

The Debating Group



A Parliamentary forum for Media and Marketing Debate

Brexit is the biggest challenge UK advertising has ever faced

“It was the best of times and it was the worst of times,” opened James Murphy, Founder and CEO of adam&eveDDB. Quoting from Dickens, he proposed the motion ‘Brexit is the biggest challenge UK advertising has ever faced’ at the Debating Group debate on 29 January 2018. The debate was sponsored by the International Advertising Association (UK Chapter) and chaired by Tulip Siddiq, MP for Hampstead and Kilburn.

It is the best of times because our industry has buoyant growth and unprecedented opportunities through creativity and innovation. However, it also faces internal challenges with transparency, digital behaviour and inequality, and external challenges with the UK’s low growth and productivity—overshadowed by the greatest challenge of all, Brexit. Murphy agreed with Sir Martin Sorrell’s view that the biggest threats facing our industry are around the uncertainty from Brexit, and the ensuing collateral damage to Brand Britain.

While Brexit itself cannot be reversed, Murphy feared the blustering, disorganised, and sometimes dishonest approach to Brexit will be disastrous for UK advertising. He called for us to raise our voices above the bluffing, fibbing and bravado, and be honest about the challenges that Brexit presents so that we can build a bold plan to ensure that British advertising continues to flourish on the other side of Brexit. He highlighted that we have a very successful industry, with over one million people working in agencies, ad agencies, media owners, brand owners and associated support industries, of which 57% work outside London. £21 billion of ad spend generates £120 billion of GDP every year, driving our economy. This is what Brexit threatens, and Murphy went on to explain how.

Brexit puts at risk our position as a gateway for international business, the unique cultural and geographical pivot point between Europe, the Americas and the rest of the world. It’s a key reason why our industry is at the vanguard of a huge export success that increased 80% between 2010-15 and is now worth £4.3 billion to the UK economy. Around 70% of those exports are to EU markets stressed Murphy—our industry’s global clout is profound.

He segued into Brexit’s threat to our dominance of the European market. Our industry’s balance of payments surplus with Europe is £1.6 billion. As members of the single market, we have had unfettered access to the world’s richest trading block, while simultaneously being the preeminent practitioners in that market—we win more Cannes Lions than any other country in Europe. Our engagement with Europe and the world has seen our exports grow nearly 14% a year—nearly three-times the average of the whole economy. Brexiters tell us to forge new trade links, with the Commonwealth for example, but this won’t make up for our losses in Europe. And those that say Europe isn’t important because it’s economically sick are wrong: the Eurozone is posting record growth, way ahead of Britain since Brexit.

The third threat posed by Brexit is to our industry's amazing ability to attract international talent. No other spot on the map has the same critical mass of creative, intellectual, strategic and technological talent. And this is a virtuous cycle: talent attracts talent which attracts business which attracts talent. It's a cycle that competitor countries and cities are determined to break. Amsterdam is promoting itself as the future English-speaking hub of marketing industries in Europe, and President Macron is ushering in dramatic changes to tax, business levies and working practices to encourage movement to France.

Brexit bluster suggests that we hire local talent instead, but our economy is at almost full employment and we don't have enough skilled people in key areas, such as digital and data. Investment and changes to education will feed through, but will take time. Citing his own experiences, Murphy dismissed the idea that foreigners are taking UK jobs while noting that he had recently lost several talented people to other markets in the EU. Murphy also raised concerns about big business moving their headquarters away from London, with Goldman Sachs prepared to move people to continental Europe at short notice.

The fourth and most insidious threat from Brexit is the damage to Brand Britain. Murphy called on the audience's belief that a powerful brand communicates immediately and instinctively, so how can we believe that we can sell to consumers like that, but not of our own customers and clients? Because our agencies are held up as the best in Europe, a retreat from Europe will damage that positioning. Indeed, some American CEOs had expressed neither fury nor fire over Brexit, only pity for what we had done.

In conclusion, Murphy considered the solution to be facing up to the scale of the problem and sending a strong signal to the world that UK advertising will battle its way through Brexit and still be winning on the other side. Murphy called for a buccaneering Brexit, where we are honest enough to recognise the challenges and bold enough to shape new opportunities. Brexit is undoubtedly the biggest challenge UK advertising has ever faced, and the way we will keep leading the world is by being open for the world.

Opposing the motion, **Rory Sutherland, Vice Chairman, Ogilvy Group UK**, began with a rebuttal, arguing that Brexit won't change Britain's time zone or national language, and that most of the advantages that the UK and London enjoy will continue after Brexit, especially as the EU did very little to foster easier free trade in services.

Moving beyond the question of whether two world wars posed greater threats to the freedom of advertising than Brexit, Sutherland argued that Brexit is not only not the biggest challenge UK advertising has ever faced, it is not even the biggest threat it faces at present. He suggested that the only conditions in which Brexit will be the biggest threat ever, is if we believe the motion to be true. The important thing is to only worry about the things that we can do something about.

Introducing some initial thoughts, Sutherland believed that our industry would be effected less than most by Brexit, and you might even argue that if things are harder to sell then there is more money to be made in selling them! He also thought more foreign competition would actually do us good, and that the UK should remain the best place in the world to make advertising because we are very good at it, rather than because we have artificial advantages. He also noted that what makes London remarkable is not that it's a European city but a cosmopolitan city, with talent from absolutely everywhere – not just Europe. He reflected that it might actually become easier to hire from all around the world if we are not restricted by EU regulations. More than this, Sutherland stressed that we have much bigger things to worry about than Brexit, and that these were things we can do something about.

The first of these bigger worries is that the way we create value has almost no relation to the time spent and we are in danger of being incentivised into irrelevance. Procurement agencies have a commoditising approach that seeks to make what we do cheaper rather than better. Similarly,

management consultants don't bring us a problem unless it's accompanied by a huge advertising budget, so we are probably only solving 5-10% of the problems we could be solving. This is scarier than Brexit.

Secondly, while asserting his pro-digital credentials Sutherland questioned the growth of digital advertising, asserting that we have a billion-dollar industry that doesn't actually know how advertising works and has become obsessed with channelling money into digital not because the results are good but because the metrics are marvellous. He went on to explain that conventional advertising of television, print, and outdoor has three attributes that digital media doesn't. First, they are perceived to be expensive, and humans believe messages in proportion to the effort and expense taken in generating them. Second, mass media is assumed to be seen by more than one person. There's a faith on the part of the advertiser that their product is good enough to become widely popular and they are prepared to bet on that result—it is a reliable signal of confidence in your product. Thirdly, that you are making that promise to a large number of people indiscriminately and simultaneously. He concluded that if any of these points are important to the efficacy of advertising, then we are wasting our money with digital.

Finally, Sutherland acknowledged that a large proportion of the ad industry opposed Brexit, but he is horrified by the bemusement that the industry is expressing towards the 52% that voted leave. That, Sutherland reasoned, shows that UK advertising has lost touch with a large part of the population. Perhaps, he suggests, we didn't understand the appeal of Brexit because the phrase 'take back control' is completely meaningless to the people who already have it.

In conclusion, Sutherland felt these are all far bigger problems than Brexit—right now, let alone ever.

Seconding the motion, **Karen Blackett OBE, Chairwoman, MediaCom UK & Ireland**, began by stating that she was not naïve to the many challenges facing UK advertising, but asserted that Brexit is the biggest one to date, as it is not in our control. With all the other challenges, our industry has the technology, talent, skill sets and ability to cage the issues and control what happens. And we are already successfully addressing them. Blackett noted that the industry is evolving and adapting to ensure its future: we are in the business of growth, and Brexit threatens that growth.

Blackett conceded that other challenges might seem bigger because they are real, right now and quantifiable whereas Brexit seems vague, unclear, unquantifiable. However, she proceeded to compare to Brexit the threat from some of these perceived 'bigger' issues.

First, Blackett argued that technology and increased automation is not a threat to our creativity and jobs, in fact it helps us reach consumers more effectively. We have learnt how to ensure that what we deliver is relevant, with YouTube View-Through Rates steadily increasing and ad-blocking now stabilised. As an industry, we have stepped up and leaned in.

Secondly, Blackett agreed with Sutherland that the dramatic growth of digital advertising has brought a raft of challenges; brand safety, ad fraud, viewability and fake news. But Blackett countered that the outcomes are again in our control and we are already proactively fixing these issues, citing an estimated 10% decline in economic losses due to ad fraud.

Brand safety is another hot topic that Blackett asserted we are controlling. The solutions are coming: stricter ad monetisation policy, holding content publication until verified, the deployment of custom blacklists and whitelists, and permitting third party verification because of pressure from governments, brands, and agencies. And it's the same with viewability and video viewability. While there is more to do, we are holding ourselves accountable and tackling the thorny issue. We are in control of these challenges, but we are not in control of Brexit.

Blackett then presented the evidence for Brexit having a significant impact on UK advertising. First, consumer confidence has slipped since the vote, with the Consumer Confidence Index down from -7 in January to -13 in December. This cloud of consumer uncertainty, rising import costs and lack of control, has changed client behaviour. There is a fixation on quarterly and monthly targets, while marketing budgets are being tightened. If we can't persuade our clients to invest in the long term and in brand-building, we will not have an industry left. Ongoing uncertainty caused by Brexit is making business and brands nervous. They are not in control.

Turning to export trade, Blackett argued that Brexit poses a threat to the UK's position as the "gateway to Europe" for advertising and marketing communications. While she agreed we should welcome competition from Europe, Blackett pointed out that the industry's largest export market is the EU and Brexit negotiations are fostering concerns about barriers to international trade. 61% of advertising's exports are to Europe, and while new high growth markets can be found, they will take too long to develop and will need to make up for a lot of tariff free trade. This makes it a financial imperative to somehow make Brexit work—but we don't have any control over it.

Next, Blackett put forward the mantra "Better in than out," as it allows you to have a voice in shaping the future. She made the point that we will soon lose our seat at the table and will be unable to influence the regulations that we will still be governed by, and we'll need to look to the industry's European associations to safeguard our interests.

Finally, Blackett reinforced that the success of British advertising is built on its talent—including talent from the EU. Brexit brings uncertainty around immigration: we no longer look like a welcoming country. Talented people will go elsewhere and our industry might regress to outdated and out of touch ways.

In conclusion, Blackett stated that to make Brexit a success we must recognise that it is the biggest challenge UK advertising has ever faced. None of the many other big challenges facing the industry are bigger than Brexit because they are within our control and being acted on. By contrast, Brexit is not within our control and brings with it huge threats to the free flow of talent that underpins our industry; new, complex and expensive regulations that will reduce effectiveness; a threat to consumer confidence, and therefore to marketing budgets, and therefore to the very survival of some brands and agencies; a threat to the diversity of people, thoughts and attitudes, without which our industry will become increasingly irrelevant. And all this is being done to us. We don't have a say in it. It is outside our control.

Seconding the opposition, **John Billett, Chairman, ID Comms**, stated that the challenges from Brexit are of limited significance in comparison with many other major threats, of which he would highlight three.

The first is the breakdown in advertising effectiveness. Billett said that the massive fragmentation of audiences across the exploding number and variety of conduits is compounded by imprecise and unacceptably poor measurements. He quoted Mark Ritson: "Digital metrics are a mess of confusion and obfuscation but it's clear most marketers have bought into this opaque and over-complicated world." Citing Facebook's claim to reach 800,000 more UK 15-24 year olds than actually live in the UK, Billett argued that overcharging advertisers for non-existent audiences is rampant, unravelling the mess is costly, and marketers are investing massively in digital with no adequate insight into what is going on. This is much more of a challenge than Brexit, he declared.

Secondly, Billett proposed that the breakdown of brands, alongside the retail revolution is a massive threat to advertising. The presence of many competitive offerings is a key driver of advertising budgets and the availability of brands across a wide range of retail opportunities stimulates ad spend. However, there are now fewer advertised brands, and fewer retailers. What's more, advertiser funded media brands are coming under attack from media for whom advertising revenue isn't important, for

example more viewers are choosing to watch original productions funded by subscriptions. Meanwhile, circulations and readership of print media continue their rapid decline, as does viewing for programmes in real-time, and ad skipping and ad blocking still flourishes. So, advertising funded media is threatened on three sides: a tsunami of fewer advertised brands and falling revenue, increased editorial costs, and audiences watching more subscription funded media with no advertising. This is a massive threat to ad agencies—much bigger than Brexit.

Finally, Billett spoke about transparency and the breakdown of consumer trust in the validity of the messages received covering news, editorial and advertising, coupled with a breakdown in the trust advertisers have with their media agencies. He cited the US ANA investigation into trading that confirmed the scale of disguised value and even fraud, pointing out that auditing no longer works because the real prices don't go through the Media agencies—there is limited transparency. Media agencies are the new media owners, earning more revenue from media vendors by way of additional commissions and rebates than they do from fees paid to them by advertisers. Billett cited a test by the Guardian that found it paid 75% commission to middle men when buying its own media, and pointed to the owners of the Daily Mail setting aside £20M for rebates “against level of agency spend.” Media agencies seem to have been asleep at the wheel and trust has been lost—this is a much bigger challenge than Brexit.

In conclusion, Billett said we have to work to overcome the breakdown of effectiveness, the breakdown of advertiser and media brands, and above all the breakdown of trust. He suggested that if the advertising industry does not prosper because we support the proposers in their Michael Fish moment and fail to take actions to overcome the breakdowns, it will be because it was we who hid from the challenges; we who pretended reality was an illusion and we who disguised the facts. Brexit is not the biggest challenge UK advertising has ever faced.

Discussion from the floor

For the motion

- From a historical perspective, Brexit probably is the greatest threat we have ever faced.
- Our response to Brexit is a bigger threat to our industry than Brexit itself, because it is causing greater uncertainty and damage than the decision itself.
- If we were not so preoccupied with mitigating the impact of Brexit, we would be busily growing our industry into an even greater position of strength.
- There is a great concern over diversity and how Brexit will impact on our ability to get the right people for the jobs, and therefore do the jobs right for our clients.

Against the motion

- We have survived much greater threats including the ban on cigarette advertising and we should look for the positives.
- What are the positives of Brexit? What advantages and opportunities could it bring?
- Not being able to control Brexit does not make it the biggest issue, the other issues we face really are colossal.
- Advertising is a creative, agile and intelligent industry, so if anyone can deal with the challenges of Brexit it is us.
- The level of trust in media is at an all-time low and because the UK punches above its weight in advertising, this is having a disproportionately significant impact on our industry.

Summing up

Summing up for the opposition, **Rory Sutherland** accepted that in the short-medium term Brexit will bring costs but argued that it is wrong to assume that remaining in the EU would be either risk free or costless. Complexity physicists who study structures, systems and institutions, argue that the system with the most potential for complete systemic catastrophe is the one that has no capacity for self-correction. Sutherland also noted that while the EU offers phenomenal free trade within itself, it is unbelievably restrictive outside, and that the free trade in services for advertising was largely a one-sided deal. Sutherland considered that in some ways the medium to long-term opportunities outside the EU are more exciting, citing a Harvard study that concluded that free trade between remarkably similar countries is much less valuable than free-trade between very different countries culturally and economically.

Sutherland accepted that there is a risk with Brexit, but said he was much more worried by the collapse of trust than by the short to medium term inconvenience of an unavoidable occurrence. Besides, small scale disruption is good for complex systems and the system as a whole thrives on variety, so Brexit may prove to be spectacularly good news for many. We can't predict what will happen but this is not the worst thing that has ever happened—we should worry about things we can change, not things we can't.

Summing up for the motion, **James Murphy** rebutted Sutherland's argument that we should only worry about what we can change, as this makes us focus too much in only one direction. Reiterating that the threats around trust and transparency are within our control, Murphy saw them as the micro dynamics of what we do, noting that as a phenomenally dynamic and creative industry we will evolve our way through them as we have done many times before. Instead, he argued, we need to look at the macro dynamics, stressing that we shouldn't simply ignore something just because we can't change it. Brexit is the biggest thing to happen to our economy and society in a generation, and if we simply accept it as 'something that just happens' we will be creating major problems for at least a generation. We need to recognise the threat and demand change by making sure that our industry's agenda is listened to.

Picking up on a comment from the floor, Murphy agreed that challenges can create opportunities—but only if we recognise the challenge. As an industry that sits as an engine in the middle of this economical and societal change, we need to drive that agenda for change. Murphy agreed that UK advertising is the envy of the world—and therefore our competitors will be licking their lips because they hope we will be distracted and looking elsewhere rather than working out how to deal with Brexit. We need to be very aware of the opportunity cost and the opportunities we will be turning our back on if we are blasé about Brexit.

Murphy turned to concerns about uncertainty, stating that with Brexit we really are in the realm of unknown unknowns. The big challenge with Brexit is that there are no rules or guidebooks for this situation so we have no idea what will happen. That means we must really focus on the opportunities that Brexit presents and not pretend that it is a mere inconvenience that we can fight our way through.

Talking about the demise of effectiveness, he thought there is too much focus on traditional media, and noted how UK advertising has dominated effectiveness at Cannes and the IPA effectiveness awards: the UK is on top of this. Turning to the death of brands, Murphy suggested that while there may be fewer bricks and mortar retailers, there are many more digital retailers making it a vibrant part of the economy. On the question of trust, Murphy believed that we have actually developed third party regulation to a world class standard with the ASA et al, and we will continue to be a standard bearer for honesty.

In conclusion, Murphy stressed that the motion is not about the internal mechanics of our industry, those we can deal with, but is about the macro mechanics of a global and international economy in which we are thriving. If we don't acknowledge the threat posed by Brexit, we won't thrive going forward.

The result

The motion was defeated by a count of hands.

Next debate

The next debate will take place on **Monday 26th March 2018** sponsored by the Professional Publishers Association. For more details contact Doreen Blythe, Debating Group Secretary, e-mail: doreen.blythe22@btinternet.com