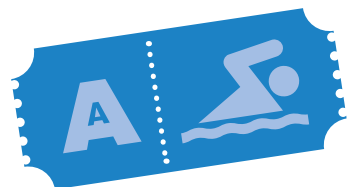
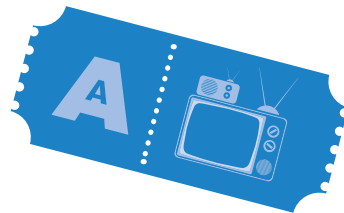


# *Advertising Pays 3:* The value of advertising to the UK's culture, media and sport.



ADVERTISING  
ASSOCIATION

In association with:

**Deloitte.**



# Advertising Pays 3: The value of advertising to the UK's culture, media and sport

Report by Deloitte LLP commissioned by the Advertising Association

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# Foreword

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*Andy Duncan, Chief Executive, Camelot UK  
and President of the Advertising Association*

**People are choosing to watch, read, or listen to more media than ever; they are going to more events, artistic or sporting, than ever; they are absorbed in online resources, from search to social, every single day. Without advertising, they just wouldn't be able to do all this, and certainly not do so much of it for free.**

In other words, there is more advertising in people's lives simply because advertising is paying for the things they most like doing. Take it away, and in one fell swoop you would also take away, or make unaffordable, an enormous slice of all the TV, magazines, newspapers, radio, social networks, movies, search engines and video that people so enjoy, as well as reduce the quality of the sports and arts they love.

The advertising-funded media not only give individuals what they want; they also enhance the country as a whole. All the various news media keep people informed and strengthen our democracy. The many media channels open up precious opportunities for new talent. They give minorities a voice and the opportunity to influence public debate. The resulting rich culture breeds worldwide admiration, and boosts tourism to the UK.

People may often overlook these very real personal and social benefits. But how much do the same people value those services that advertising helps to fund? Can we put a figure on this value? That is what this report explores.

What we learned was that taking away advertising would most likely mean the introduction of subscription fees beyond the means of millions, denying them so much of what they now enjoy. Even more strikingly, many of the services we now take for granted would simply cease to exist in their current form without the revenue that advertising brings.

Such revealing answers can help our industry clearly demonstrate its place in the lives of real people, over and above its vital contribution to the UK economy. I hope you agree.

**Andy Duncan**

# The value of advertising to the

Total £17.5bn on adspend made up of:



£5.5bn Online Services/Internet



£4.6bn Television



£2.74bn Newspapers



£1.0bn Magazines



£537m Radio



£1.9bn Direct Mail



£990m Out-of-home



£185m Cinema

Sponsorship:



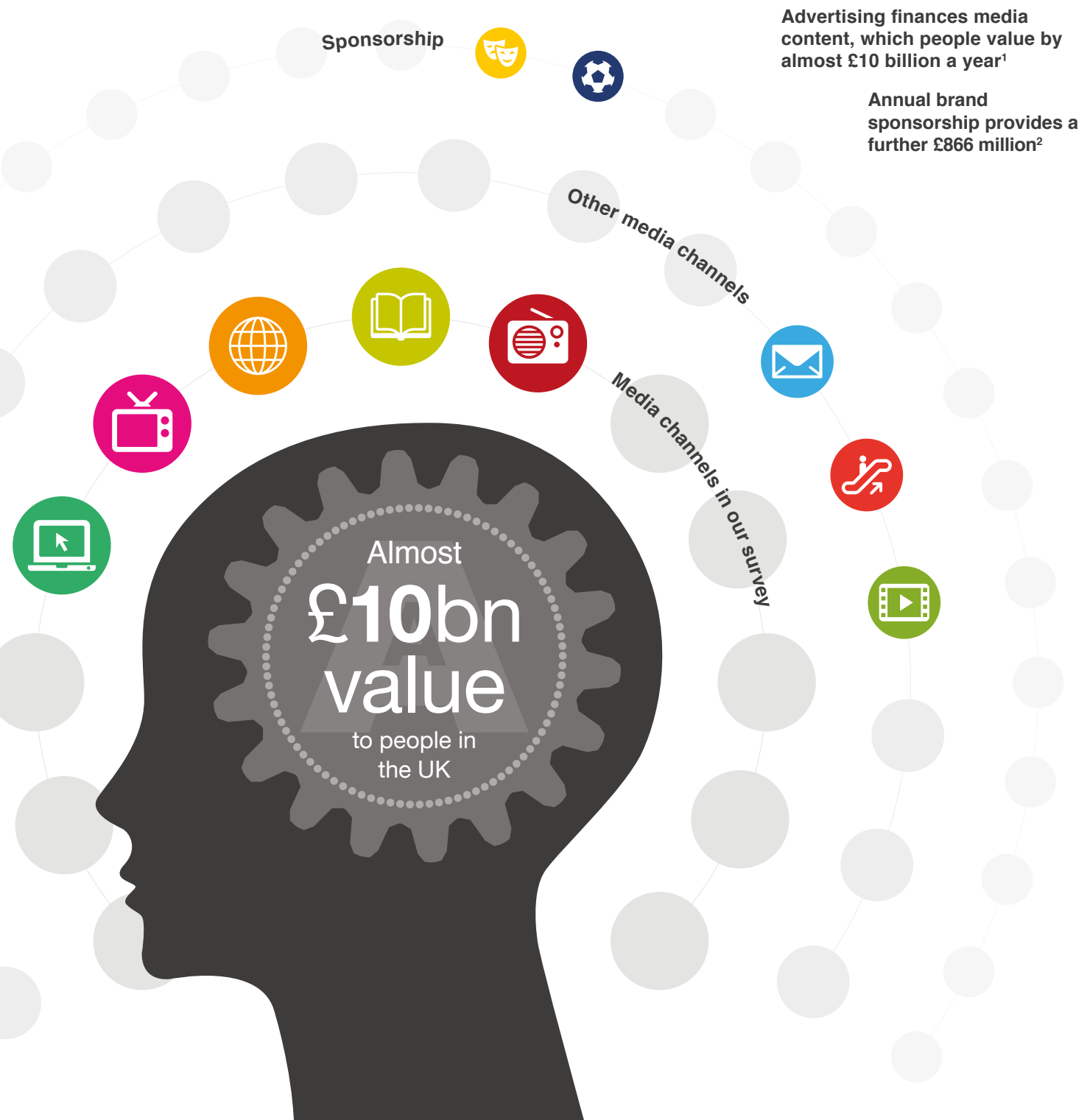
£866m Sponsorship (Arts/Sport)

Source: Deloitte analysis

Subtotal £14.337bn  
Source: AAWarc Expenditure Report

Subtotal £3.075bn  
Source: AAWarc Expenditure Report

# UK's culture, media and sport



<sup>1</sup> Figures are based on Deloitte analysis of Deloitte Survey/Ipsos (August 2014) survey results.

<sup>2</sup> Figures are based on Deloitte analysis of Key Note (2013), *Sports Sponsorship: Market Update 2013*; Arts and Business (2012); Deloitte Survey/Ipsos (August 2014)

# Executive Summary

**Advertising's primary role in society is economic. It helps to fuel growth, competition and innovation, while enabling firms to bring people better, more affordable products and services.**

Its £100 billion contribution to the UK economy, as analysed in Deloitte's first report for the Advertising Association, *Advertising Pays* (2013),<sup>3</sup> comprises the many ways in which UK citizens and companies benefit economically from advertising activity.

**But there is another way in which advertising, in its broadest sense, enhances the quality of people's lives. It funds the media, culture and sport people love and enjoy. Without the funding that advertising provides, much of what people value could face a significant decline in quality; much else would require fees and charges beyond what millions would be able to pay. Some things might even become unviable in their current form.**

The bulk of the £17.5 billion spent on advertising in 2013,<sup>4</sup> and the further £866 million in related brand sponsorship,<sup>5</sup> reaches its audiences through the media people consume, the sports they are passionate about, and the arts they appreciate. This may be an unintended effect of advertising's commercial objective of

engaging an audience, but it is hugely significant nonetheless.

This report examines the impact of advertising on the media, and on the activities that people enjoy in their everyday lives. We estimate the "individual value" that this amounts to. This is the value, translated into monetary terms, of the perceived benefits people get from using services that are free or subsidised by advertising. We focus on television and radio, online services, newspapers and magazines, cinema and the arts, and sport. Each of these is integral to society, and each also relies heavily on funding from advertising and sponsorship.

We asked 1,000 people a series of structured questions to discover how important these services were to them, calculate individual value, and understand what might happen in the absence of advertising.

The survey clearly shows that while people greatly value access to these services, they are not able (or willing, when set against their other financial constraints) to meet the full costs themselves.

<sup>3</sup> Advertising Association/Deloitte (2013), *Advertising Pays: How advertising fuels the UK economy*.

<sup>4</sup> Advertising Association/Warc (2014), *Expenditure Report*. [http://expenditurereport.warc.com/FreeContent/Q2\\_2014.pdf](http://expenditurereport.warc.com/FreeContent/Q2_2014.pdf)

<sup>5</sup> Based on Deloitte analysis of Key Note (2013), *Sports Sponsorship: Market Update 2013* and Arts and Business (2012), *Private Investment in Culture Survey 2010/11*.



£17.5 billion spent on advertising, and £866 million in brand sponsorship, reaches its audiences through the media people consume, the sports they are passionate about, and the arts they appreciate.



Our findings reveal that advertising and sponsorship are vital to the continued quality, range and availability of these services to the general public. They also play an important social function – ensuring valuable services are available to all and promoting plurality in media provision.

For example, free-to-air broadcasting could not exist in its current form without the financial support of advertising. Our research and analysis shows that TV broadcasting in the UK would lose much of its original content, and subscription costs would be prohibitively expensive for many. The impact on commercial radio would be even more far-reaching: it is doubtful whether the industry could continue at anything approaching its current scale. Our study reached a similar conclusion for the other sectors we looked at. Advertising reduces the cost of access to services, allowing for much wider participation and choice as a result. News services, for instance, would be radically reduced without it.

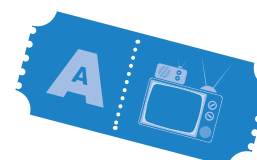
Our estimate of total individual value suggests that people greatly appreciate these benefits in their everyday lives. In monetary terms, we estimate the total individual value attributed to advertising and sponsorship across television and radio, online services, and newspapers and magazines, at almost £10 billion.<sup>6</sup> In comparison, the current Department for Culture, Media and Sport (DCMS) budget is just £1.4 billion.<sup>7</sup>

Furthermore, the figure of almost £10 billion does not include the broader benefits that these media provide. For example, with the development of advertising-funded platforms, such as YouTube, Vevo and Facebook, it has never been easier or cheaper for ordinary people to create videos and make them available to millions around the world. This has given us all the opportunity to express our creativity in a way that, until recently, was simply not possible.

Sport, cinema and the arts in the UK have also benefited greatly from the funds provided by sponsorships. Such funds have promoted

participation in these fields, boosting many people's quality of life. The wider culture and wellbeing of the UK are richer as a result.

Advertising and sponsorship are funding an increasingly diverse range of media, social activities and arts that people enjoy in their everyday lives. While some services might be able to replace advertising/sponsorship finance through subscription charges, the levies would be prohibitive for many and would lead to widespread reductions in choice and quality. Some services might cease to exist in their current form.



<sup>6</sup> This individual value is separate from the £100 billion figure from *Advertising Pays 1*, which refers to the economic contribution of advertising.

<sup>7</sup> HM Treasury (2013), *Spending Round 2013*.

## Scope of this Report

**This is the third report in a series of Deloitte studies looking at the contribution that advertising makes to the UK. The economic story of advertising has been increasingly well documented in recent years.**

- In the first *Advertising Pays* report,<sup>8</sup> we investigated the broad economic impact of advertising, estimating that its overall contribution to the economy is worth more than £100 billion in GDP. This impact is produced in a number of ways – through the economic activity that advertising generates, the price competition it strengthens, and the innovation it helps to encourage.
- In the second report,<sup>9</sup> we focused on the benefits to smaller businesses, investigating how advertising can help unlock their growth potential, stimulate innovation, and boost exports.
- Research into the role of outdoor advertising has found that it has enhanced public transport services through providing and maintaining

an estimated 10,000 jobs<sup>10</sup> and over 50,000 bus shelters in the UK.<sup>11</sup>

- Commercial direct mail has assisted with the efficiency of the mail network, helping to reduce stamp prices and improve delivery times for personal letters and parcels.<sup>12</sup> The UK is still one of the cheapest countries in the world in which to send these items.<sup>13</sup>

In this report, we focus on services that people choose to enjoy in their everyday lives. We examine the role of advertising in providing these services, and seek to quantify the value of its contribution to people's lives.

<sup>8</sup> Advertising Association/Deloitte (2013), *Advertising Pays: How Advertising Fuels the UK Economy*.

<sup>9</sup> Advertising Association/Deloitte (2014), *Advertising Pays 2: How Advertising Can Unlock UK Growth Potential*.

<sup>10</sup> Outdoor Media Centre, *Creativity with Responsibility: Introducing Outdoor Advertising*, <http://www.outdoormediacentre.org.uk/resources/OMC%20Brochure%20Final.pdf>

<sup>11</sup> Outdoor Media Centre (2012), 'Legal, Professional, Creative, Responsible.'

<sup>12</sup> In 2013/14 marketing mail generated £1.1 billion for Royal Mail, representing 12% of its total revenue. Royal Mail plc (2014), *Annual Report and Financial Statements 2013-14*.

<sup>13</sup> Ofcom, *UK communications deals cheaper than in other major countries*, <http://stakeholders.ofcom.org.uk/market-data-research/market-data/communications-market-reports/cmr13/international/>



The report illustrates these effects across the following three sectors:



### TV and radio



### Online services



### Newspapers and magazines

The report also considers the role sponsorship plays in:



### Arts, culture, music, cinema and sports.

For these latter areas, we examine the importance of sponsorship as a source of funding and its wider social and cultural impact. We look at several specific examples, such as outdoor cinema, art exhibitions, and grassroots initiatives.

The report uses the same definition of advertising as the previous two *Advertising Pays* reports, namely “any paid-for communication intended to inform and/or influence one or more people”.<sup>14</sup> For the purpose of this report, we also define sponsorship as the funding of various activities by commercial organisations for the express purpose of fulfilling their broader communication objectives, relating to the promotion of the organisation’s overall brand and name.<sup>15</sup> Although there is often some overlap in people’s understanding of these terms, the main difference is that advertising is usually more focused on promoting specific product information.

In this report, we focus on services that people choose to enjoy in their everyday lives. We examine the role of advertising in providing these services, and seek to quantify the value of its contribution to people’s lives.

<sup>14</sup> J. J. D. Bullmore in Bullmore, J. J. D. and Waterson, M. J. (eds) (1983), *Advertising Association Handbook*

<sup>15</sup> Adapted from KeyNote (2013), *Sports Sponsorship: Market Update 2013*

# Surveying perceptions of value

**We commissioned a survey of 1,000 individuals, examining their attitudes to determine the value that people place on the services considered in this report.<sup>16</sup> For example, we asked how often people use the services, what they use them for, and the extent to which the presence of advertising and sponsorship influences their enjoyment of them. The results of these questions are used throughout the report to provide context to the main findings, and offer insights into the broader social impact of advertising and sponsorship.**

The results of our survey feed directly into our estimates of how people's lives are enriched. Economists typically calculate the value that consumers gain from the consumption of a good or service by first estimating how much they would be willing to pay for it and then subtracting from that the cost of purchasing it. For example, someone who would pay at most £5 for a magazine that retails for £2 will gain a value of £3 when she buys it. In the economics literature, this is known as consumer surplus. A more detailed explanation of this concept is given in Appendix B. In this report, we use consumer surplus as our key measure of value, but for the sake of clarity we refer to it in terms of the value to the individual (in this report expressed simply as *individual value*).

To estimate the individual value that advertising delivers, our survey examined how much each consumer would be willing to pay for free services (TV, radio, email, internet search engines and social media) and gauged the changes in their demand for newspapers and magazines in response to changes in price. The methodology adopted in our survey is based on best practice drawn from a large body of academic literature. A more detailed discussion of this methodology is contained in

Appendix A, but an illustration of the general approach is presented in Figure 2. The results of this analysis are then used to calculate individual value. A full explanation of how this is done is contained in Appendix B.

The survey asked all 1,000 respondents to imagine they had to pay for access to services such as commercial free-to-air TV, commercial radio and email. For each service, respondents were asked whether they would be willing to pay a given monthly subscription or whether they would forgo access to the service instead. A number of different prices were set for each service and respondents were presented with these prices in a random order.

Based on their answers, it is possible to calculate how much people value these services. For example, if a respondent says she would pay £1 a month for commercial radio but would not pay £2, then we can conclude that her valuation of commercial radio is somewhere between £1 and £2.

The fact that a consumer values the service by more than the price she has to pay for it represents a quantifiable benefit to the consumer. Adding up all the gaps between value and price for each individual across the whole population allows us to determine a total benefit from the service.

<sup>16</sup> Deloitte Survey/Ipsos (August 2014)

Figure 1: Some highlights from the survey

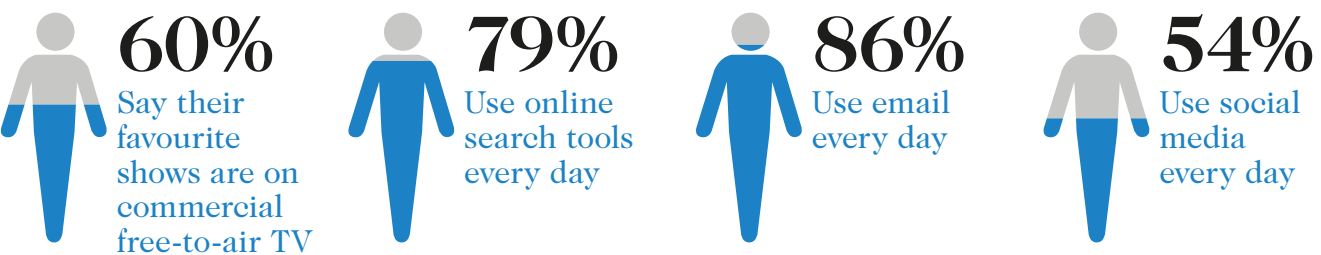


Figure 2: Calculating individual value



Source: Deloitte analysis

# *Advertising and Sponsorship in the UK*

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**In 2013, advertising spend in the UK amounted to £17.5 billion.<sup>17</sup> The largest recipients were the online, broadcasting (TV and radio), and publishing (newspapers and magazines) channels, accounting for 82% of advertising spend in the UK overall. A mutually beneficial relationship between advertisers and individuals operates in these sectors. Individuals benefit from the services that advertising funds, while advertisers benefit from being able to reach an audience. In many cases, such as in broadcasting and online services, the revenues generated by advertising spend allow people to receive valuable services for free.**

In addition to advertising spend, annual sponsorship spend is around £866 million.<sup>18</sup> The large majority of this – around 80% – is sports sponsorship, with a further £80 million spent in support of the arts. Sponsorship also benefits individuals by providing funds to help cover the costs of these activities.

<sup>17</sup> Advertising Association/Warc (2014), *Expenditure Report*

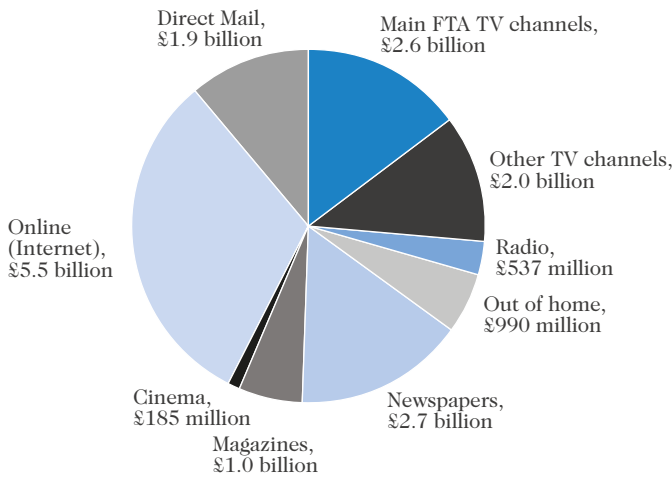
<sup>18</sup> Based on Deloitte analysis of Key Note (2013), *Sports Sponsorship: Market Update 2013* and Arts and Business (2012), *Private Investment in Culture Survey 2010/11*.

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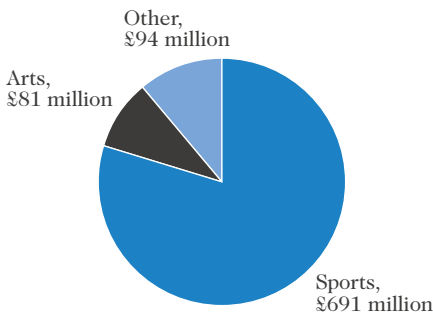


Figure 3: Breakdown of advertising spend and sponsorship

£17.5 billion in advertising spend



£866 million in brand sponsorship



Source: Deloitte analysis on Advertising Association/Warc (2014), Arts & Business (2012), Key Note (2013)

The value of advertising  
to the UK's culture,  
media and sport

# *Free-to-air TV and Radio*

Television and radio are heavily reliant on advertising revenues as a source of income, and continue to be a valuable source of entertainment and information for people in the UK. Our estimates suggest that by enabling free-to-air TV and radio content, advertising benefits individuals by a total of £2.8 billion each year. Without advertising, commercial free-to-air

TV would not be able to continue in its current form. A subscription fee, beyond the means of large sections of society, would need to be introduced. However, even this would not compensate for the absence of advertising, and the resulting loss in revenue would inevitably bring down the quality of TV programming. Commercial radio would be hit even harder.

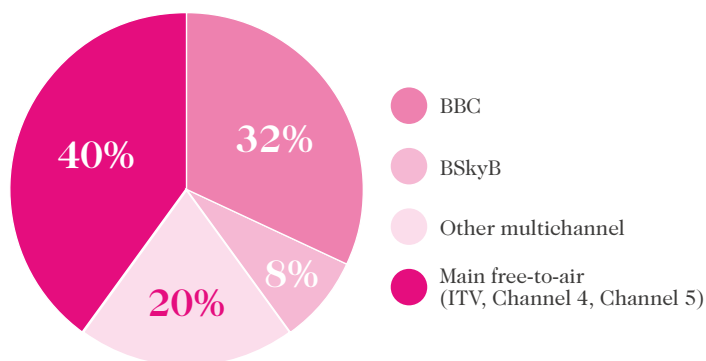




# Television

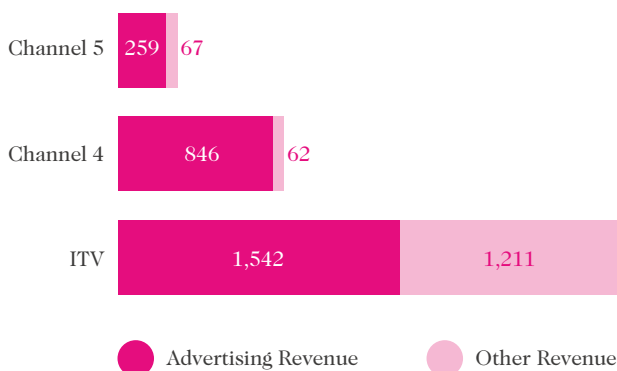
Most television that is watched is free-to-air.<sup>19</sup> However, while the BBC channels are funded by the proceeds of the licence fee (approximately £12 per month per household, totalling £3.7 billion for the BBC's 2013/14 financial year),<sup>20</sup> the commercial free-to-air channels, such as ITV, Channel 4 and Channel 5, receive no such financial support. These channels are almost totally reliant on revenues from advertising and sponsorship to fund their operations. In 2013 the combined value of advertising revenue received by ITV, Channel 4 and Channel 5 was £2.6 billion, accounting for 66% of their total revenues.<sup>21</sup> This is equivalent to just over £100 per household.

Figure 4: Share of viewing audience in 2013<sup>22</sup>



Source: BARB (2014)

Figure 5: Revenues of major free-to-air TV broadcasters in 2013 (in £ millions)



Source: Company reports (2013)

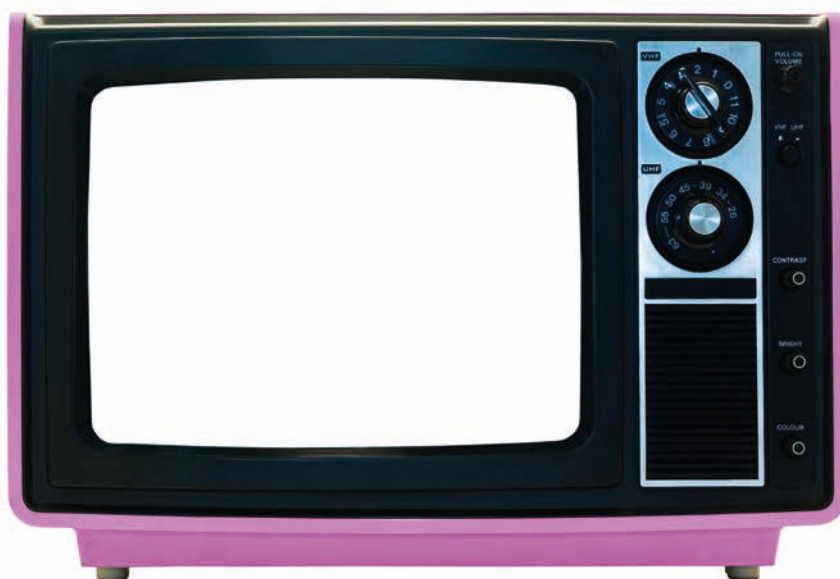
<sup>19</sup> In 2013 the BBC and the commercial free-to-air channels accounted for 79.1% of audiences. BARB (2014), *Trends in Television Viewing 2013*.

<sup>20</sup> BBC (2014), *BBC Full Financial Statements 2013/14*.

<sup>21</sup> Estimates based on ITV (2014) annual report 2013, Channel Four (2014) annual report 2013, Northern and Shell (2013) trading update and Ofcom (2013) Communications Market Report.

While ITV have sought to diversify their revenue sources and are aiming for an even split of advertising revenues and programme sales, this understates their reliance on advertising as their ability to make programme sales depends on the advertising revenues they receive. ITV (2014), *ITV plc Annual Report and Accounts for the year ended 31 December 2013*.

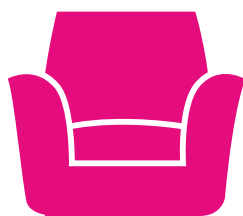
<sup>22</sup> Figure 4 reports annual percentage shares of total viewing by individuals of selected broadcasters and broadcaster groups. BARB (2014), *Trends in Television Viewing 2013*.



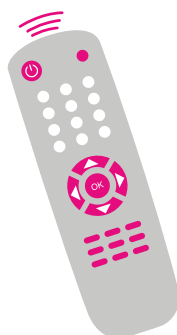
Approximately 97% of UK households own a television,<sup>23</sup> and the average person watches around four hours of TV a day.<sup>24</sup> As well as being an important source of entertainment for individuals, the survey found evidence of an important social contribution – more than half like to watch it with friends and family.<sup>25</sup> TV is also a vital source of information, providing people with direct access to news, sport and analysis.<sup>26</sup> TV is especially central to the lives of those over 65. Compared to the population average, over-65s watch 1.8 more hours of television each day.<sup>27</sup>



The number of hours of TV viewed by the average person every day



Compared to the population average, over-65s watch 1.8 more hours of television each day



**9.5 million**  
The number of people who tuned in to the 2013 UK season premiere of *Downton Abbey*

<sup>23</sup> Thinkbox (2014), *Thinkbox H1 Review 2014*.

<sup>24</sup> Ofcom (2014a), *Communications Market Report 2014*.

<sup>25</sup> Deloitte Survey/Ipsos (August 2014)

<sup>26</sup> According to a recent Ofcom report 54% of people consider TV as their most important source of news, while in our survey 47% of respondents said TV gives them information and entertainment they cannot get elsewhere: Ofcom (2014b), *News Consumption in the UK: 2014 Report*

<sup>27</sup> Ofcom (2014a), *Communications Market Report 2014*

## Television continued...

Commercial free-to-air TV is central to the variety and quality of television in the UK. At the 2014 Television BAFTA awards, 15 out of the 24 competitive awards were given to shows broadcast on commercial free-to-air TV, including awards for Drama, News, Comedy and Current Affairs. In addition, commercial free-to-air channels have been essential for media plurality,<sup>28</sup> especially in news sources. The BBC currently dominates news source penetration in the UK, with 65% of all adults using BBC One as a source of news. However, the very existence of commercial free-to-air channels has helped contribute to a greater plurality, with ITV and Channel 4 achieving 37% and 12% penetration respectively.<sup>29</sup>

Free-to-air channels host some of the most important television events in the country. For example, 9.5 million people watched the 2013

season premiere of *Downton Abbey* on ITV, which amounted to a 39.5% viewing share for the timeslot that it was broadcast in,<sup>30</sup> while 6 out of the 10 most tweeted about TV moments in 2013 were broadcast on free-to-air channels.<sup>31</sup>

Meanwhile, Channel 4 has been behind some of the most innovative and exciting programming on British television since its founding in 1982, as well as producing many successful independent films, such as *12 Years a Slave* and *Slumdog Millionaire*. The channel is also responsible for helping establish the careers of many household names in entertainment, such as Sacha Baron Cohen, Ricky Gervais, Jonathan Ross and Graham Norton.

The presence of advertising breaks is one key way that the experience of watching commercial free-to-air channels differs from watching the

**“There’s no doubt Channel 4 has given talent more breaks than any other broadcaster.”**

**Stephen Lambert, television producer and executive<sup>32</sup>**




<sup>28</sup> There is no formal definition of media plurality, but the DCMS view it as a means towards ensuring that the public are exposed to different opinions and information derived from a range of sources. DCMS (2013a), *Media Ownership and Plurality: Consultation*

<sup>29</sup> DCMS (2013a), *Media Ownership and Plurality: Consultation*.

<sup>30</sup> The Guardian (23 Sept. 2013), 'Downton Abbey lords it over rivals with more than 9.5 million viewers', <http://www.theguardian.com/media/2013/sep/23/downton-abbey-fourth-series-viewers>

<sup>31</sup> Freeview (12 Dec. 2013), '1.5m tweets bag Jessie J top TV moment of 2013', <http://www.freeview.co.uk/articles/about-us/press-releases/1-5-million-tweets-bag-jessie-j-top-tv-moment-of-2013.html>

<sup>32</sup> Oliver and Ohlbaum, (2014) *“Channel 4: Taking risks, Challenging the mainstream”*



Our survey suggests that  
advertisements do not  
have a significant effect  
on the quality of the  
viewing experience.

BBC channels, which are funded by the licence fee. These advertisements allow people to watch without being charged. Essentially, there is a trade-off between viewing programmes for free and watching advertisements, which is central to the commercial free-to-air TV viewing experience. Figure 4 demonstrates that despite the presence of advertising breaks, large numbers of people continue to tune in to commercial free-to-air channels.

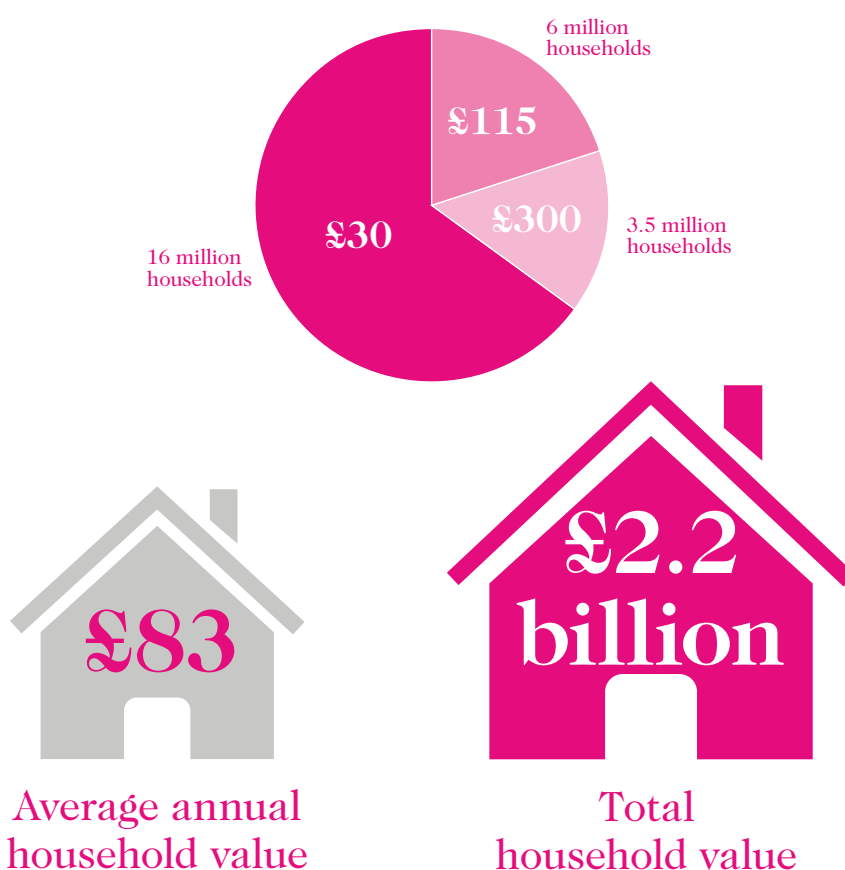
Our survey suggests that while most viewers might prefer to avoid them, advertisements do not have a significant effect on the quality of the viewing experience. Many would prefer to view these programmes with advertisements than pay a significant amount to remove them. For example, when free-to-air TV viewers were asked how much they would be willing to pay to remove advertisements from TV content, only 50% say they would pay £1 a month to do so.



## Quantifying the benefits of TV advertising

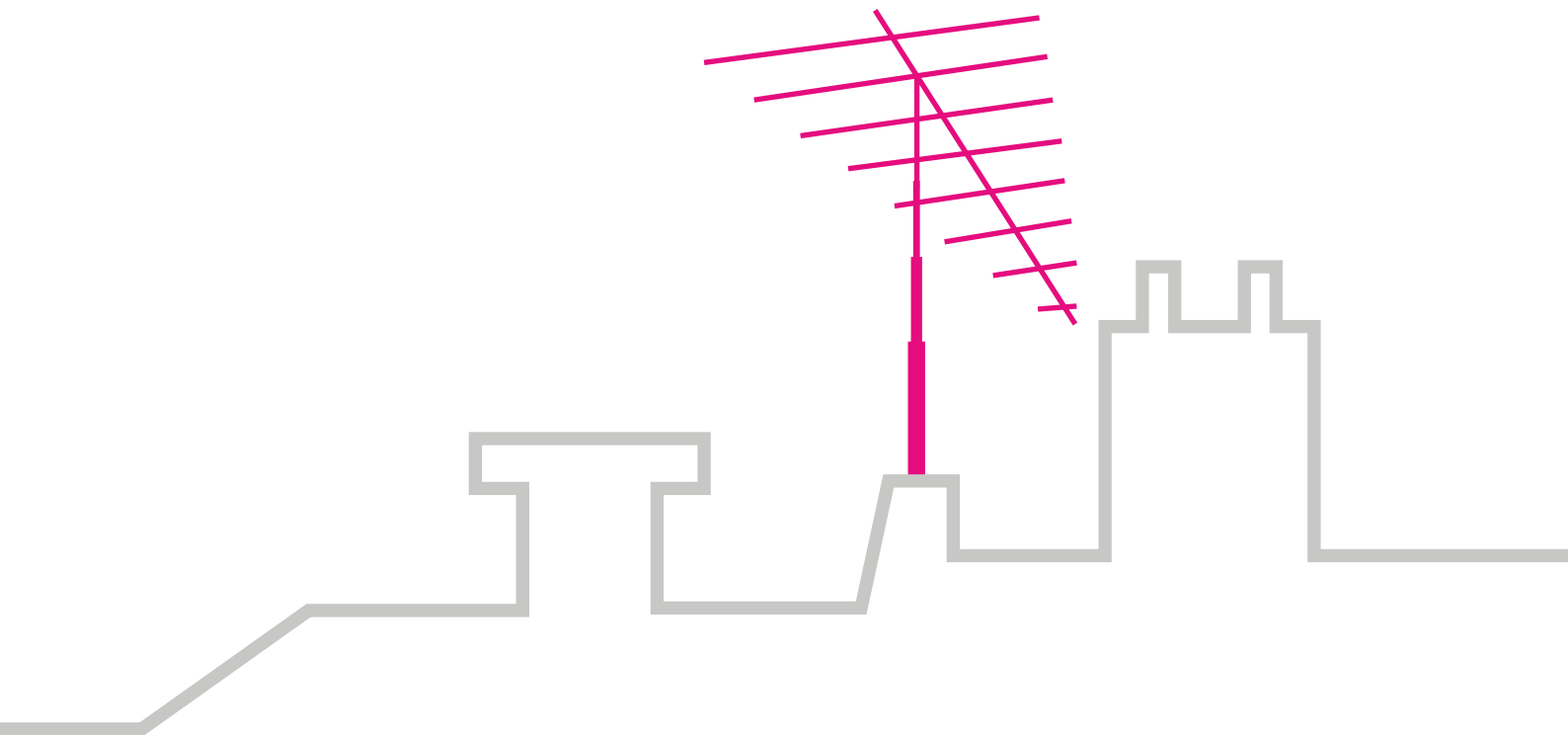
The results of our survey suggest that there is some variety in how much people value free-to-air TV. While most households value free-to-air TV at up to £50 a year, almost 1 in 5 value it at more than £200 a year. By ensuring that the service can be made free-to-air, advertising benefits both the most avid viewers and those who have a more casual interest in free-to-air TV. When added together, we estimate that commercial free-to-air TV generates a total household value of £2.2 billion per year, equivalent to £83 for every household.<sup>33</sup>

Figure 6: The average household value from free-to-air commercial TV



Source: Deloitte Survey/Ipsos (August 2014)

<sup>33</sup> As TV subscriptions are typically paid per household rather than individual, we consider the household value of the service, rather than individual value.



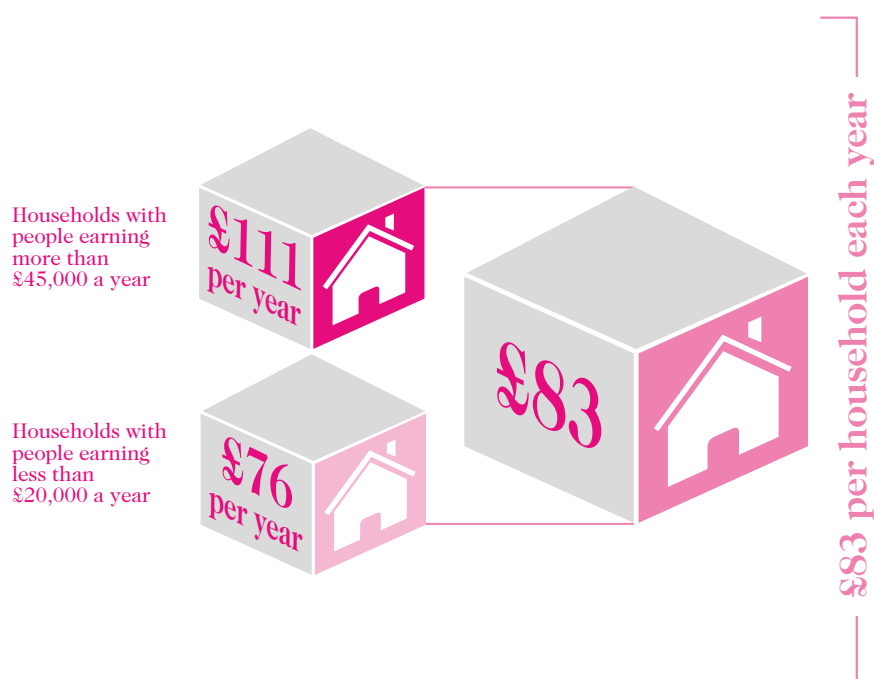
A more detailed analysis of the data suggests that while households with younger adults typically value commercial free-to-air TV the most, the value that people place on the service does not vary greatly with income, as Figure 7 illustrates. This emphasises its importance across the social spectrum.

We based the estimates of household value on how the survey respondents reported their willingness to pay for commercial free-to-air TV. However, respondents' answers to other questions in the survey, for example the amount of time spent watching television, suggests that this may understate their true valuation.

The ability of commercial free-to-air TV to provide this household value depends very largely on funding from advertising revenues. Without these revenues, commercial free-to-air TV would not be able to continue in its current form.

Broadcaster interviews suggest that a subscription model would be the most likely alternative funding model if it were no longer possible to source revenues from advertising. However, the results of our consumer survey indicate that the loss of viewers could be so great that it would not be possible to replace advertising revenues with subscription revenues.<sup>34</sup> This loss of revenue could also undermine the ability of broadcasters to fund original UK productions, resulting in an increased reliance on purchases of imported shows and of repeats.

**Figure 7: How income affects the household value from free-to-air commercial TV**



Source: Deloitte analysis on Deloitte Survey/Ipsos (August 2014)

<sup>34</sup> The higher the charge for the service, the greater would be the reduction in demand and so the smaller the base of customers from which revenues can be recouped. According to our analysis, the demand for television is such that the advertising revenues could not be recouped through a subscription charge.

## Radio

**Radio is part of most people's daily routine. In any given week, almost 90% of people in the UK listen to some radio, while the average adult listens to around three hours a day.<sup>35</sup> This comes as no surprise, given the sheer variety and amount of content aired and produced by radio stations in the UK. Every week, 37,000 hours of music are broadcast, and on average, over 10 hours of public service content, including weather reports, news and travel events, are aired from a UK commercial radio station.<sup>36</sup>**

Almost all radio can be accessed free in the UK. The market is shared between the BBC and commercial radio stations, with just under half of all listening hours in the UK accounted for by commercial radio. However, unlike BBC radio stations, which are funded by the BBC TV licence, commercial radio is funded entirely by advertising and sponsorship revenues, amounting to £537 million in 2013.<sup>37</sup>

Radio allows people to access news, sport and entertainment in a variety

of settings – at work, at home and on the road – and it remains the most popular method for listening to music for people in the UK, especially for those over 55.

**In any given week, almost 90% of us listen to some radio, while the average adult listens to around three hours a day.**

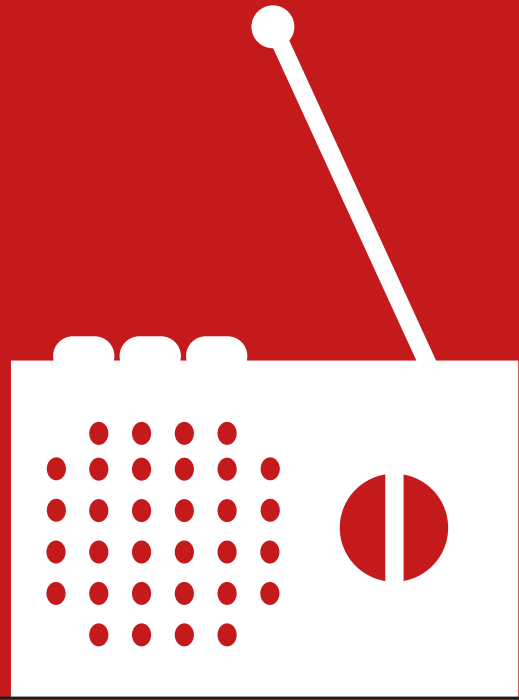


<sup>35</sup> Rajar (2014a), *Rajar Data Release: Quarter 1 2014*

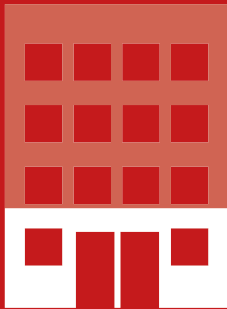
<sup>36</sup> Radio Centre (2014), *Action Stations: The Output and Impact of Commercial Radio*

<sup>37</sup> This revenue includes spot advertising and branded content, which has given the industry a financial boost since it was permitted in 2010: presenters, celebrities and brand ambassadors are now able to endorse and promote brands/products live on air. Advertising Association/Warc (2014), 'About the AA/Warc data', <http://expenditurereport.warc.com/AboutTheData.aspx>





**75%**  
The proportion of  
people who listen to  
the radio at home<sup>39</sup>



**24%**  
The proportion of  
people who listen to  
the radio at work<sup>40</sup>



**79%**  
Commercial radio's  
share of local radio  
listeners<sup>41</sup>

While commercial radio stations are enjoyed by listeners throughout the UK, local commercial radio stations often provide valuable services to communities, reporting on regional news items, traffic information, events and activities that would otherwise be difficult to follow. For some communities, commercial local radio plays a particularly important role in community life. Recent developments in digital radio mean that people are now increasingly able to access their favourite stations for free and with fewer geographical limitations.<sup>42</sup>

<sup>39</sup> Rajar (2014a), *Rajar Data Release: Quarter 1 2014*

<sup>40</sup> Ibid.

<sup>41</sup> Deloitte analysis on Rajar (2014b), *Rajar Data Release: Quarter 1, 2014 – May 15th 2014*

<sup>42</sup> 51% of adults now use a digital radio platform. Rajar (2014a), *Rajar Data Release: Quarter 1 2014*

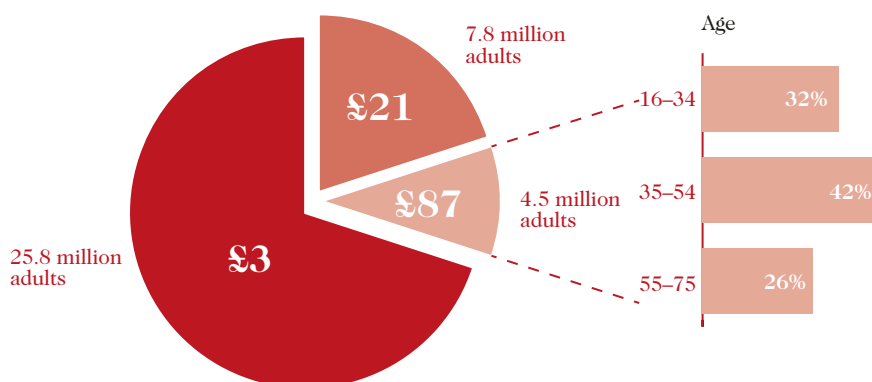
## Quantifying the benefits of advertising to individuals

Around 2 in 3 listeners would not be willing to pay a substantial fee for radio if it were not free to use, a much lower proportion than for TV. However, 1 in 3 value the service highly. In particular we estimate that for around 4.5 million adults, commercial radio delivers an average of £87 in individual value a year. As Figure 8 shows, this group includes both young and old, illustrating the broad appeal of commercial radio.

As with TV, these results highlight the dual role that advertising plays in providing benefits for both an avid minority of radio listeners and a large population of occasional listeners.

Our analysis indicates that people benefit by **£633 million** per year, or £17 per adult listener.

Figure 8: The individual value of commercial radio



Local radio is  
important in a  
community.

**£17**  
Average individual  
value per adult listener

**£633  
million**  
Total individual value

Source: Deloitte analysis on Deloitte Survey/Ipsos (August 2014)



While commercial radio listeners still experience a trade-off between advertisements and content, our survey suggests that it is minimal with most listeners generally ambivalent towards them: 55% of respondents say that they have little or no effect on their listening experience.

People listen to radio in a variety of ways, with the result that introducing a subscription service would be more challenging than for TV. Given the challenges of finding alternative sources of funding, it would be hard to imagine how commercial radio would be able to continue in its current form and deliver its benefits if advertising revenues were not available.

**Our analysis indicates that people benefit by £633 million per year, or £17 per adult listener.**



The value of advertising  
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media and sport

# *Online Services*

Advertising plays a central role in ensuring that popular online services are free to use. Our survey suggests that advertising, by making these services so readily accessible, brings £4.3 billion of value to individuals in the UK. Many search engines, social media sites and email services which we take for granted would simply be unable to function in the same way without advertising.

4

## Online Services

The internet has rapidly become part of the everyday lives of most adults in the UK. In 2013, an estimated 36 million adults accessed the internet every day, more than double the number in 2006.<sup>43</sup> People spend on average 35.4 hours a month browsing on a computer, and 5.2 hours per month on their mobile phone.<sup>44</sup>

Technological advances in advertising and outdoor media have allowed online service campaigns like 'Google Outside' (involving large display screens that provide information on local tourist

attractions and businesses) to extend the internet's reach to people's surroundings, like the London Underground and bus shelters.<sup>45</sup>

Advertising is pivotal to the continued development of the most popular online services, such as search, email and social media. Through the revenues it generates, advertising provides incentives for leading online service providers, such as Google and Facebook, to develop their offerings and ensure that their services remain free to use.

Many of the most popular websites in the UK are almost entirely funded by advertising. The overwhelming proportion of the revenues generated by Google,<sup>46</sup> Facebook,<sup>47</sup> and Twitter<sup>48</sup> comes from advertising. In total, advertising revenue is worth £6.2 billion to online services in the UK each year.<sup>49</sup>

Our survey suggests that advertising, by making these services so readily accessible, brings value amounting to £4.3 billion to individuals in the UK.



<sup>43</sup> Office for National Statistics (2013), *Statistical Bulletin: Internet Access – Households and Individuals*, 2013.

<sup>44</sup> Ofcom (2013), *Communications Market Report 2013*.

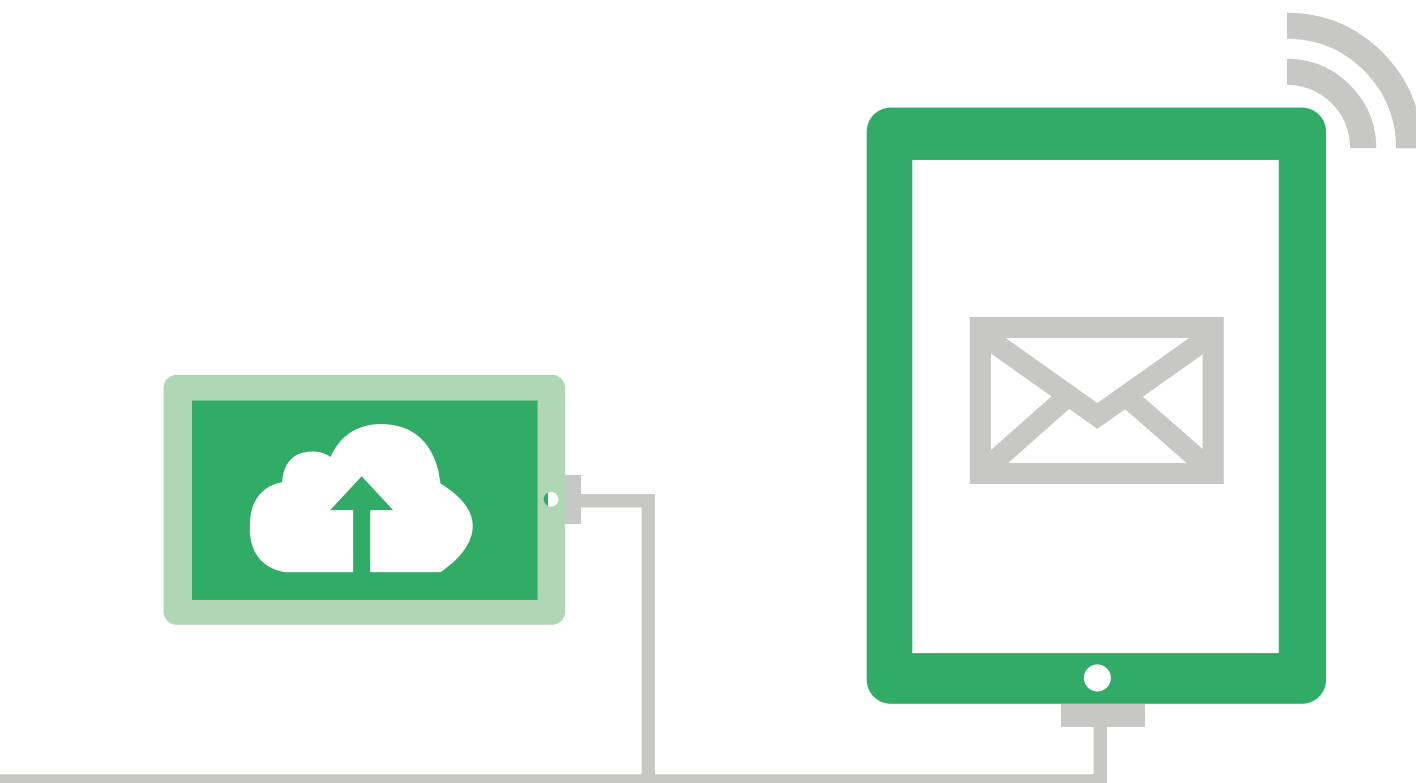
<sup>45</sup> Clear Channel (2014), 'Rewarding Excellence in Outdoor Planning', <http://www.clearchannel.co.uk/press-centre/events/2014/outdoor-planning-awards-2014/2014-winners/best-use-of-digital-in-outdoor>

<sup>46</sup> Google Inc. (2014), Annual Report 2013.

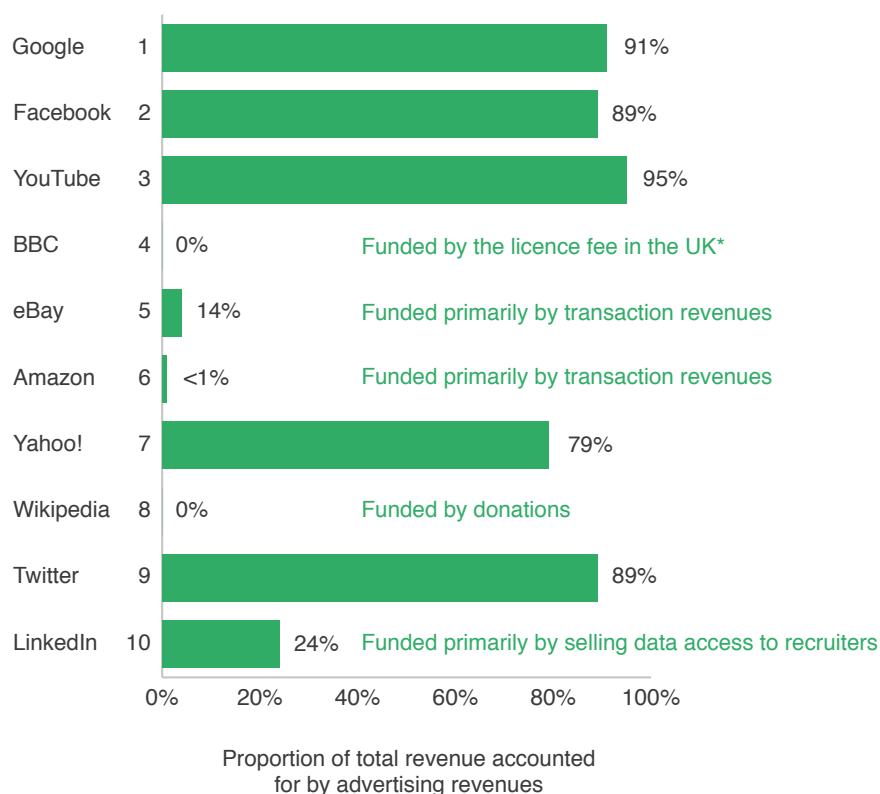
<sup>47</sup> Facebook Inc. (2014), Annual Report 2013.

<sup>48</sup> Twitter Inc. (2014), Annual Report 2013.

<sup>49</sup> This figure includes the advertising revenues for the digital components of the TV, newspaper and magazine sectors. Advertising Association/Warc (2014), *Expenditure Report*



**Figure 9: The role of advertising revenue in funding the 10 most popular websites in the UK<sup>50</sup>**



Our survey finds that 79% of people polled use search engines, and 86% use email every day.<sup>52</sup> The development of such free online services has had a major impact on the lives of most people in the UK, with 79% of people using email for their social life, and 81% using it for leisure activities.<sup>53</sup>

\*The BBC collects revenue from advertisements that feature when its website is viewed outside the UK.<sup>51</sup>

Source: Company accounts (2013), eMarketer (2013), Lexiconnect (Sept. 2014)

<sup>50</sup> Website rank as of September 2014

<sup>51</sup> BBC (2014), 'What's changing on the BBC website?', <http://www.bbc.co.uk/bbc.com/faq/>

<sup>52</sup> Deloitte Survey/Ipsos (August 2014)


<sup>53</sup> Ibid.

## Search, email and other online services

**Internet search is the most common form of web-based activity in the UK, with almost every user visiting a search engine at some point in their internet session. In 2013, Google Search alone was visited by 88% of web users.**

As well as saving people time when they look for things online, search engines help increase consumer awareness and improve price transparency. The main search engines, such as Google, Yahoo! and Bing, do not charge for use. They can offer this free service because they are funded by advertising revenues. It is estimated that internet search generated £3.49 billion in advertising revenues in the UK in 2013, more than half of the online total.<sup>54</sup>

Search providers are also the main providers of free email services. In 2013, there were approximately 41 million email accounts registered with Hotmail, Yahoo! and Google, all of which operate search facilities. In addition, the major online service providers typically offer a range of other services, such as maps, news, chat and games, all generally free to use. We estimate that these services generate an additional £300 million of advertising revenues in the UK.<sup>55</sup>

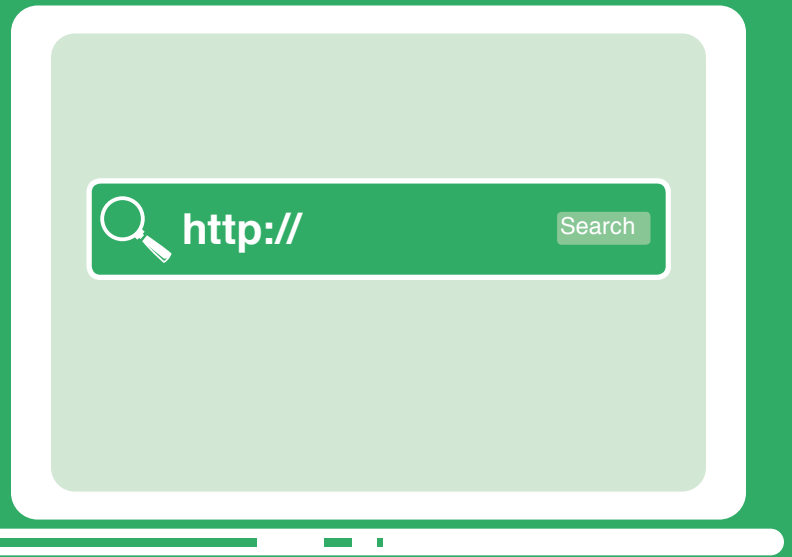


Search engines help  
increase consumer  
awareness and improve  
price transparency.  
The main search  
engines can offer this  
free service because  
they are funded by  
advertising revenues.

<sup>54</sup> Advertising Association/Warc (2015), *Expenditure Report*.

<sup>55</sup> Internet Advertising Bureau (2014a), *Digital Adspend Report*.





email



chat



maps



games



news

We estimate that these services generate an additional £300 million of advertising revenues in the UK.

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4.2 *Social media*

## *Social media*

Social media allow people to create, share and discuss content such as written posts, pictures, videos and audio. Over two-thirds of adults, and 97% of 16–24-year-olds, now access social media and networking services at least once a week, while 78% of 16–24-year-olds say they access them every day.<sup>56</sup>



**24 million**

The number of people in the UK who log into Facebook every day<sup>57</sup>



**15 million**

The number of Twitter users registered in the UK<sup>58</sup>



**640%**

The growth in the number of Tumblr blogs over the last three years<sup>59</sup>

<sup>56</sup> Internet Advertising Bureau (2014a), *Digital Adspend Report*.

<sup>57</sup> *The Guardian* (14 Aug. 2013), 'Facebook: four out of five daily users log on via smartphone or tablet', <http://www.theguardian.com/technology/2013/aug/14/facebook-users-smartphone-tablet>

<sup>58</sup> Tweeted by Twitter (Sept. 2013)

<sup>59</sup> Statista, 'Cumulative total of Tumblr blogs between May 2011 and October 2014 (in millions)', <http://www.statista.com/statistics/256235/total-cumulative-number-of-tumblr-blogs/>



Facebook, Twitter and Google+ are among the most popular social networking sites in the UK. These sites are all free to use and are almost entirely funded by advertising revenues. Many other popular social media services are owned by these organisations. For example, Instagram is owned by Facebook, YouTube is owned by Google, and Vine is owned by Twitter. In 2013, advertising contributed an estimated £589 million worth of funding to social media sites.



Industry research estimated that during a single month in 2012, UK users spent close to 16 billion minutes watching YouTube videos.

## Case study

# YouTube and creative talent

YouTube is at the forefront of the rapid growth in popularity of online videos. According to the website's own statistics, users upload 100 hours of video to the site every minute, while other industry research estimated that during a single month in 2012, UK users spent close to 16 billion minutes watching YouTube videos. This works out as an average of 8.8 hours for each of the 30 million users.<sup>60</sup>

YouTube has been a key contributor to what has been labelled the democratisation of creativity.<sup>61</sup> This is where ordinary people have the opportunity to showcase their creative talent to audiences around the world with minimal cost or technical requirements. As it is free to use, almost anyone can upload a video of their work on YouTube, and tap onto the huge worldwide audience. All that is needed to upload or view content is a working internet connection, with no requirements placed on an artist's expertise or experience as a content creator.

For many, therefore, YouTube offers an unprecedented opportunity to pursue a creative interest and to gain some recognition for their talent. For a few, this exposure may even develop into much more. Some of the world's most famous pop stars – artists such as Justin Bieber, Lana Del Rey and Soulja Boy – were discovered on YouTube.

YouTube's role in the democratisation of creativity also benefits the arts. In both 2008 and 2010, the site launched a competition inviting people to audition for a part in an orchestra made up entirely of YouTube uploaders. In 2008, more than 3,000 individuals entered the competition and were scrutinised by YouTube viewers and a panel of expert musicians.<sup>62</sup> Successful individuals were given the unique opportunity of performing in Carnegie Hall and the Sydney Opera House.

<sup>60</sup> ComScore (7 Mar. 2012), '64 percent of UK online video audience exposed to video ads in January', <http://www.comscore.com/Insights/Press-Releases/2012/3/64-Percent-of-UK-Online-Video-Audience-Exposed-to-Video-Ads-in-January>

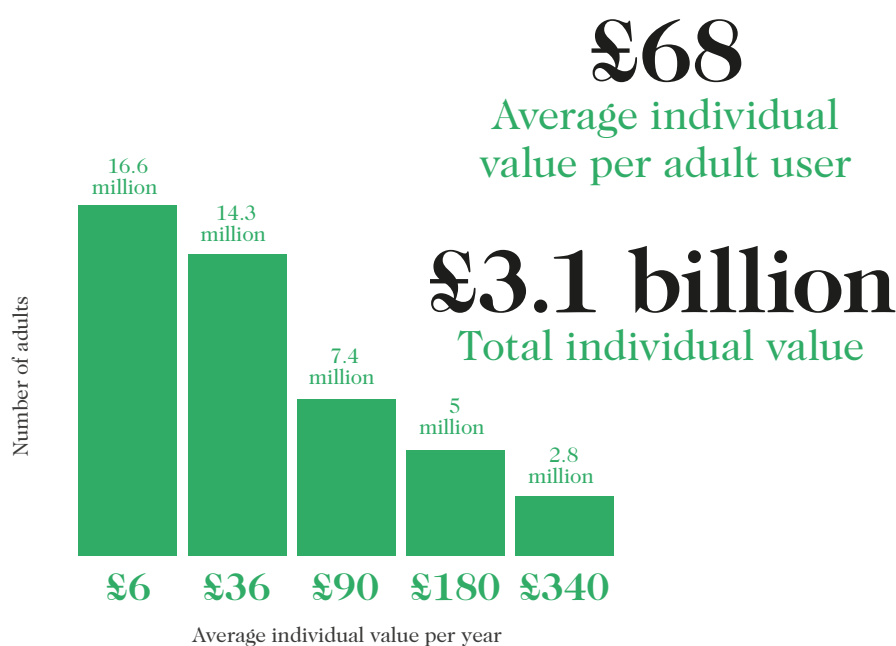
<sup>61</sup> *The Guardian* (23 Feb. 2012), 'the future of video: democratisation of creativity and production' <http://www.theguardian.com/media-network/2012/feb/23/democratisation-creativity-production>

<sup>62</sup> *The Telegraph* (6 Apr. 2009), 'YouTube Symphony Orchestra – Carnegie Hall, review' <http://www.telegraph.co.uk/culture/music/classicalmusic/5163420/YouTube-Symphony-Orchestra-Carnegie-Hall-review.html>

## Quantifying the benefits to individuals of online advertising

As with the other sectors considered in this report, our survey reveals a range of opinions among the population about the value of online services. Email, search and social media occupy a large part of people's lives, and many therefore benefit from having these services provided free of charge. For around 1 in 4 adults the individual value enjoyed from email and search alone is worth at least £100 a year, while 1 in 10 value free social media at more than £200 a year. There are also many who appreciate the benefits of online services, but do not value them quite as highly.

Figure 10: Average individual value from internet search, email and associated services



The individual value that adults enjoy from internet search and email varies significantly. Around 1 in 3 adults value it at an average of £6 a year, but 1 in 10 value it at more than £200 a year. Across all adults, the individual value averages £68 a year.

Source: Deloitte Survey/Ipsos (August 2014)

Online services, particularly social media, are generally valued more highly by young adults. For example, we estimate that approximately 2.2 million adults value advertising-funded social media at £120 a year,

and that over half of these people are between 16 and 24 years old.

By helping to make the services free to use, advertising helps them to attract new and casual users. This generates

A recent report estimated that the price transparency brought about by search engines makes online prices 10% lower on average than offline prices.



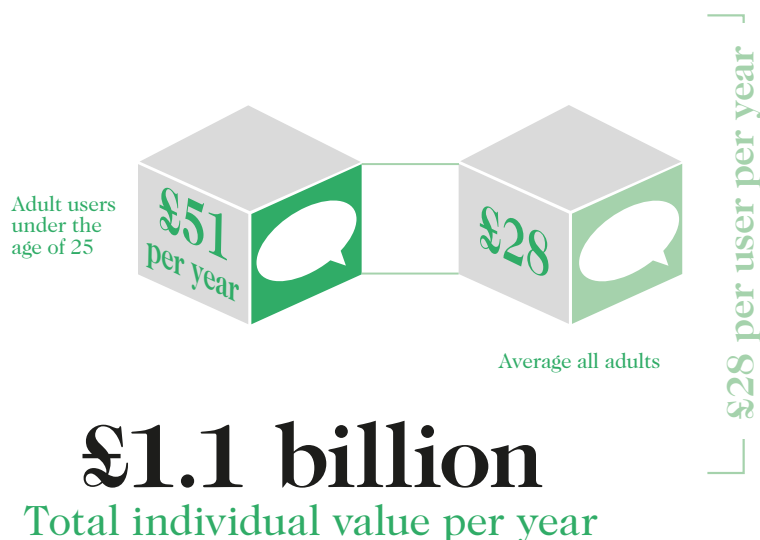
important network benefits to all users of the system – Facebook is only useful to someone if they can engage with other people through it. The more users there are, the more likely it is that a person will be able to engage with a wide range of their friends, family and colleagues.

Overall, our analysis suggests that through its support of search, email and social media alone, advertising provides approximately **£4.3 billion** of perceived benefit to people in the UK each year. This is equivalent to roughly £90 per adult each year. However, a large proportion of

individuals value these services much higher.

Respondents may well have understated their true valuations in this area. For example, although more than a third of respondents claimed they would be unwilling to pay £1 a month for email services, 78% of this group said they use email every day. Moreover, the individual value estimated here does not account for the broader positive impact that these services have on people's lives. A recent report estimated that the price transparency brought about by search engines makes online prices 10% lower on average than offline prices.<sup>63</sup>

**Figure 11: Individual value provided by free, advertising-funded social media**



The individual value that adults enjoy from social media is worth, on average, £28 per year. However, for young adults the individual value is particularly high – it is worth £51 per year for adults under the age of 25.

Source: Deloitte analysis on Deloitte Survey/Ipsos (August 2014)

<sup>63</sup> McKinsey (2011), *The Impact of Internet Technologies: Search*.

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# *Newspapers and Magazines*

By providing a key source of funding for the newspaper and magazine industries, advertising allows millions of UK consumers to read a variety of print and digital content at subsidised cost. Our analysis suggests that this funding is worth approximately £2.3 billion to consumers each year. In the absence of advertising, prices would increase to a point that would make reading newspapers and magazines unaffordable and inaccessible to many.



## Newspapers

**The newspaper industry remains an important part of British society. Approximately 91 million local and national newspapers are sold each week,<sup>64</sup> and 41 million people read newsbrands across print and digital each month.<sup>65</sup>**

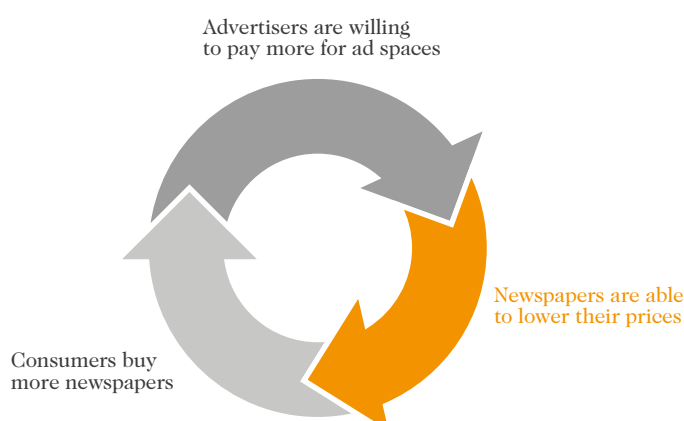
A crucial source of funding for newspapers is advertising revenue. In 2013, the industry received a total of £2.74 billion from advertising, equating to approximately 50% of industry revenue.<sup>66</sup> These advertising revenues take the funding burden away from consumers and allow newspapers to set lower prices than they otherwise would.

Advertising forms part of a virtuous circle in the newspaper industry. By keeping prices low, it increases

circulation, which in turn makes newspapers more appealing to advertisers. In some cases, advertising allows consumers to access print newspapers free of charge. For example, the *Metro*, which has an estimated daily readership of over 3 million people across 15 different cities,<sup>67</sup> and the *London Evening Standard*, which has an estimated daily readership of 1.8 million,<sup>68</sup> are both free and funded primarily by advertising revenue.

**Figure 12: The virtuous circle of advertising in the newspaper industry**

**In 2013, the industry received a total of £2.74bn from advertising, equating to approximately 60% of the revenue from sales.**



<sup>64</sup> Deloitte analysis based on ABC (2014), 'ABC Market Summary Report – July-December 2013'.

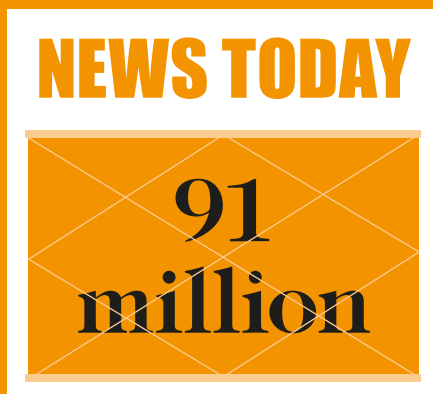
<sup>65</sup> National Readership Survey (2014), 'Print and Digital: Consumption of Newsbrands', <http://www.nrs.co.uk/training-2/helpful-tools/useful-chart/>

<sup>66</sup> Deloitte analysis based on data from IBISWorld (2014), 'Newspaper Publishing in the UK: Market Research Report'.

<sup>67</sup> *Metro* (2013), <https://metro.uk2.files.wordpress.com/2013/09/metro-platforms-print-august.pdf>

<sup>68</sup> Newworks (2014), <http://www.newworks.org.uk/London-Evening-Standard>





The number of local and national newspapers sold each week



Number of the most popular news websites that are free to use and supported by advertising revenue



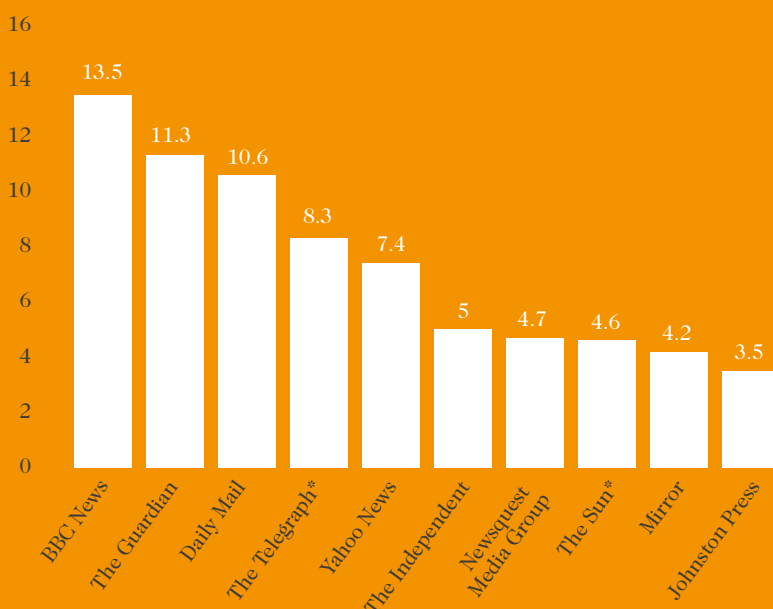
The value of advertising revenue received by the newspaper industry in 2013

In an age when UK consumers have never had more choice, newspapers are still a trusted source of news.<sup>69</sup> 63% of newspaper readers say that newspapers form part of their daily ritual, while 61% enjoy discussing what they read in the paper with friends and family.

As print sales have fallen in recent years, newspapers have developed an increasing online presence, with many offering a free-to-use digital service. Even without the BBC, free online news sites dominate the market for online news.

As they do not have the same space constraints as the print editions, newspaper websites often have more content. For example, of the 600 articles *The Telegraph* produces every day, only a third make it to print.<sup>70</sup> News websites for British titles have become highly popular internationally, and place the UK as a key exporter of online news services. The *Daily Mail* and *The Guardian* are among the top 10 most popular news websites in the world,<sup>71</sup> with the large majority of their content free to access.

**Figure 13: Active reach of news websites in the UK (unique audience in millions via laptop or desktop computer)**



\* denotes subscription based, all others free to use

In an age when UK consumers have never had more choice, newspapers are still a trusted source of news.

Source: Ofcom (2013)

<sup>69</sup> Newspaper Society (2011), 'Loving Local Survey', [http://www.newspapersoc.org.uk/sites/default/files/lovinglocal/quant.html#prettyPhoto\[quant\]/8/](http://www.newspapersoc.org.uk/sites/default/files/lovinglocal/quant.html#prettyPhoto[quant]/8/)

<sup>70</sup> Internet Advertising Bureau (2014b), *The Data Deal: How Data Driven Digital Advertising Benefits UK Citizens*.

<sup>71</sup> eBiz MBA (2014), 'Top 15 Most Popular News Websites – September 2014', previously available at: <http://www.ebizmba.com/articles/news-websites>

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5.1.1

*Quantifying the  
benefits of newspaper  
advertising to  
consumers*

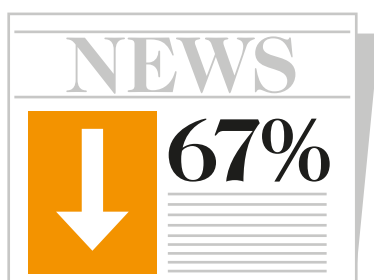
## *Quantifying the benefits of newspaper advertising to consumers*

**Given the size of advertising revenues in relation to total revenues, consumers would be likely to face higher prices if advertising revenues were unavailable to newspaper providers. The extent of the price rise will depend on both the cost structure and the demand for newspapers. Nevertheless, any price rise would lead to reductions in the number of people buying newspapers. Without advertising, many consumers would no longer be able to afford the higher price, while those who could afford it would have to pay more for their newspapers.**

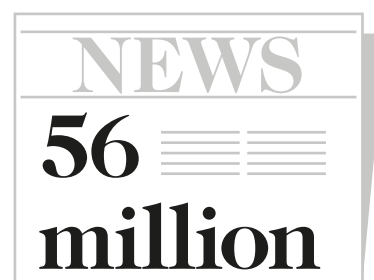
The results of our survey suggest that compared to many consumer goods, there is a relatively high tolerance for newspaper price rises, particularly among broadsheet readers.<sup>72</sup> However, it is likely that the price rise required to replace the funds from advertising would be significant enough to lead to a considerable fall in sales – we estimate that if prices rose by 70%, there would be 56 million fewer sales of newspapers each week. Many people would not be able to read

their favourite newspapers, while others would have to pay significantly more to do so.

The way advertising generates individual value differs by newspaper types. For tabloid newspaper readers and, to a lesser extent, midmarket newspaper readers, it is making content affordable that principally drives individual value – 54% of tabloid readers surveyed have an income of less than £25,000, and the results of our survey suggest



The reduction in  
tabloid newspaper  
sales caused by  
an absence of  
advertising revenues



The number of  
newspaper sales that  
could be lost if prices  
rose by 70%

<sup>72</sup> The demand for newspapers appears to be what economists call “inelastic”, whereby the fall in sales is proportionally less than the rise in price.



that tabloid newspaper sales could fall by two-thirds without advertising revenues. In contrast, it appears that readers of broadsheet newspapers would be more tolerant of any potential price adjustment. These readers, most of whom have an income above £35,000, benefit more from the fact that they are paying less for their favourite newspapers.

In total, we estimate that, by providing financial support to newspapers, advertising generates approximately **£1.6 billion** in individual value each year.

These estimates quantify the direct benefits to consumers. In addition to these benefits, society as a whole also benefits from having a

healthy press. Newspapers have traditionally played a key role in supporting the health of a democracy by disseminating information and providing quality investigative journalism.<sup>73</sup> Recognising this contribution, the House of Lords recently urged the government to “think creatively” about tax breaks and financial incentives to support the industry.<sup>74</sup>

**Figure 14: How advertising benefits consumers by supporting the newspaper industry**



Source: Deloitte analysis on Deloitte Survey/Ipsos (August 2014)

<sup>73</sup> See, for example, Schulhofer-Wohl, S. and Garrido, M. (2009), 'Do Newspapers Matter? Evidence from the Closure of The Cincinnati Post', Working Papers 1140, Woodrow Wilson School of Public and International Affairs, Discussion Papers in Economics, Princeton University.

<sup>74</sup> House of Lords, Select Committee on Communications (2012), *The Future of Investigative Journalism*.

# Magazines

**The UK remains a nation of magazine-lovers. There are an estimated 2,543 consumer magazines in regular print production in the UK,<sup>75</sup> and there were 893 million issue sales in 2013.<sup>76</sup>**

Advertising plays a central role in the financing of the magazine industry. In 2013, consumer magazines received £597 million of advertising revenues, accounting for more than one-third of the magazine industry's total revenues. These revenues allow magazine publishers to keep prices down without compromising on content.

There are an estimated 2,543 consumer magazines in regular print production in the UK, and there were 893 million issue sales in 2013.



<sup>75</sup> PPA, 'Industry Scale: The UK is a nation of magazine brand fans', <http://www.ppa.co.uk/marketing/insightanddata/one-minute-pitch/industry-scale/>

<sup>76</sup> ABC (2014), 'ABC Market Summary Report – July-December 2013'

In 2013, consumer magazines received £597 million of advertising revenues, accounting for more than one-third of the magazine industry's total revenues.



**40 million**

The number of people in the UK who read a magazine each year<sup>77</sup>

The variety and specialisation of magazines lend themselves well to advertising as it allows businesses to reach the intended audience in a more targeted way. For some readers, targeted adverts in specialised magazines can even enhance the consumer's experience – a recent study found that magazine advertising is consistently referred to as the most useful and relevant relative to other advertising media.<sup>80</sup>



The growth rate of digital magazine sales in 2013<sup>78</sup>



**£597 million**

The advertising revenues consumer magazines received in 2013<sup>79</sup>

<sup>77</sup> PPA, 'Top-line facts and figures of UK magazines', <http://www.ppa.co.uk/marketing/insightanddata/stats/>

<sup>78</sup> ABC (2014), ABC Market Summary Report – July-December 2013

<sup>79</sup> Advertising Association/Warc (2015), Expenditure Report.

<sup>80</sup> FIPP (2012), 'Proof of Performance: Making the Case for Magazine Media'

## *Quantifying the benefits of magazine advertising to individuals*

**If magazines were not able to use advertising revenues to fund their operations, many would be unlikely to be able to continue, leading to a reduction in choice. For those that could continue, there would be an increase in price and, possibly, a reduction in quality.**

As with newspapers, the results of our survey suggest that readers have a relatively high tolerance towards price increases, but the actual price rise required to make up the huge loss in advertising revenue is such that there would inevitably be a large reduction in sales of magazines. Our analysis suggests there could be 378 million fewer magazine sales each year. Clearly this would

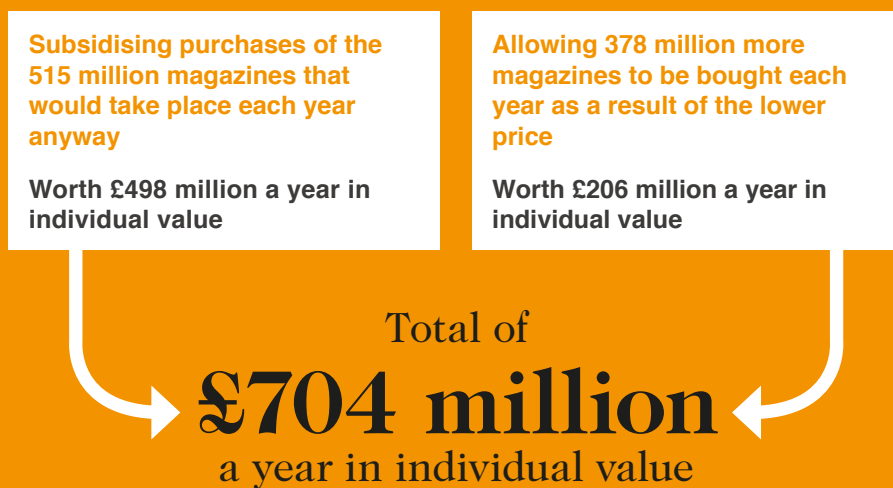


If magazines were not able to use advertising revenues to fund their operations, many would be unlikely to be able to continue, leading to a reduction in choice.

have an impact on those who are no longer able to afford their favourite magazines, but it would also affect those who continue to buy magazines, as they would have to pay more.

Our estimates of the individual value derived from magazines indicate that, by enabling magazines to keep prices low, advertising benefits individuals by **£704 million** each year.

**Figure 15: How advertising benefits individuals by providing income for the magazine industry**



Source: Deloitte analysis on Deloitte Survey/Ipsos (August 2014)

The value of advertising  
to the UK's culture,  
media and sport

# *Arts, Culture, Music and Cinema*

Commercial sponsorship of the arts makes a large contribution towards the cost of access to a range of events and activities. This directly benefits over 80% of the population, but it also brings further benefits through the broader social effects of public engagement in the arts. With public funding tightening in recent years, sponsorship will be likely to play an increasingly important role in maintaining the quality of Britain's arts and culture, and in keeping prices low.





# Arts, Culture, Music and Cinema

Arts, culture, music and cinema enrich the lives of millions of people in the UK. 29% of people watch a film at the cinema at least once a month<sup>81</sup> and, according to our survey, around 83% of adults attend an activity (whether a play, a festival, a musical performance, a gallery or a museum) at least once a year.<sup>82</sup> Similarly, an estimated 5.9 million people are members of an

amateur or voluntary arts group, with an additional 3.5 million participants involved in another capacity, such as helpers or volunteers.<sup>83</sup>

The arts provide a range of benefits on both an individual and a societal level. For example, a number of studies have found that participation in the arts can have a positive impact on

health, providing therapy for a variety of conditions, including dementia and depression.<sup>84</sup> Additionally, research has shown that society can benefit from high levels of engagement in the arts through reduced re-offending by prisoners and improvements in their job prospects.<sup>85</sup>

29% of people watch a film at the cinema at least once a month and, according to our survey, around 83% of adults attend an activity at least once a year.



83%

Proportion of adults in the UK who attend an arts event, museum or gallery at least once a year

<sup>81</sup> BFI/Northern Alliance and Ipsos MediaCT (2011), *Opening Our Eyes: How Film Contributes to the Culture of the UK*, <http://www.bfi.org.uk/sites/bfi.org.uk/files/downloads/bfi-opening-our-eyes-2011-07.pdf>

<sup>82</sup> Deloitte Survey/Ipsos (August 2014).

<sup>83</sup> Department for Culture, Media and Sport (2008), *Our Creative Talent: The Voluntary and Amateur Arts in England*.

<sup>84</sup> Arts Council England (2014), *The Value of Arts and Culture to People and Society: An Evidence Review*.

<sup>85</sup> New Philanthropy Capital (2011), *Unlocking Value: The Economic Benefit of the Arts in Criminal Justice*.

With public funding falling in recent years, sponsorship will play an increasingly important role in maintaining the quality of Britain's arts and culture, and in keeping prices low enough for the mass of the population.

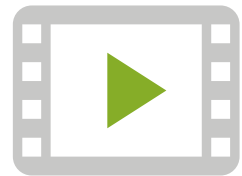


**£80  
million**



Corporate sponsorship  
of the arts in the UK

**166  
million**



UK cinema admissions  
in 2013<sup>86</sup>

**25%**



The fall in government  
funding to Arts  
Council England in  
real terms since 2010

**£185  
million**



The contribution of  
advertising revenues  
to both independent  
and chain cinemas<sup>87</sup>

<sup>86</sup> The Cinema Exhibitors' Association Limited, 'UK cinema – annual admissions 1935-2013', <http://www.cinema.uk.org.uk/facts-and-figures/admissions/annual-uk-cinema-admissions-1935-2013/>

<sup>87</sup> The £185 million refers to all types of cinemas. No separate estimate is available for either independent cinemas or chain cinemas individually but – for context – the former make up less than 18% of the market in terms of total cinema screens. Advertising Association/Warc (2015), *Expenditure Report*; BFI (2014), *Statistical Yearbook 2014*.

## Arts continued...

### Case study

## BP and the British Museum



Founded in 1753, the British Museum is the oldest national public museum in the world. Since its inception, it has granted free admission to visitors, who now total almost 6 million each year.

The British Museum obtains most of its funding from grants from the Department for Culture, Media and Sport (£45.4m in 2012/13), and income from fundraising (£39.5m), which includes commercial sponsorship.<sup>88</sup> Recent DCMS budget cuts, which have led to a planned reduction of grant-in-aid by 5% year-on-year to £41.9 million for the 2015/16 financial year,<sup>89</sup> mean that the British Museum is set to become more reliant on its commercial income.

The British Museum's longest-standing corporate partner is BP, which has helped to fund the museum's public programme since 1996. In this time, BP has supported a number of special

exhibitions as title sponsor, attracting over 1 million visitors. BP has also contributed to public events that the British Museum has hosted, such as Chinese New Year, and the Mexican Day of the Dead<sup>90</sup> which more than 70,000 people attended.<sup>91</sup>

In 2000, BP funded the BP Lecture Theatre, part of the Great Court development at the British Museum. The theatre has helped the museum to generate additional revenue, as well as enhance its public programme.<sup>92</sup>

*"Curator Paul Roberts has done a superb job in bringing these objects to life, using them in such a way that each work in the show adds something new to our understanding of the classical world."*

– **The Telegraph** on the  
"Life and Death in Pompeii and  
Herculaneum" exhibition, 2013<sup>93</sup>

<sup>88</sup> British Museum (2013), *Report and Accounts for the year ended 31 March 2013*.

<sup>89</sup> Department for Culture, Media and Sport (2013c), *British Museum Spending Round Letter July 2013*.

<sup>90</sup> The British Museum, 'Your support: success stories – BP', [http://www.britishmuseum.org/support\\_us/your\\_support/success\\_stories/bp.aspx](http://www.britishmuseum.org/support_us/your_support/success_stories/bp.aspx)

<sup>91</sup> BP, 'Connecting through culture', <http://www.bp.com/en/global/corporate/about-bp/bp-worldwide/bp-united-kingdom/bp-in-the-community/arts-and-culture.html>

<sup>92</sup> Ibid.

<sup>93</sup> *The Telegraph* (26 Mar. 2013), 'Pompeii exhibition: Life and Death in Pompeii and Herculaneum, British Museum, Review', <http://www.telegraph.co.uk/culture/art/art-reviews/9952882/Pompeii-exhibition-Life-and-Death-in-Pompeii-and-Herculaneum-British-Museum-review.html>



The arts have traditionally been heavily subsidised in the UK. In 2012 only 37% of total funding to the arts came from earned income, with 41% from public funds, and 22% from private investment, such as donations and sponsorship.<sup>94</sup> Such subsidies increase access to the arts and allow many of the top visitor attractions, such as the British Museum and the National Gallery, to remain free.

Corporate sponsorship of the arts in the UK is worth approximately £80 million a year,<sup>95</sup> of which around £24 million is in the voluntary arts sector.<sup>96</sup> In addition, sponsorship of live music

events, branded tours and venue naming provide a significant source of income, estimated at £33.1 million in 2012.<sup>97</sup> These revenues help to keep ticket prices down, even enable many free events, and increase the quality and provision of the arts. For instance, the National Theatre's longstanding partnership with Travelex has provided 100,000 reduced-price tickets for a range of critically acclaimed performances in 2014.<sup>98</sup>



<sup>94</sup> Arts and Business (2013), *Private Investment in Culture Survey 2011/12*.

<sup>95</sup> This figure is exclusive of donations. Arts and Business (2012), *Private Investment in Culture Survey 2010/11*.

<sup>96</sup> Department for Culture, Media, and Sport (2008), *Our Creative Talent: The Voluntary and Amateur Arts in England*.

<sup>97</sup> PRS for Music/FRUKT (2013), *UK Brand Spend in Music*.

<sup>98</sup> National Theatre (2014), 'Travelex £15 tickets 2014', <http://www.nationaltheatre.org.uk/series/travelex-%C2%A315-tickets-2014>

## Arts continued...

### Case study

## Outdoor cinema

In 2013, there were 756 cinemas that catered to over 160 million admissions generating box office revenues in excess of £1 billion.<sup>99</sup> To put this into context, these revenues were the highest in Europe and accounted for 5% of the global box office.<sup>100</sup>

Recent years have seen the appearance of new outdoor cinemas, providing unique experiences for the British public. These cinemas combine entertainment with social enterprise and atmosphere. Some organisers utilise locations such as rooftops and parks, while others choose venues that can match the theme of a particular film.<sup>101</sup>

Outdoor cinemas have grown in popularity and size. Over the last four years, 150,000 people have attended one or more screenings hosted by the Rooftop Film Club.<sup>102</sup>

The Nomad pop-up cinema, meanwhile, has gone from just one screening per year to 85 in its fourth year of operation, with all of its profits being donated to charity.<sup>103</sup>

Sponsors and advertising revenues have assisted the development and growth of these cinemas, as companies work together with organisers to enhance the experience of cinema-goers. The Rooftop Film Club's partnership with British Airways has led to the airline's cabin crew and chefs concocting and serving themed dining experiences at film screenings. Other cinemas rely heavily on volunteers, and the funding provided by advertisers and sponsors, to run screenings.

According to its founder, the Nomad owes its very existence to the contribution of sponsors and advertising revenues.

*"Advertising supported the birth and development of pop-up cinema – without sponsorship this new and fun way of bringing cinema to new audiences would never have been possible."*

– Sally Wilton, CEO of The Lexi Cinema



<sup>99</sup> BFI (2014), *Statistical Yearbook 2014*.

<sup>100</sup> MPAA (2014), *Theatrical Market Statistics 2013*.

<sup>101</sup> *The Telegraph* (27 June 2011), 'The Nomad: bringing London to life with cinema', <http://www.telegraph.co.uk/promotions/best-deals-of-the-day/8601965/The-Nomad-bringing-London-to-life-with-cinema.html>

<sup>102</sup> Rooftop Film Club (2014), *The Ultimate Film Experience*.

<sup>103</sup> Lexicinema, 'The Nomad', <http://thelexicinema.co.uk/hire-us/51>; *The Telegraph* (27 June 2011), 'The Nomad: bringing London to life with cinema'.

While commercial sponsorship represents a relatively small proportion of the overall funding for many institutions, these funds are absolutely critical for institutions that barely break even.



While commercial sponsorship represents a relatively small proportion of the overall funding for many institutions, these funds are absolutely critical for institutions that barely break even. Moreover, public funding for arts, national museums and galleries has been tightening in recent years. In real terms, DCMS grants to Arts Council England<sup>104</sup> have already been cut by a quarter since 2010, while further cuts mean that DCMS's budget will reduce by another £62 million in real terms in 2015–16.<sup>105</sup> This means that sponsorship will be likely to play an increasing role in ensuring the continued quality and low price of arts and culture provision.

## Case study

# The Yahoo! Wireless Festival

In recent years, Yahoo! has shifted its marketing strategy to align the brand more closely with music.<sup>106</sup> 2013 marked a significant year for this strategy, as the company created the Yahoo! 'On The Road' tour and took over as headline sponsors of the Wireless Festival, in what was estimated to be a 'high six-figure deal'.<sup>107</sup>

The Yahoo! On The Road tour was the world's first mobile entertainment and innovation festival, bringing bands, musicians and comedians to major cities across the USA and Europe. In 2013, the tour culminated with the Wireless Festival in London, which featured artists such as Jay-Z, Snoop Dogg and Justin Timberlake.<sup>108</sup>

Three days of world-class urban music, the performance of the headline acts, and the reaction of the crowd prompted Digital Spy to "wonder how they will top such a blockbuster performance next year",<sup>109</sup> while reviewers from both *The Guardian* and *The Telegraph* were equally impressed.

*"A formidable three-day lineup drawn from urban music's top table is worth risking heatstroke for."*

– *The Guardian* review of the Yahoo! Wireless Festival, 2013<sup>110</sup>

<sup>104</sup> Based on DCMS grant data and ONS inflation statistics.

<sup>105</sup> Department for Culture, Media and Sport (2013b), *Arts Council England Spending Round Letter July 2013*.

<sup>106</sup> The Drum (24 June 2013), 'Yahoo! is repositioning its business to attract younger audiences, says marketing chief', <http://www.thedrum.com/news/2013/06/24/yahoo-repositioning-its-business-attract-younger-audiences-says-marketing-chief>

<sup>107</sup> Campaign (12 Mar. 2013), 'Yahoo to sponsor Wireless Festival as part of new positioning', <http://www.campaignlive.co.uk/news/1174142/>

<sup>108</sup> Complex (12 Mar. 2013), 'Yahoo! Announces "On the Road" Tour with Jay-Z, Kendrick Lamar, Justin Timberlake, Frank Ocean and More', <http://uk.complex.com/music/2013/03/yahoo-announces-on-the-road-tour-with-jay-z-kendrick-lamar-justin-timberlake-frank-ocean-and-more>

<sup>109</sup> Digital Spy (15 July 2013), 'Wireless Festival, London – Review', <http://www.digitalspy.co.uk/music/news/a498539/wireless-festival-london-review.html#~oSHaXM7nnLcp0x>

<sup>110</sup> *The Guardian* (15 July 2013), 'Jay-Z/Justin Timberlake at Wireless – Review', <http://www.theguardian.com/music/2013/jul/15/jay-z-justin-timberlake-review>

The value of advertising  
to the UK's culture,  
media and sport

# *Sport*

UK sport receives approximately £700 million in annual sponsorship revenues. These funds help to improve the quality of spectator sports and provide much-needed funds for grassroots sports, bringing a wide range of benefits to adults, children and society as a whole.





## Sport

In 2011, a third of UK adults attended a live sporting event,<sup>111</sup> and according to our survey, 26% of adults are members of either a gym or a sports club.<sup>112</sup>

Sponsorship revenue is a vital component of income for professional sports clubs, associations and bodies. For example, in the 2013/14 financial year, Manchester United received £135.8 million in sponsorship revenue, accounting for 31.3% of its total revenue.<sup>113</sup>

Getting an accurate picture of the total value of sports sponsorship is complicated by the changing nature

of such sponsorship, and by the fact that many organisations do not report their revenue in detail.<sup>114</sup> However, some industry estimates suggest that the total value of sports sponsorship in the UK will be around £700 million in 2014.<sup>115</sup>

As a source of funding, sponsorship is often crucial to the staging of high-profile sporting events, as demonstrated by the London 2012 Olympic Games.

Some industry estimates suggest that the total value of sports sponsorship in the UK will be around £700 million in 2014.

Sponsorship revenue is a  
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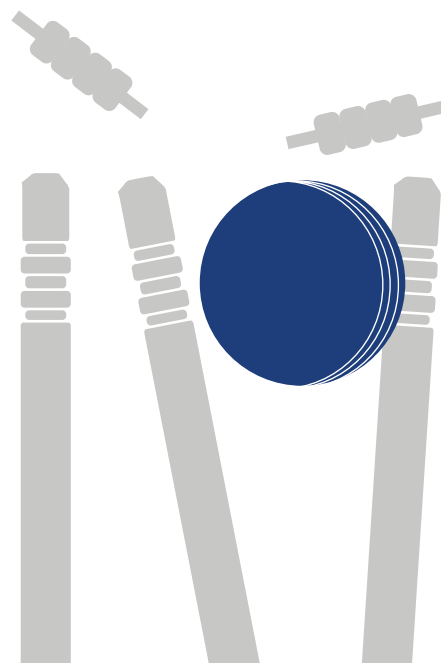
<sup>111</sup> Mintel (2011), 'Spectator Sports – UK – April 2011'

<sup>112</sup> Deloitte (2014a), *Economic Impact Assessment of the Proposed European Data Protection Regulation*.

<sup>113</sup> Manchester United plc (2014), *Manchester United plc 2014 Fourth Quarter and Full Year Results*.

<sup>114</sup> Deloitte (2014b), *Annual Review of Football Finance 2014*.

<sup>115</sup> In 2009, it was estimated that the total value of sponsorship to sport in the UK was approximately £946 million. This fell to around £540 million in 2011, but estimates show an upward trend in the market with predictions of the total value amounting to £691.3 million in 2014 and surpassing £800 million in 2016. Key Note (2013), *Sports Sponsorship: Market Update 2013*.



The London Games attracted more than £739 million of revenue from domestic sponsors, and an additional £232 million from worldwide partners in cash and payments in kind. These funds are roughly equivalent to the entire building costs incurred from constructing the venues in the Olympic park.



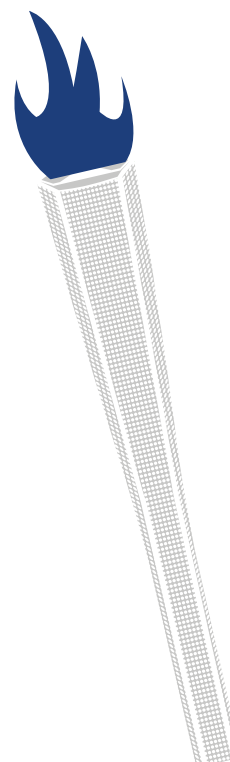
## Case study

# The London Olympic Games, 2012

The Olympic Games are among the most watched events in the world, and the London 2012 Olympics were no exception. Nearly 900 million people from around the world, including 27 million in the UK, watched the opening ceremony.<sup>116</sup> This was over 2 million more than the number of British people who watched the wedding of the Duke and Duchess of Cambridge.<sup>117</sup>

The London Olympic Games caught the imagination of the country and also generated substantial economic and social benefits. The government has set a target of £13 billion worth of economic benefits to be generated by 2016, and has estimated that 618,000 to 893,000 years-worth of employment will be added to the economy by 2020 as a result of the Games.<sup>118</sup> From a social perspective, UK communities experienced an increase in formal and informal volunteering from 2012 to 2013 for the first time since 2005, and saw massive investment in new, sustainable and improved infrastructure.<sup>119</sup>

Sponsorship provided a major source of funding for the London 2012 Olympic Games, and reduced the financial burden that would otherwise have been placed on UK taxpayers. As of 30 September 2012, the London Games attracted more than £739 million of revenue from domestic sponsors, and an additional £232 million from worldwide partners in cash and payments in kind. These funds are roughly equivalent to the entire building costs incurred from constructing the venues in the Olympic park.<sup>120</sup> In addition to providing funds to help stage the Games, some sponsors used the association with the Olympic brand to promote their own causes.<sup>121</sup> Campaigns to promote sustainability or sports participation among disadvantaged youth gained additional exposure through their co-branding with the Olympic Games.



<sup>116</sup> International Olympic Committee (27 July 2012), <http://www.olympic.org/news/london-2012-the-opening-ceremony/204829>

<sup>117</sup> BBC (1 May 2011), 'Royal wedding: In numbers', <http://www.bbc.com/news/uk-13248642>

<sup>118</sup> UK Government and Mayor of London (2013), *Inspired by 2012: The Legacy from the London 2012 Olympic and Paralympic Games*.

<sup>119</sup> Ibid.

<sup>120</sup> Olympic Delivery Authority (2012), *Setting New Standards for Construction*.

<sup>121</sup> International Olympic Committee (2012), *IOC Marketing: Media Guide London 2012*.

## *Sport continued...*

Commercial sponsorship is worth on average £1,200 to each of the estimated 150,000 grassroots sports clubs in the UK, representing 3% of total income.<sup>122</sup> Sponsorship revenues are usually used for specific purposes such as new kit or equipment, or events such as regional competitions. Many of the major sports sponsorship deals often include separate funding for grassroots-level sports,<sup>123</sup> with one estimate valuing this funding at 15% of total sponsorship.<sup>124</sup>

Grassroots sport also receives advertising revenues indirectly.

A pledge was made by major sporting bodies for football (the FA), athletics (UK Athletics), cricket (ECB), tennis (LTA), and others, to pass on 30% of their net broadcasting income to grassroots sports. As of 2010, all signatories except one met or exceeded this threshold,<sup>125</sup> amounting to approximately £250 million a year.<sup>126</sup>

The financial support offered by sponsorship and advertising helps grassroots sports clubs to provide health benefits for their members and a focal point for social activity, offering opportunities for meeting

people and committing to a cause. The findings from our survey suggest they make people feel both healthier and happier,<sup>127</sup> while studies have found that sport contributes to increased identification and commitment to school values, in turn having a positive influence on academic performance.<sup>128</sup> One study even estimates that having a more intensive participation in athletics increases the years of education attained by an individual.<sup>129</sup>

**“It is of profound importance for the happiness and success of this country that we have more sport in schools.”**

**Boris Johnson, Mayor of London<sup>130</sup>**

<sup>122</sup> Sport and Recreation Alliance (2011), *Survey of Sports Clubs 2011: A Review of Clubs, Facility Access, Finances, Challenges and Opportunities*.

<sup>123</sup> For example, in April 2012 BMW signed a new four-year agreement with the Rugby Football Union (RFU) to become its official partner until September 2014. The deal included investment in various age levels of elite rugby teams and other grassroots schemes: BBC (12 Apr. 2012), ‘RFU and BMW sign four-year sponsorship deal’, <http://www.bbc.co.uk/news/business-17688668>; Key Note (2013), *Sports Sponsorship: Market Update 2013*.

<sup>124</sup> Carter, P. (2005), *Review of National Sport Effort & Resources (Carter Report)*.

<sup>125</sup> Sport and Recreation Alliance (22 Dec. 2010), ‘Major sports commit to putting 30% of broadcast revenues into grassroots’, <http://www.sportandrecreation.org.uk/news/22-12-2010/major-sports-commit-putting-30-broadcast-revenues-grassroots>

<sup>126</sup> Eurostrategies (2011), *Study on the Funding of Grassroots Sports in the EU: Volume II of the Final Report*.

<sup>127</sup> 75% said they do more exercise as a result of attending their club, while 82% reported feeling happier. Deloitte (2014a), *Economic Impact Assessment of the Proposed European Data Protection Regulation*.

<sup>128</sup> Marsh, H. W. and Kleitman, S. (2002), ‘Extracurricular school activities: The good, the bad, and the non-linear’, *Harvard Educational Review*, 72, 464-514.

<sup>129</sup> Barron, J. M., Ewing B. T. and Waddell, G. R. (2000), ‘The effects of high school athletic participation on education and labor market outcomes’, *The Review of Economics and Statistics*, 82(3), 409-421.

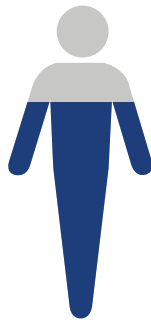
<sup>130</sup> BBC News website (9 August 2012), ‘Boris Johnson urges two hours of PE a day’, <http://www.bbc.co.uk/news/uk-politics-19192153>

Commercial sponsorship is worth on average £1,200 to each of the estimated 150,000 grassroots sports clubs in the UK, representing 3% of total income.



**26%**

The proportion of adults who are members of either a gym or a sports club<sup>131</sup>



**69%**

The proportion of people who think that the government should ensure that all children have access to adequate sports facilities



**c. £700 million**

The estimated value of sports sponsorship in the UK in 2014

<sup>131</sup> Deloitte Survey/Ipsos (August 2014).

## Sport continued...

If grassroots sports clubs were not able to draw on funds from sponsorship and advertising, the loss of funding could pass through to membership fees and events charges, or result in a reduction in equipment. This could lead to many being unable to afford the costs of sports participation, with children and young people likely to lose out the most. For low-income clubs (those receiving less than £10,000 a year) commercial sponsorship represents 4% of income.<sup>132</sup> On average, these clubs are running at an annual loss, so any loss of sponsorship funding would affect their continued operation.

Results from our survey reveal that the majority of individuals are aware of the benefits that sponsorship and advertising provide for society. 55% of people believe it is important that people should be able to attend sports clubs, while 69% think the government should ensure that all children have access to adequate sports facilities.<sup>133</sup> These findings demonstrate the essential need for continued funding of sports through sponsorship and advertising.

### Case study

## The Football Association

The Football Association (FA), the governing body of football in England, organises football events from grassroots leagues all the way to the professional FA Cup. The FA also manages the sponsorships and licensing revenue from partners, which it then distributes among its various operations. In the 2012/13 season, the £63 million of sponsorship and licensing deals were the second-largest contributor to the FA's turnover.<sup>134</sup>

Sponsorship income is divided among both amateur and professional football initiatives. For the 2012/13 season, 44% of the FA's investment in football was apportioned to grassroots initiatives,

while 40% was given to the professional game. This translates to £48 million and £43 million respectively.<sup>135</sup>

These funds help to supply grassroots schemes with cash and equipment to enhance both quality and participation. For example, the FA acts as a major funding partner for the Football Foundation, which in turn channels £30 million into grassroots sport annually. The FA's funds are used by the Football Foundation for schemes such as Grow the Game, which saw 19,784 new players and 3,215 coaching qualifications in 2012/13.<sup>136</sup>

On average, these clubs are running at an annual loss, so any loss of sponsorship funding would affect their continued operation.

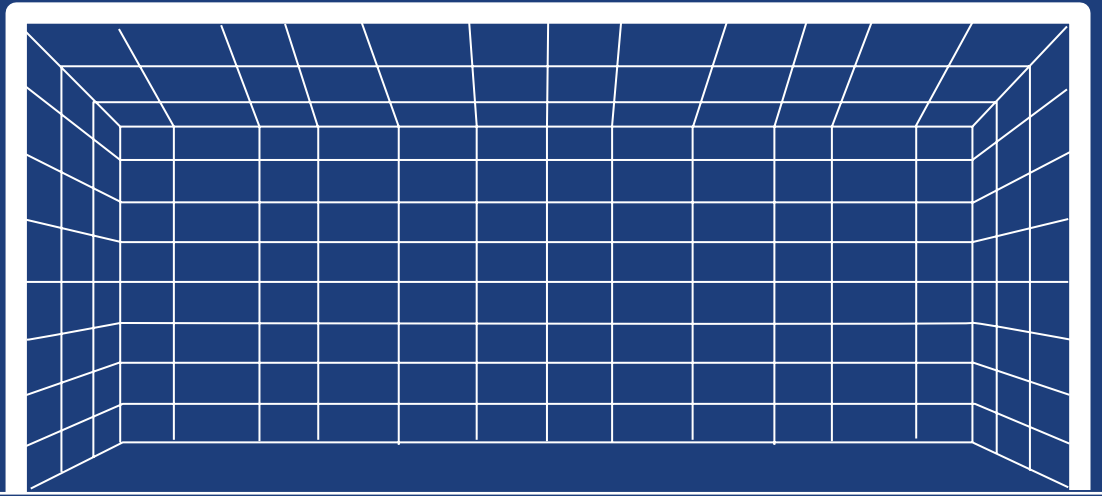
<sup>132</sup> Sport and Recreation Alliance (2011), *Survey of Sports Clubs 2011: A Review of Clubs, Facility Access, Finances, Challenges and Opportunities*.

<sup>133</sup> Deloitte Survey/Ipsos (August 2014).

<sup>134</sup> Revenue from broadcasting is the biggest contributor to the FA's turnover, earning £106 million for the 2012/13 season. Football Association (2013), *Report and Financial Statements: Seven Month Period Ended 31 July 2013*.

<sup>135</sup> Football Association (2013), *Report and Financial Statements: Seven Month Period Ended 31 July 2013*.

<sup>136</sup> Football Foundation (2013), *Onside issue 33*.



For sport, as with the other areas examined in this report, advertising and sponsorship provide a crucial form of funding that enables high-quality affordable services to thrive. Without advertising and sponsorship, many of the things which people enjoy in their everyday lives would no longer be accessible in their current form, while others would face a serious deterioration in quality.

Taken together these findings illustrate the important role of advertising in making the UK the exciting, diverse and culturally rich place it is today.



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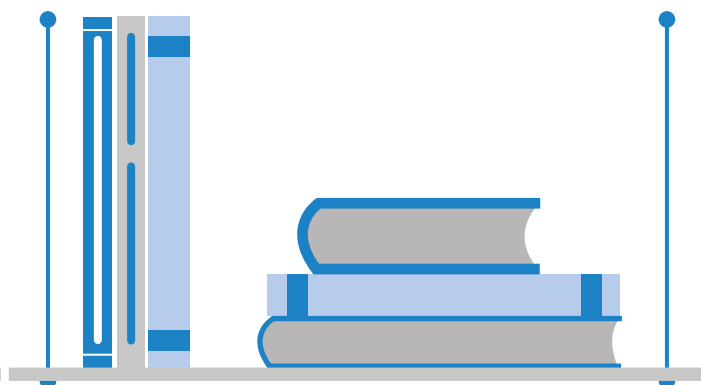
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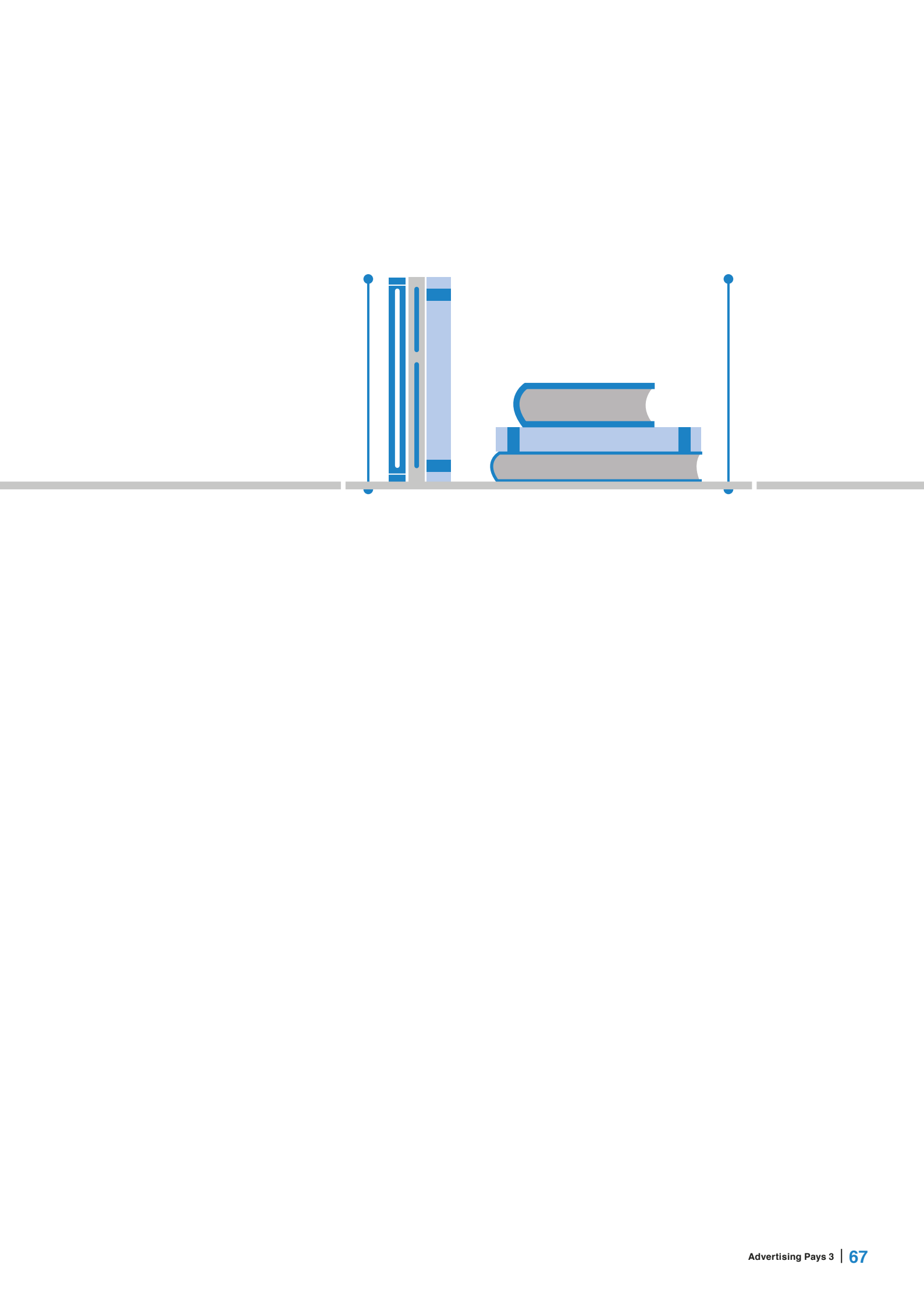
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# Appendix A

## The consumer survey methodology

### A.1 Description of the survey

Deloitte designed a consumer survey asking a number of questions about attitudes to, and valuation of, the goods and services discussed in this study. Ipsos MORI fielded the survey to 1,000 adults using an online format. The results were weighted according to the profiles of the respondents to ensure that they are representative of the UK adult population.

The survey contains a mix of questions about:

- consumers' attitudes to the goods and services considered in this study (e.g. how often they use them and for what purpose)
- consumers' willingness to pay for these goods and services.

Questions about consumer attitudes were asked for each sector considered in this study, while willingness to pay questions were asked for each sector apart from sport.

### A.2 Eliciting consumers' willingness to pay

One of the key methodological issues to be addressed in designing the survey was what format to use to elicit consumers' willingness to pay. This section discusses how this issue is typically approached in practice, and explains how the lessons have been implemented for the current study.

#### A.2.1 Background on how surveys are used in consumer valuation studies

In 1993 a panel of academic economists, including two Nobel Prize winners (Kenneth Arrow and Robert Solow), came up with a set of best practices on how to use surveys to obtain the most accurate estimates of people's willingness to pay. The results of their seminal work have informed survey design on questions of environmental and cultural evaluation for the last two decades.

One of the panel's recommendations involved eliciting willingness to pay. The panel considered both the "open-ended format" and the "referendum format". To illustrate the difference between these types of questions, it is helpful to consider a simple example involving a local library:

- An open-ended format question could ask: "The local library needs more income, otherwise it will have to close. It is considering the introduction of an annual subscription fee for its users. What is the most that you would be willing to pay to keep the library open?" In this case the respondents get to choose the amount themselves, either directly inputting their value or choosing from a set number of ranges.
- A referendum format question could ask: "The local library needs more

income, otherwise it will have to close. It is considering introducing an annual subscription fee of £15 for each of its users. Would you be willing to pay this fee to keep the library open?" In this case, respondents only choose between Yes and No.

The conclusion of the panel was that willingness to pay should be elicited using a referendum format rather than an open-ended format. The main reasons were that the referendum format makes for a more realistic scenario and does not invite strategic under- or over-statement of valuation in the way that an open-ended format can.

A number of surveys seeking to value environmental and cultural assets (which are not priced by the market) have applied the referendum format methodology. Examples include:

- estimate of damages following the Exxon Valdez oil spill (1992)
- the National Library of New Zealand's economic valuation of its National Bibliographic Database (NBD) and National Union Catalogue (NUC). (McDermott Miller Ltd, 2002)
- British Library economic impact study undertaken in 2003. (Pung, Clarke and Patten, 2004)

- investigation of the public library system in Norway. (Aabo, 2005)
- South African arts festivals. (Snowball, 2008)
- valuing the Queensland museum. (2008)
- entry charges to museums in Sweden. (Lampi and Orth, 2009)

### A.2.2 How consumers' valuations are elicited using the survey

The survey's willingness-to-pay questions were posed using

a referendum format. For the broadcasting, online and publishing sectors, respondents were asked whether or not they would be willing to pay for the good or service (or in the case of newspapers and magazines, how often they would buy them) for a range of prices. Respondents were asked for their responses to the same set of prices, but the order in which the prices were presented to them was randomised. This randomisation was there to ensure that, in aggregate, respondents' answers were not anchored to particular prices. The

following diagram (Figure 2 in the main report) provides a graphical illustration of how this is done.

The results of the survey provide estimates of the proportion of consumers who would purchase the good or service at a range of different prices. Using data on current levels of use and consumption, these estimates were extrapolated to obtain absolute numbers of consumers and thus generate a demand schedule.

These demand curves provide the input to the analysis described in Appendix B.

Scenario: suppose the commercial free-to-air TV channels (e.g. ITV, Channel 4, Channel 5) were no longer able to receive advertising revenue. In order to cover the cost of programme production, they introduced a monthly subscription. The quality of output would remain the same, and the subscription would include access to all services provided by the channels. How much would you pay for this monthly subscription?



The survey gives each respondent a scenario and a series of multiple questions, each asking if the respondent would pay a randomised price for the good or service (yes/no). The highest price that the respondent says yes to is taken as the amount he or she would be willing to pay for the good or service. Consumer value is then calculated by subtracting the actual retail price of the good or service from this amount. Total consumer value is the sum of all the respondents' individual consumer values.

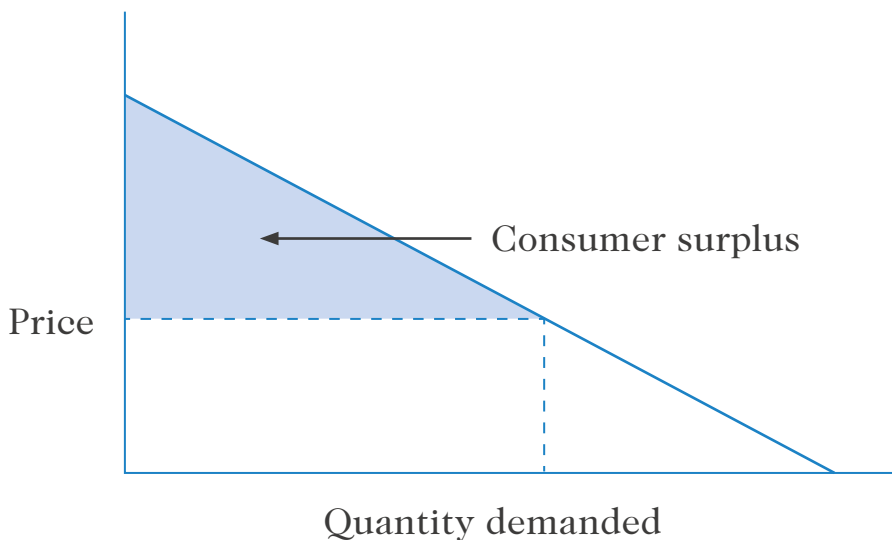
# Appendix B

## Estimating individual value

### B.1 The concept of individual value

The concept used to measure individual value in this report is known as “consumer surplus”. Consumer surplus is the difference between the maximum amount that a consumer would be willing to pay

for a good, and the amount that she actually has to pay to have it. The total consumer surplus attributable to a good is the sum of the individual values over everyone who consumes the good. Graphically it can be represented as the area under the demand curve and above the price of the good.



### B.2 Calculating the individual value attributable to advertising

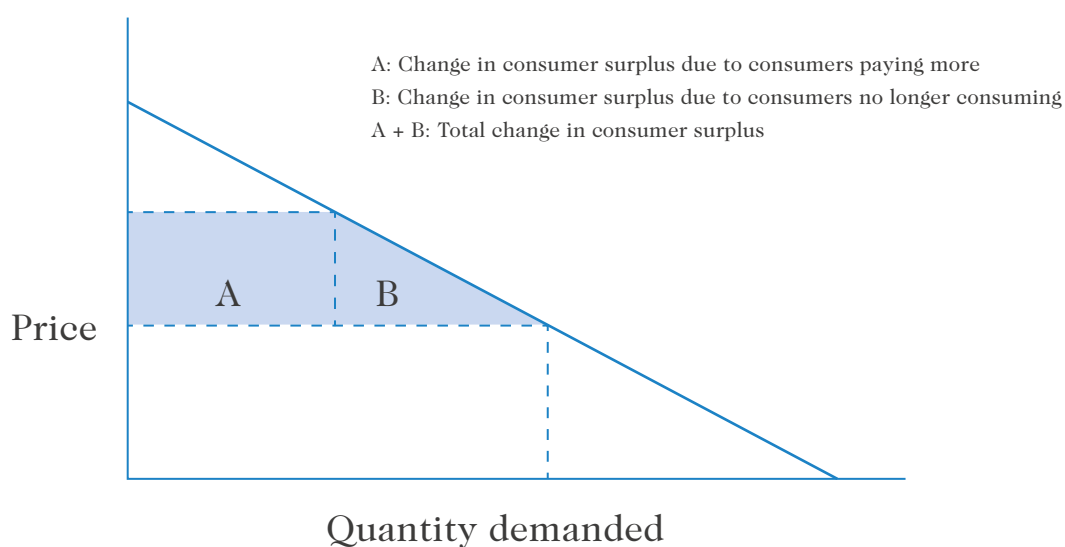
To estimate how much consumer surplus is due to advertising, one has to consider what the market price of the good would be in the absence of advertising and compare it with what the consumer surplus is with advertising present. The difference between the two is the amount of consumer surplus that can be attributed to advertising.

In order to make this estimation, it is necessary to form a hypothesis about the counterfactual – namely, what would happen if the industries under consideration were not able to draw on advertising revenues to fund their activities. The hypothesis adopted in this study is that in the absence of advertising revenue, the funding responsibility would be passed over to consumers through an increase in the price of the good. For TV, radio and online services, we assume that this takes the form of a monthly subscription fee.



As the price of the good rises, some consumers will no longer want to pay for it. As these consumers no longer consume the good, they no longer receive any consumer surplus. For those that do continue to consume the good, the surplus is lower because they now have to pay a higher price. The overall loss in consumer surplus is equal to the sum of these changes: the loss in consumer surplus from those consumers who no longer consume the good, and the loss in consumer surplus from those who do still consume the good but have to pay more for it.

In some cases, advertising is so central to the funding model of the industry that it may not be feasible to recoup the necessary revenue from sales alone. Whether this is the case will depend on the characteristics of the demand for the good. Where it is the case, there may not necessarily be a natural alternative counterfactual, and it is possible that the industry would cease to function altogether. In this case, the loss in consumer surplus would be equal to the initial consumer surplus.



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The Advertising Association promotes the role, rights and responsibilities of advertising and its impact on individuals, the economy and society. We are the only organisation that brings together agencies, brands and media to combine strengths and seek consensus on the issues that affect them. Through wide-reaching engagement and evidence-based debate we aim to build trust and maximise the value of advertising for all concerned.

7th Floor North  
Artillery House  
11-19 Artillery Row  
London SW1P 1RT  
  
020 7340 1100  
[aa@adassoc.org.uk](mailto:aa@adassoc.org.uk)  
[www.adassoc.org.uk](http://www.adassoc.org.uk)  
  
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