies buying media on behalf of clients and then recharging the cost of the media with an added commission. It is estimated that 75% of agency revenues are related to the production of advertising services, the remainder being derived from commissions on media.

The contribution of advertising to the UK economy in 1998 (Gross Value Added) was £3.5 billion.⁵

TOTAL TURNOVER, PROFITS AND GROSS VALUE ADDED FOR THE ADVERTISING INDUSTRY, 1995-1998

(£ MILLIONS)	1995	1996	1997	1998
TOTAL TURNOVER (GROSS REVENUES)	12,940	13,716	15,418	15,988
PROFITS (NET REVENUES)	1,270	1,603	1,594	1,420
APPROX. GROSS VALUE ADDED AT BASIC PRICES	2,602	2,974	3,438	3,538

Source: ONS: *Sector Review of Service Trades*.

UK MARKET SIZE

The UK is the fourth largest advertising market in the world after the US, Japan and Germany in terms of advertising expenditure and fifth in terms of expenditure per capita.⁶ Total UK advertising expenditure (including direct mail) in 1999 was £15.3 billion, an all-time high.⁷

For the tax year ended March 2000, VAT paid by the advertising industry was £427.3 million and VAT recovered was £36.6 million, thus yielding net VAT payments for the sector of £390.7 million.⁸ Capital Expenditure of the advertising sector in 1998 was £278 million in 1998.⁹

1, 2, 5 ONS, 2000: *Sector Review of Service Trades*.

3 *Marketing Week*, 30 Sept. 1999.

4 IPA: Willott Kingston Smith.

6 NTC, 2000: *World Advertising Trends*.

7 *Advertising Association, 2000: Advertising Statistics Yearbook*.

8 HM Customs & Excise: *Report D0831*.

9 ONS: *Sector Review of Service Trades*.

BALANCE OF TRADE

The value of advertising services sold overseas was £774 million in 1999 with advertising services valued at £545 million bought by UK companies, yielding net exports of £229 million.¹⁰ However, it is difficult to quantify exports because many agencies are run on a genuinely multinational basis.

Of the top 15 multinational advertising agencies, the majority have their headquarters in London;¹¹ four have headquarters in Paris, and two have shared headquarters with London.

OVERSEAS TRANSACTIONS IN ADVERTISING, 1996-1999

(£ MILLIONS)	1996	1997	1998	1999
UK EARNINGS FROM OVERSEAS (EXPORTS)	565	827	815	774
UK PAYMENTS TO OVERSEAS (IMPORTS)	430	393	431	545
NET SURPLUS/DEFICIT	135	434	384	229

Source: ONS, 1999: UK Balance of Payments Pink Book.

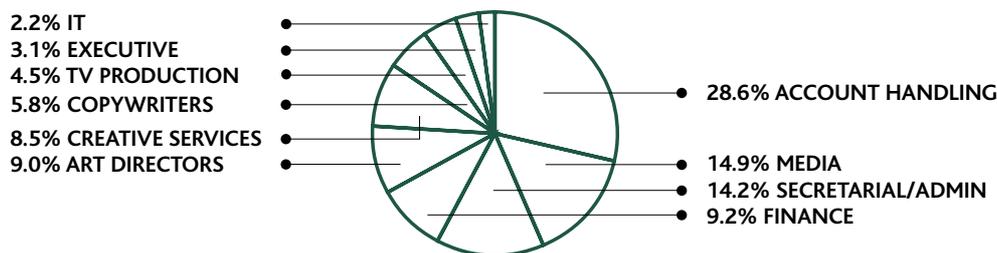
EMPLOYMENT

Employment in the industry was at 92,800 in June 2000, of which approximately 52,700 (57%) are female and 32,700 (35%) are part-time.¹² Institute of Practitioners in Advertising (IPA) member agencies (which account for approximately 80% of UK agencies) had approximately 13,000 employees in 1999.¹³ Of those employed at IPA agencies, 51% of all staff are under the age of 30, 82% under the age of 40 and 76% of staff are London based.

Gross wages and salaries paid in 1998 totalled £1.807 billion.¹⁴

The 1999 IPA Agency Census shows employment at the larger and medium-sized agencies rising, but these increases are offset by losses at smaller agencies. This relates to the industry's merger and consolidation trend and a move toward larger operating units.

1999 DISTRIBUTION OF STAFF BY DISCIPLINE



Source: IPA Agency Census 1999.

¹⁰ ONS: Balance of Payments Pink Book.

¹¹ European Association of Communication Agencies.

¹² ONS, October 2000: Labour Market Trends.

¹³ IPA: Agency Census 1999.

¹⁴ ONS, 2000: Sector Review of Service Trades.

INDUSTRY STRUCTURE

The number of businesses in the advertising sector in 1998 was 11,345.¹³

The advertising industry is composed of a high number of smaller agencies and a few large agencies. In 1999, the top 50 agencies accounted for £5.231 billion worth of billings, the top 20 of which accounted for £4.312 billion or 82%.¹⁵

The consolidation process continues in the industry with agencies increasingly grouped together within holding companies. Mergers have proved a popular way of adding competencies and coverage, particularly global coverage for agencies. Although unable to compete with the consolidated global players, SMEs and micro-businesses increasingly specialise and develop their knowledge of discrete market segments that may not be attractive to larger agencies because of their size or requirements.

ACTIVITIES	CLIENT	AGENCY	PRODUCTION	DISTRIBUTION
	Product or service supply	Marketing consultancy, designing campaigns, devising media schedules and buying advertising space	Production of advertising materials	Provision of "space" for advertising
PLAYERS	Commercial and public sector organisations (including government)	201 members of the IPA and many SMEs	Photographers, designers, printers, researchers, communications services, mailing houses, film/TV and new media production houses	TV, radio, press, outdoor, cinema, Internet and new media, other (e.g. ambient media)

REGIONAL DIMENSIONS

The industry is heavily London biased; 76% of the staff of IPA member agencies are London based. The top 20 regional agencies had a total billing of £315.43 million, equivalent to 6% of the total 1999 billings for the top 50 agencies.¹⁶

INTERNATIONAL CRITICAL ACCLAIM

British advertising agencies are particularly noted for their creativity in devising advertising and campaigns. UK agencies again won the top Press & Posters and Media prizes at the 2000 Cannes International Advertising Festival. UK agencies also took both the second and third places in the Agency of the Year awards in 1999 and all three top awards in 1996 at Cannes.¹⁷

There are three main centres for the global advertising industry: New York for the Americas, Tokyo for Asia and London for Europe. There is an increasing use of the UK as a base for campaigns targeting UK, pan-European and global markets. The UK's advanced ICT infrastructure, including free Internet access, digital television and growth in Internet start-up companies, as well as use of the English language, makes it an attractive location for advertising production.

In addition, the UK is a centre for advertising best practice, known for its model of self-regulation and methodology for assessing advertising effectiveness. The World Trade Organization (WTO) cites the UK

Advertising Standards Authority as one of the leading self-regulatory bodies in the advertising world. The IPA's published works include the *Advertising Works* series, *e-media* and *Excellence in Advertising*, a top-selling guide on best practice in advertising. In October 2000, the British Council, working with the IPA and the Public Relations Consultants Associations and with funding from Trade Partners UK, hosted a seminar in Shanghai to share British experience and showcase British expertise, with a view to opening up the Chinese market to the sector.

¹³ *Campaign Report, 25 February 2000: The Top 300 Agencies.*

¹⁶ *Campaign Report, MMS, IPA.*

¹⁷ *Variety, 2000: Cannes International Advertising Festival, Lions Daily.*

AGENCY OF THE YEAR WINNERS AT THE CANNES INTERNATIONAL ADVERTISING FESTIVAL (LIONS AWARDS)

WINNERS	2000	1999	1998	1997	1996
1ST	<u>BRAZIL</u>	<u>BRAZIL</u>	<u>BRAZIL</u>	<u>US</u>	<u>GB</u>
2ND	<u>US</u>	<u>GB</u>	<u>US</u>	<u>US</u>	<u>GB</u>
3RD	<u>US</u>	<u>GB</u>	<u>BRAZIL</u>	<u>BRAZIL</u>	<u>GB</u>

Source: Variety, Lions Daily.

SECONDARY ECONOMIC IMPACT

The industry provides the primary revenue stream for other creative industries. Likewise, advertising activity is also stimulated by other creative sectors.

The advertising industry also employs a wide range of external suppliers, including photographers, lithograph houses, suppliers of communications

services, outdoor advertising space providers, research houses, mailing services, printers, TV/film production houses and new media specialists. Many of the suppliers to the advertising industry are small, independent companies and freelancers for which advertising accounts are an important source of regular work.

The contribution of advertising to media revenue and its use of many support services means that, both directly and indirectly, it is a major source of employment. It is also a key competitive tool in the economy, enabling businesses to compete for share in both domestic and international markets.

1999 GROSS REVENUES EARNED FROM ADVERTISING

	(£ MILLIONS)
PRESS	<u>7,829</u>
TELEVISION	<u>4,320</u>
RADIO	<u>516</u>
INTERNET/WEBSITE	<u>306*</u>
CINEMA	<u>123</u>
PERFORMING ARTS SPONSORSHIP	<u>70**</u>
	<u>13,164</u>

Source: Advertising Association, Advertising Statistics Yearbook 2000 (p. 19,38). * Estimated upon NTC Research (Bellwether Report) that an average of 2.5% of marketing budgets is spent on Internet/website marketing. ** Source: Arts & Business, 1998/99 Survey of Business Investment in the Arts.

1999 SPEND ON ADVERTISING

	(£ MILLIONS)
PUBLISHING/BROADCASTING	<u>366</u>
MUSIC RECORDINGS	<u>97</u>
CINEMA/FILM DISTRIBUTORS	<u>86</u>
THEATRES/CONCERTS/PLAYS	<u>34</u>
COMPUTER/TV GAMES	<u>32</u>
FINE ART AND ANTIQUES/AUCTIONS	<u>6</u>
MUSEUMS AND GALLERIES	<u>3</u>
	<u>624</u>

Source: ACNielsen-MEAL (as reported in Advertising Statistics Yearbook 2000, p.211-215).

POTENTIAL FOR GROWTH

The performance of the advertising industry has a strong relationship to economic prosperity, thus in periods of economic growth expenditure on advertising increases, the converse being true in recession. Since 1994, advertising spend has shown progressive year-on-year growth in real terms and advertising expenditure as percentage of Gross Value Added (GVA) and Gross Domestic Product (GDP) has comfortably exceeded the growth of the overall UK economy.

The industry's long-term position continues to be strong. Increasingly competitive markets require commercial organisations to promote their goods and services. There is also growth in public sector advertising as organisations seek to raise awareness, profile or funds or to promote public well-being. For instance, the Central Office of Information (COI) was the second largest advertiser in the UK in 1999, up from seventh in the previous year.¹⁸

The IPA *Bellwether Report* (16 October 2000), a quarterly survey of marketing expenditure, reports that a majority (55%) of companies surveyed have increased their marketing budgets for the 2001 financial year. Key Note estimates that the UK market will continue to grow and will be worth £16.5 billion by 2002.

Long-term growth will be driven by expansion in the UK and world economies and by the growing number of organisations in the private and public sectors seeking

to differentiate themselves. Demand for European and global campaigns has increased with the EU and globalisation, but it has not been the boom that was anticipated because of complexities of regional promotional legislation and language/cultural differences. The UK is well positioned to exploit developing regions such as Eastern Europe and Russia as well as developing regional economies in areas such as Ireland, Greece, and Portugal. The ongoing trend of mergers, demutualisations and privatisations may also increase advertising activity as organisations seek to re-establish their identities.

The Marketing Week Reputations Survey has identified creativity as the most important of nine criteria to advertisers when dealing with agencies for both 1998 and 1999.¹⁹ Thus growth will also be dependent on finding skilled and creative people (often cited as difficult within the industry) and the development of better training methods, recruitment practices and professional standards for the sector.

Traditional forms of advertising are also being supplemented (and in some cases replaced) by the development of ambient media, sponsorships and cross-promotional activities that increasingly overlap with other sectors. The performing arts sector, for instance, has been quick to realise the potential of its environment as a targeted advertising medium allowing for growth in sponsorship/partnership relationships.

IMPACT OF E-COMMERCE/ INTERNET/TECHNOLOGY

The Internet and e-technology have had three distinct impacts on the advertising industry:

- i) *traditional advertising using new advertising space (online/new media);*
- ii) *new "dot coms" using traditional ad media (print/TV/radio); and*
- iii) *the creation of new media agencies.*

New Advertising Space

Spend on online advertising is a growth area. Internet marketing budgets rose from 1.5% of total marketing expenditure in the second quarter of 2000 to 2.5% in the third quarter.²⁰ Other areas opening up to advertisers include interactive television, WAP technology, free phone calls in exchange for short advertising messages, and virtual signage. The fragmentation of the market created by new media provides the ability to target niche markets economically and with improved accountability.

The provision of flat monthly fee Internet access without call charges in the UK is likely to increase the number of people online and time spent online. This may impact on patterns and attitudes towards browsing the Internet and may transform it into a leisure activity, akin to watching TV, rather than as at present, a means of a planned business or leisure transaction. The take-up of the Internet as a leisure medium will make it a more attractive

¹⁸ *Advertising Association, 2000: Advertising Statistics Yearbook.*

¹⁹ *Marketing Week, November 25, 1999.*

²⁰ *NTC Research, 16 October 2000: Bellwether Report.*

display advertising medium that may erode spend on traditional advertising and media.

New Dot Com Clients

Internet start-ups represent a lucrative market for the advertising sector. There is extreme pressure on start-ups to differentiate themselves in the somewhat amorphous virtual marketplace that requires clear brand value and development, and large amounts of initial capital are spent on traditional advertising in awareness campaigns. Internet service providers spent £57 million in advertising in 1999, a fourfold increase from 1997.²¹

New Media Agencies

In 2000 the Top 50 new media agencies declared income of £168 million,²² up from £63 million in 1998 and forecast to rise to £370 million by 2003. E-commerce is also an opportunity for UK firms to serve a global market. Many new media agencies have emerged but are likely to be swallowed up by large advertising conglomerates wishing to strengthen their new media competencies.

Convergence

Interactivity increasingly blurs the line between advertising and direct marketing. It is estimated that 17% of television adverts already carry a website address and 90% of press advertising now includes response coupons, Internet addresses, freephone numbers, etc. to encourage direct response.

While the opportunities for growth are significant in new technology, as in-house resources and knowledge

of electronic media grows, it may represent a threat to agencies. As technology and creativity become more closely linked, suppliers to the industry may also represent competitors, for example digital printers offering design services directly to their customers. These issues challenge the sector to explain that new media is a creative issue rather than an IT issue.

Digital media has also altered the capital requirements of the industry. The primary resource of advertising agencies has traditionally been people, but investment in technology is on the increase, which may place pressure on SMEs who do not have the resources of the major players.

GROWING THE SECTOR – POINTS FOR CONSIDERATION

In a fragmenting landscape with the convergence of computing, telephony and television, the general consensus within the industry is that self-regulation, as opposed to legislation, is the only viable operational model in the digital era.

Growing internationalisation has made the health of the global advertising industry of increasing importance to UK agencies. As the sector is highly dependent on economic conditions, advertising agencies have developed strategies to reduce their exposure to downturns in the worldwide economy.

Staffing and training issues are key to competitiveness in the global market to keep pace with rapid technological changes.

Despite the advertising industry's best efforts at encouraging an effectiveness culture, clients still do not recognise the role of marketing as the facilitator of cash flow and fail to appreciate or measure their brand's performance.

There is room for growth in the servicing of SME accounts; the industry has done little to convince smaller enterprises of the benefits of advertising.

Overall data for the sector are available, but are often aggregated with marketing activities such as direct mail and market research as well as lower forms of advertising, such as classifieds and listings, that are arguably not part of the creative sector.

A substantial amount of gross revenue is derived from buying media space on behalf of clients, and a significant portion of net income comes from commissions on media placements, making analysis of the sector's profitability and true economic impact difficult to assess.

There is a shift in power from business to customer and from government to citizen. To enable the UK to benefit from this democratic and economic empowerment, it needs to maintain its lead in innovation, technology and effectiveness. The industry needs to be able to operate a "light touch" economic environment and under a government umbrella which encourages creative industries.

²¹ *Advertising Association, 2000: Advertising Statistics Yearbook.*

²² *IPA / Campaign Report, 2000: Top 50 New Media Agencies.*