**IAB UK response to Industrial Strategy Green Paper consultation**

**22nd November 2024**

*Note that have responded to the consultation questions that are most relevant to digital advertising.*

**Question 4: What are the most important subsectors and technologies that the UK government should focus on and why?**

Within the UK’s creative industries, digital advertising is a critical and growing subsector that delivers significant benefits for the economy, businesses and consumers. A healthy and thriving digital advertising sector is a critical driver of UK economic growth.

As the industry body for paid-for, commercial digital advertising, IAB UK brings together and advocates for members from all parts of the legitimate, mainstream digital advertising supply chain, including publishers and media owners, ad tech providers and agencies.

IAB UK’s The Digital Dividend report shows that, in addition to supporting two million jobs, the industry drove £73bn increased sales for UK companies that invested in digital advertising in 2022, of which £26bn was attributed to small- and medium-sized enterprises (SMEs). 81% of SMEs say digital advertising is important to their business success, and two-thirds of UK SMEs have used some form of paid digital advertising in the last year.

As the economy grows, investment in advertising increases. The more businesses invest in advertising, the more they are able to benefit from the profitability multiplier effect of advertising spend. IAB UK’s latest Adspend report shows that the UK digital advertising market experienced 16% year-on-year growth in H1 2024 with spend reaching £16.2bn - far outstripping UK GDP which returned to cautious growth of 0.5% year-on-year during the same period. IAB UK’s The Digital Dividend report estimates that the digital advertising industry contributed £129 billion in gross value added (GVA) to the UK economy in 2022, which equates to a £4.80 contribution to the economy for every £1 spent.

It's also important to recognise that digital advertising is at the core of the UK’s digital economy, and is therefore a vital driver of growth for online retail and ecommerce. All sectors with an online presence, including financial services, energy and tourism, rely on digital advertising to identify and connect with consumers. In other words, economic growth and a healthy digital advertising market are inextricably linked.

Crucially, revenue generated by advertising also funds the provision of content and services online. It enables businesses to monetise digital content, and the ad-supported model helps to fund the provision of free-to-access content and services online.

Our research shows that digital advertising delivers real savings to people in the UK of £18bn per year, which equates to over £600 per household. This includes enabling the provision of free ad-supported online content and services and generating savings for households by helping them find cheaper retail products.The UK is the European leader in digital advertising, with the size of the market reaching £29.6bn in 2023 - more than the combined total of the next three largest European markets (Germany, France and Spain), and the sector is continuing to thrive and grow.

Within the UK’s digital advertising ecosystem, our ad tech sector is particularly noteworthy. Ad tech is technology used by advertisers to launch, deliver, monitor and measure the effectiveness of their digital campaigns. The latest [AdTech snapshot report from The Data City](https://thedatacity.com/rtics/adtech-rtic0001/) shows that, on average, UK ad tech businesses experienced growth of 27.3% in 2024, and attracted £2.5bn in investment funding.

The advancements made by the ad tech sector and the wider industry have fundamentally transformed the ability of companies of all sizes to use digital advertising to connect with customers in a highly cost-effective and sustainable way. Digital advertising technology allows businesses to target priority audiences at scale based on specific information (e.g. demographic/geographic location), ensuring that their ads are seen by consumers who are most likely to be interested in their products or services. This targeted delivery allows brands to reach audiences that would be difficult to engage through traditional media, and ensures that spend is not wasted on delivering ads to non-relevant audiences.

It is essential that the Industrial Strategy recognizes the need for close and effective working between policymakers and the digital advertising industry to ensure that conditions for long-term market growth are sustained.

**Question 6: What are the key enablers and barriers to growth in these subsectors and how could the UK government address them?**

Digital advertising is a highly innovative and rapidly expanding industry which benefits from a range of factors that drive business – and therefore economic - growth, including:

* **Market accessibility:** The digital advertising market offers a range of entry points for businesses of all sizes and budgets, from the smallest SMEs to global brands. It gives businesses a cost-effective way of reaching key audiences, which in turn promotes competition and enables smaller companies to challenge established players. Our research shows that SME’s in particular benefit from low barriers to entry, with 74% of SME’s that invest in digital advertising saying that they get a good return on their investment.
* **Proven effectiveness:** With digital advertising, businesses can track the success of their ads in real-time. Metrics like clicks, impressions, conversions, and bounce rate provide valuable insights into how well a campaign is performing and where adjustments need to be made. Digital advertising also offers performance-based formats that the business only pays for if the ad delivers an agreed outcome, such as a visit to their website. This is particularly beneficial for SME’s that have smaller budgets.
* **Technological innovations:** Continued innovations in data analytics, AI (including machine learning) and programmatic advertising make it possible for digital marketers to engage with consumers across a diverse array of online platforms and services.
* **Evolving consumer behaviour**: 94% of UK households have home internet access, and according to Ofcom’s Media Nations 2023 report, the average adult in the UK spends about 6 hours and 55 minutes per day online[[1]](#footnote-1). As consumers increasingly prioritise e-commerce and digital interactions, digital advertising has become the most efficient way for businesses to meet changing preferences at speed across local, national and international markets.

However, the industry faces a number of challenges that need to be addressed to avoid constraining growth. It should be noted that the factors that impact growth and investment vary by company type and size.

There are seven key areas which the government should focus on addressing to ensure the continued growth of the digital advertising sector and the businesses that depend on it to start, grow and succeed, whether as advertisers or providers of digital media content and services :

1. **Establishing regulatory certainty**

A stable policy and regulatory environment is needed to maintain continued investment and growth in the UK. We welcome commitments made by this government to ensure a pro-business environment, with a competition and regulatory framework that supports innovation, investment, and high-quality jobs.

The wider international regulatory context for digital businesses makes delivering stability in the UK incredibly important. There has been a significant increase in digital regulation in the UK and in international jurisdictions over the last 5 years, for example through the EU’s Digital Services Act, and the cost and challenge of compliance causes a significant knock-on impact on the capacity of businesses to invest in the UK market. To make the UK an attractive and secure investment proposition, it is therefore imperative that our regulatory environment is stable.

The government should seize this opportunity to re-establish regulatory stability by recognising the need to take an evidence-led and pro-innovation approach to digital policy development. To achieve this, we would strongly encourage the government to commit as a priority to a principles-based approach to digital policymaking and ensure that activity delivered through this Industrial Strategy is consistent with these principles. We have expanded on this in our answer to question 20.

1. **Prioritising coordination in cross-cutting policy development**

In recent years there have been many cross-cutting policy workstreams managed by departments across government, and by regulators, that directly or indirectly impact digital advertising and the businesses that rely on digital advertising as a key revenue stream. However, our experience has been that lack of coordination between departments – and between regulators and regulatory policymakers – has resulted in two issues which this government can address.

First, it is essential that digital advertising is properly considered in policy development from the outset. Policymaking needs to be coordinated and developed in a transparent manner that gives external stakeholders visibility of the process. Appropriate time and detail need to be dedicated to proper industry engagement that is planned into the policy development process from the start; presents a genuine opportunity for industry stakeholders to influence or participate in the design of solutions; and takes place in advance so that it informs key decisions. If policy is not developed with appropriate regard to these factors, there is a risk that regulatory interventions create unrecognised or unintended consequences for the digital advertising sector.

One example of where this approach has caused issues in the past (which necessarily relate to policy workstreams under the previous government) is with

The Data Protection & Digital Information Bill. This would have made significant changes to how cookie consent would be managed online. Yet these proposals were not consulted on in advance. Only once the Bill was published did the government speak to the digital advertising industry, at our request, about the proposals. It was immediately apparent that the legal and practical complexities and the impacts and potential risks of this policy – for the industry, the ad-supported internet, consumers and the digital economy more widely – had not been identified or considered before the Bill was published.

Coordination issues can arise due to the categorisation of digital advertising within ‘creative industries’, when it is equally, if not more so, a digital industry. Historically it has been left to the industry to join the dots between government and regulatory workstreams, which often means consideration of the impact of policies on the digital advertising industry has come too late. The Industrial Strategy can address this by prioritising coordination within government and working with industry in a joined-up way, so that impacts of policy decisions on the digital advertising industry are explored and understood at the outset.

Second, the Government needs to ensure that policymaking is coherent and avoid developing conflicting policies. This means ensuring that, across government, individual policy workstreams and approaches are aligned with wider government policy or regulatory goals, such as reducing regulatory burdens or driving economic growth and competition. For example, there have been different teams/departments within DCMS or other government departments responsible for digital regulation, competition, data, better regulation and advertising, with no clarity for industries affected by all these areas, such as digital advertising, about how these teams/departments are sharing information and coordinating stakeholder engagement or how policy goals are being shared, understood or aligned between them.

In the past, where this has not happened, the digital advertising industry has been adversely affected. Examples include the Digital Services Tax, the apprenticeship levy and the high fat salt and sugar (HFSS) online ad ban, all of which create potential growth barriers for businesses across the digital advertising supply chain.

There has also been a tendency for government to introduce additional regulation on businesses that rely on digital advertising as a key source of revenue. These interventions make the cumulative regulatory burden difficult to manage and could negate any potential benefits that might be brought to bear through a more streamlined approach to digital policy making. A commitment from the Government, through the Industrial Strategy, to a principles-based approach to digital policy and explicit consideration of the total effect of regulation on industries that cross different growth priority sectors would help to ensure that all departments adhere to the same objectives when considering interventions with cross-cutting impact.

1. **Ensuring effective interaction between regulators and industry**

The activities undertaken by the range of constituents within the digital advertising ecosystem – from advertisers to technology providers to media owners – fall under the remit of a number of regulators, including the ICO, the CMA and the ASA.

It is critical that the strategic approach and activity of regulators is aligned to the Government’s policy goals, both at a macro level and an industry-specific level. The Industrial Strategy should establish a clear expectation that regulators take a pro-innovation approach that supports the Government’s commitment to a stable, certain regulatory environment and that takes into account the need to promote economic growth and competition. We note that the Data (Use and Access Bill) contains provisions that would require the ICO to have regard to the desirability of promoting innovation and competition and to consult with relevant regulators and others about how its work may affect economic growth, innovation and competition. These are welcome measures and it is important that regulators are held to account for how they deliver against these responsibilities.

The Industrial Strategy should include setting clear expectations for regulators, including where new guidance is being developed. Regulators should first focus on providing guidance to support businesses to comply before undertaking enforcement work.

1. **Recognising the value of digital advertising**

In view of the critical link between digital advertising and the UK economy, it is important that both the macro and micro value of digital advertising is recognised by the government, especially when designing initiatives to support businesses.

We know that UK businesses that invested in digital advertising saw £73bn in increased sales in 2022, and that 72% of SMEs are spending below £5k a year on digital advertising. There is therefore a real opportunity through the Industrial Strategy for the Government to support the work of orgnanisations like IAB UK to provide SMEs with the support, information and education that they need to maximise the opportunities of digital advertising to grow and succeed, which will help to contribute to healthy local and regional economies.

In terms of specific actions that the Government could take to support SME’s, IAB UK would recommend that the Government:

1. **Embeds guidance and funding for digital advertising initiatives into national and local government programmes** to help SME owners in the everyday economy to develop knowledge and skills needed to maximise the returns of digital advertising
2. **Supports proactive industry initiatives from IAB UK and other organisations that help SMEs use digital advertising effectively** – for example by raising awareness of [IAB UK’s SME Toolkit](https://www.iabuk.com/poweringup/tool) and other local, regional or national resources.
3. **Addressing skills shortages**

A key barrier to digital growth is the lack of skilled workers in areas like AI, data science, software development, cybersecurity, and digital marketing. As industries digitalise, the demand for such skills often outstrips supply, which hampers innovation and the ability to scale digital solutions.

There is also a need to constantly upskill the existing workforce to keep pace with evolving technologies, which presents a challenge for businesses in both the public and private sectors.

In order to unlock further growth across the economy, its essential that more businesses have the skills, capacity and resources to access and benefit from digital advertising. We encourage the government to prioritise initiatives at the regional and national level that focus on digital skills development and incentivise businesses to invest in digital advertising.

1. **Cyber-security risks**

As businesses and individuals become more dependent on digital technologies, the risk of cyberattacks grows. SMEs in particular may struggle with ensuring robust cybersecurity defences due to limited resources.

Ensuring that digital growth is secure and resilient to cyber threats is essential for maintaining trust in the digital economy, so it’s important that the Industrial Strategy recognises the need to enhance support for businesses to strengthen their cyber-security capabilities.

**Conclusion**

There is clear scope for the Government to work with the digital advertising industry to create conditions for the industry to continue to grow and deliver benefits for the wider economy. The barriers to growth identified above can be addressed if the Government makes a clear commitment to adhering to a principles-based approach to digital policy, works closely with industry and recognises the critical relationship between digital advertising and the UK’s economic health.

**Question 20: Do you have suggestions on where regulation can be reformed or introduced to encourage growth and innovation, including addressing any barriers you identified in Question 7?**

There is a direct link between the regulatory approaches that the

Government chooses to adopt and companies’ willingness and ability to invest resources in technological development, innovation, and proactive self-regulatory standards and initiatives – in which the UK market has a strong track record – that support responsible digital advertising.

As noted previously, we would strongly encourage this government to commit to a principles-based approach to digital policymaking that actively incentives innovation by regulating digital technologies in a way that is evidence-led and outcomes-focused; that draws on the range of regulatory tools available; and that draws on industry expertise and works with industry to identify the most appropriate regulatory solutions where the evidence demonstrates that further measures are needed.

For this to happen effectively in practice, underlying policy development processes and systems – including consultation approaches – must be designed to align with these principles and their intended policy outcomes (see our response to question 6 for more detail).

The previous Government set out a positive approach in this area through its [Plan for Digital Regulation](https://www.gov.uk/government/publications/digital-regulation-driving-growth-and-unlocking-innovation). This included commitments to:

* a single coherent vision that brings together work across government
* a clear, proportionate environment for high-priority issues
* a proportionate, agile and flexible regulatory approach that supports innovation and does not undermine the benefits of digital technologies
* considering the existing regulatory network and how new regulation connects into that ‘ecosystem’
* an approach that avoids inconsistent and potentially conflicting policy goals

If followed and implemented across Government, we believe this approach is the right one and will help address the barriers identified in response to question 6. We recommend that the new Government commits to a similar approach.

In addition, and in support of this, we recommend that the Government reviews its approach to consultations to baseline good practice across Departments and regulators, to bring consistency and provide stakeholders a clear set of expectations, and that it reviews and recommits to principles of better regulation.

**Digital Advertising Policy**

Looking at digital advertising specifically, IAB UK’s vision for effective regulation is that the right standards and tools are in place – with buy-in across the digital advertising supply chain – so that businesses can identify responsible partners and uphold best practices.Our world-leading industry-led regulatory framework already delivers robust protection for businesses and consumers.

We welcome the Government’s recommitment to the Online Advertising Taskforce. This is an opportunity for the digital advertising industry to continue to work with industry partners, DCMS, government and existing regulators through the Online Advertising Taskforce to bolster and improve the adoption of existing industry-led regulation, and to improve the evidence base around harmful ads. This will help inform the identification of targeted, evidence-led solutions and highlight where more needs to be done to tackle bad actors who seek to exploit responsible advertising services and consumers for their own gain.

**Privacy legislation**

Cookies and related technologies are critical to digital advertising and serve a range of important functions. Current cookie rules are outdated and no longer reflect the nuanced differences in which individual providers use the information that cookies provides. We therefore welcome the cookie consent exemption provisions in the new Data (Use and Access) Bill and support the Government’s approach of identifying a set of non-intrusive cookies to be used on an opt-out basis, rather than an opt-in one. A risk-based approach that distinguishes between different uses of cookies is better for users and for businesses.

We also support the new powers in the Bill for the Government to create additional consent exemptions in future via secondary legislation.

Under the current system, advertising companies are not able to accurately account or bill for the ads they are delivering unless each individual agrees to cookies being used for this purpose. Advertising that cannot be measured is significantly devalued or has no value at all, and is highly unlikely to be bought by advertisers. This is a particularly acute issue for publishers and media owners now, as they face a range of challenges to the ad-supported business models that are necessary for sustaining successful, profitable businesses and that enable consumers to access free online content and services.

The industry has been urging the Government to address this issue for three years, and the problem has become even more acute since then - particularly with the rise of new technologies that are compounding revenue challenges. It is important that the Government puts in place processes now to prepare for the future use of its regulation-making powers (if these powers become law) to provide for further consent exemptions, engages with industry as part of these preparations, and provides a clear statement of intent to the industry. Businesses cannot make investment decisions based on the possibility of legislation being amended at an undefined point in the future. They need regulatory certainty. As long as the current situation continues, media owner and publisher revenues are under unnecessary threat and it is increasingly challenging for them to deliver content to consumers in the short-to-medium term.

**Question 32: How can the UK government improve the interface between the Industrial Strategy Council and government, business, local leaders and trade unions?**

As the trade body for digital advertising, IAB UK represents all of the key businesses in the digital advertising industry, and we and our members have extensive technical knowledge and supply chain expertise. We have an important role to play as an intermediary between the government, bodies like the Industrial Strategy Council and industry. To ensure that engagement is effective, it needs to be clearly structured, internally coordinated by government & regulators, timely and have specific objectives and open channels of communication.

Effective engagement needs to be built on an informed consideration of the unique nature of the sector. The digital advertising industry is not homogenous: there are many hundreds of companies operating in the market, with a variety of different business models and therefore what is needed to support innovation, competition and growth will vary. IAB UK has the institutional knowledge and industry links to support the government in fully understanding how policy proposals will impact on the supply chain, so we would encourage the Government to work closely with us moving forward to ensure cohesive and workable policy outcomes.

Finally, in order to deliver its overarching goals in practice, we recommend that the Government commits to an evidence-led, proportionate and principles-based approach to digital policy and improves underlying policymaking and regulatory engagement processes to ensure that where engagement is necessary, it is coordinated, targeted and efficient and does not place unnecessary burdens on industry and distract resources away from commercial priorities that will support innovation and growth.

1. [Media Nations 2023 - Ofcom](https://www.ofcom.org.uk/media-use-and-attitudes/media-habits-adults/media-nations-2023/) [↑](#footnote-ref-1)