



ADVERTISING **PAYS** 2

HOW ADVERTISING CAN UNLOCK
UK GROWTH POTENTIAL

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Report by Deloitte LLP commissioned by the Advertising Association

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FOREWORD



Andy Duncan, Managing Director, Camelot UK Lotteries and President, Advertising Association

When Deloitte's *Advertising Pays* report launched in January 2013, for most, the economic game remained one of survival. What a difference twelve months makes. Confidence is returning. Growth is back on the agenda.

So this sequel – *Advertising Pays 2: How advertising can unlock UK growth potential* – could not be better timed. It asks not how advertising underpins GDP, but where the opportunities to create growth lie and, critically, how to grab them. It finds that UK SMEs – the engine room of our economy – are significantly underweight in their use of advertising and marketing, and explains why that is stopping a sector full of talent and innovation from maximising its potential to create revenues, jobs and growth.

What is the size of the prize? Consider this.

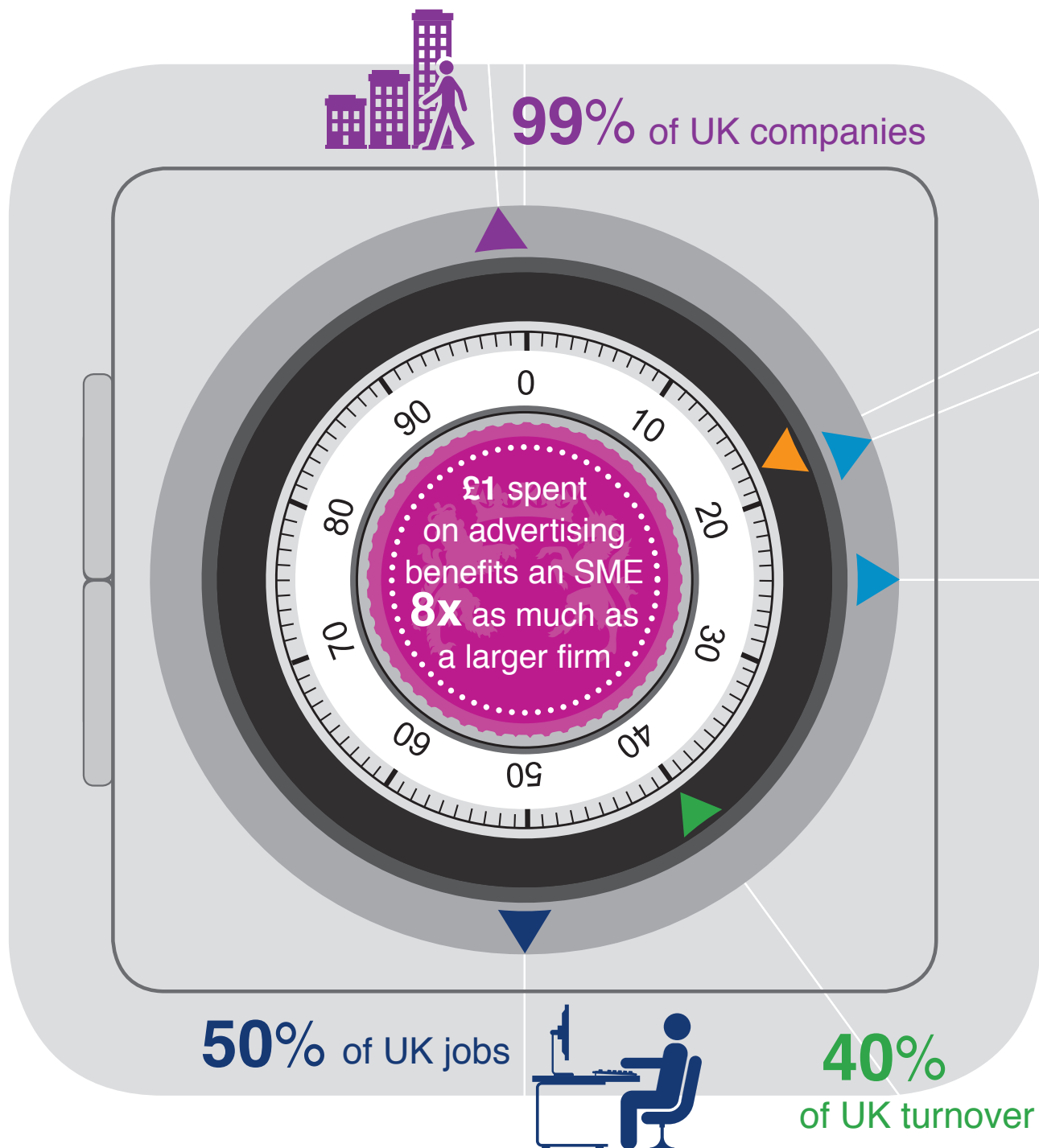
If smaller businesses could raise their export performance to just the EU average, it would be worth over £40 billion to the UK economy. Great advertising and strong brands will make that sort of export success more likely. That is why I hope this report will inspire not only those running SMEs, but policy-makers and everyone in agencies, brands and media to reconsider their role in allowing advertising's power to unlock growth in UK businesses.

The Advertising Association wants to see an environment in which businesses can maximise their returns on UK advertising investment. This report teaches us to apply that principle to every business, no matter what its size. If we do, the economic game really can change.

ADVERTISING **PAYS** 2

HOW ADVERTISING CAN UNLOCK UK GROWTH

SMEs with fewer than 250 employees



#adpays

Sources: Deloitte analysis based on econometric model described in Appendix A and data from BIS, Nielsen Ad Dynamix and Fame databases

POTENTIAL



Only **18%** of
UK Adspend

19%
of UK SMEs export

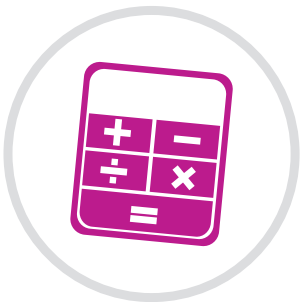
25%
of EU
SMEs export



HOW?

WHAT WOULD
ENCOURAGE SMES
TO ADVERTISE MORE?

1.



Help with managing the
short-term cost of advertising

2.



More practical advice
and support

3.



A clearer route into the
support that already exists

EXECUTIVE SUMMARY

The return to growth in the UK economy has been mirrored by increases in advertising expenditure. *Advertising Pays (2013)* demonstrated that, in 2011, advertising added £100 billion to the UK economy by stimulating competition, innovation and investment. However, the country now faces the challenge of maintaining economic momentum and securing the recovery.

Our economic recovery depends on high growth SMEs, particularly those medium-sized businesses most poised for growth, but they underinvest in advertising and therefore limit their growth domestically and overseas.

Across the political spectrum, the future of small and medium-sized businesses (SMEs) has been recognised as crucial to realising economic growth. Support for SMEs is at the heart of the government's growth strategy, and the government is investing in improving access to finance for SMEs. However, there is clear evidence that SMEs are still struggling to grow. They face particular challenges in accessing new customers and expanding into new domestic and international markets.

This report considers the role advertising can play in unlocking the growth potential of the country's SMEs and the wider economy. Analysis shows that spending an additional £1 on advertising would benefit an SME nearly eight times as much relative to its size as an equivalent £1 spent by a larger business.

Despite these potential benefits, SMEs account for only 18% of total UK advertising spend, even though they contribute nearly 40% of UK turnover.

The Advertising Association/Deloitte commissioned YouGov to survey over 1,000 SMEs to explore barriers to growth and attitudes towards advertising. YouGov's research confirmed that SMEs which advertise are more likely to achieve growth.¹ While those who use advertising consider it beneficial, those that do not are typically concerned with its cost and are uncertain about the benefits.

¹ There is naturally a question of causality – whether advertising causes growth or whether growing companies are more likely to advertise. This is addressed in the appendix and also in the previous study, Deloitte/Advertising Association (2013), *Advertising Pays*

Advertising already contributes £100 billion to the UK economy. With the right support for SME growth, the contribution could be even greater.

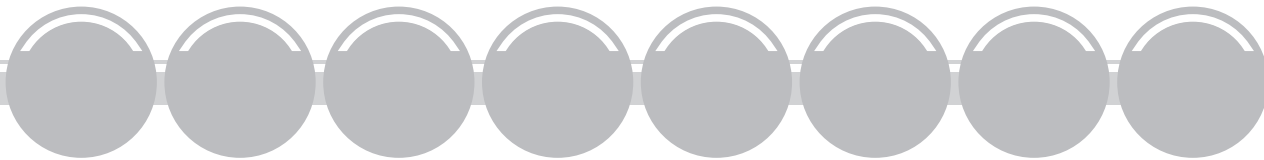
How can the potential of SMEs be realised?

SMEs interviewed and surveyed as part of this study recognised the importance of advertising to their future growth prospects. They also identified a number of areas where additional support would better enable them to advertise effectively and achieve their growth potential:

- **Help with managing the short-term cost of advertising.** SMEs face a difficult trade-off between short term calls on their cash and the long term benefits of advertising.
- **More practical advice and support.** SMEs expressed a need for more practical help and support from government and the private sector in relation to both domestic and international advertising.
- **A clearer route to the support that already exists.** Many government SME support schemes are in place, but few SMEs are aware that such schemes even exist.

MORE >>





What would more SME advertising do for the UK?

An increase in SME advertising has the potential to support:

- **Jobs & Growth.** SMEs already account for the majority of new job creation in the UK. Supporting SME success means supporting employment and growth.
- **Innovation.** Advertising helps SMEs create demand for new products, which optimises returns and promotes further investment in innovation.
- **Exports.** UK SMEs' exports are limited by a lack of understanding of overseas markets. While 25% of the EU's SMEs are exporters, only 19% of UK SMEs sell their products and services overseas. This report shows that if UK SMEs exported at the same rate as their European competitors, the value of UK exports could be increased by £40 billion.

However, enabling SMEs to advertise more poses a series of challenges for both the advertising industry and the government – both have a role to play in providing SMEs with the tools and expertise to grow into new markets and in explaining the benefits of advertising.

For industry, there is a clear need to provide a more accessible route to the use of professional advertising services. For government, there is a need for broader and more active support for SMEs during critical periods of their business development and for support in overcoming SMEs' short-term cash flow constraints.

Advertising is an industry for which the UK is recognised as a world leader. With the UK's recovery not yet fully established, it is important to ensure that the advertising industry's expertise helps young businesses with high-growth potential promote their new products to the world.

Advertising already contributes £100 billion to the UK economy; with the right support for SME growth the contribution could be even greater.

1

SCOPE OF THIS REPORT



In 2013, Deloitte published a study commissioned by the Advertising Association to quantify the contribution of advertising to the UK economy. The study, *Advertising Pays (2013)*,² found that on average, **every £1 spent on advertising returns £6 in GDP, creating a total impact of £100 billion in 2011.**

To respond to the government's *Plan for Growth*³ and build on the findings of *Advertising Pays (2013)*, the Advertising Association asked Deloitte to assess how the advertising industry can work with government to achieve an even greater economic contribution.

This report examines how advertising can contribute to three core elements of the government's growth strategy by:

1. Supporting SME growth
2. Stimulating innovation
3. Boosting exports.

“Half of all jobs in this country come from small and medium sized business. So if we're to get our economy going again, we must do all we can to support them.”

Business Secretary, Vince Cable

MORE >>



² Deloitte/Advertising Association (2013), *Advertising Pays*, available at <http://www.adassoc.org.uk/Advertising-Pays>

³ Department for Business, Innovation & Skills, and HM Treasury (2011), *The Plan for Growth*.

To consider this, the report uses:

- An econometric model that explains the role of advertising in enabling the growth of SMEs. This builds on the work of *Advertising Pays (2013)* to form the core of the report. It addresses the question of cause and effect – whether advertising supports the growth of SMEs, or faster-growing SMEs are more likely to advertise.
- A survey of over 1,000 UK SMEs which assesses barriers to growth, attitudes towards advertising and awareness of existing government schemes.
- A series of case studies looking at the impact that advertising has had on innovative and growing businesses.

In line with *Advertising Pays (2013)*, this report defines advertising as ‘any paid-for communication intended to inform and/or influence one or more people’.⁴

While there is no single definition of an SME, this study, consistent with the Department of Business, Innovation and Skills (BIS) approach,⁵ defines an SME as a firm with fewer than 250 employees.⁶



⁴ J.J.D. Bullmore in Bullmore, J.J.D. and Waterson, M.J. (eds) (1983) *Advertising Association Handbook*.

⁵ Department for Business, Innovation and Skills (2013), available at <http://webarchive.nationalarchives.gov.uk/+/http://www.bis.gov.uk/policies/enterprise-and-business-support/analytical-unit/statistics>

⁶ Figures included in this report are derived from public data include micro-businesses, including sole traders, unless stated otherwise.



**Micro-
businesses**

**0-9
employees**



**Small
businesses**

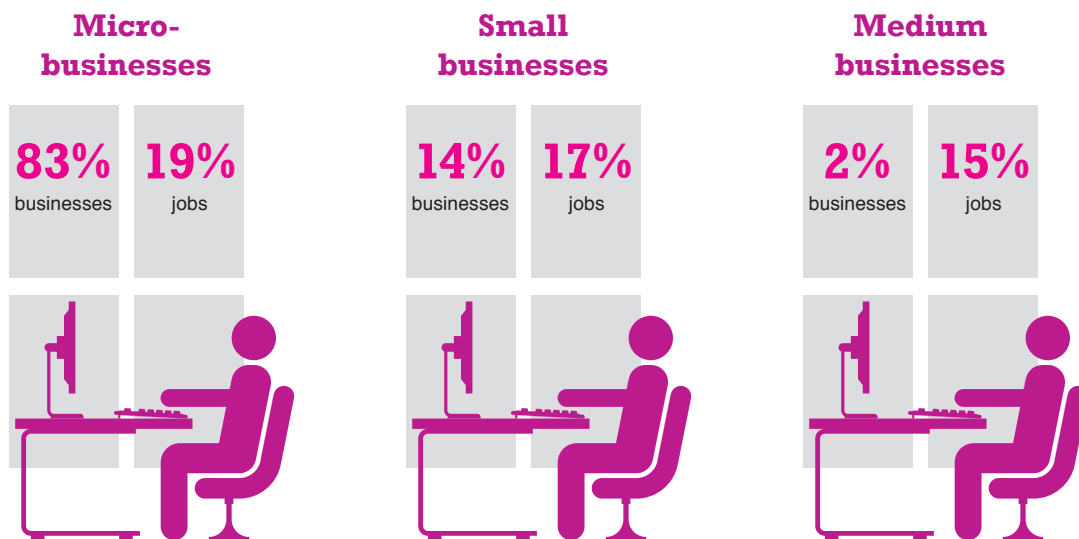
**10-49
employees**



**Medium
businesses**

**50-249
employees**

SME's contribution to employment



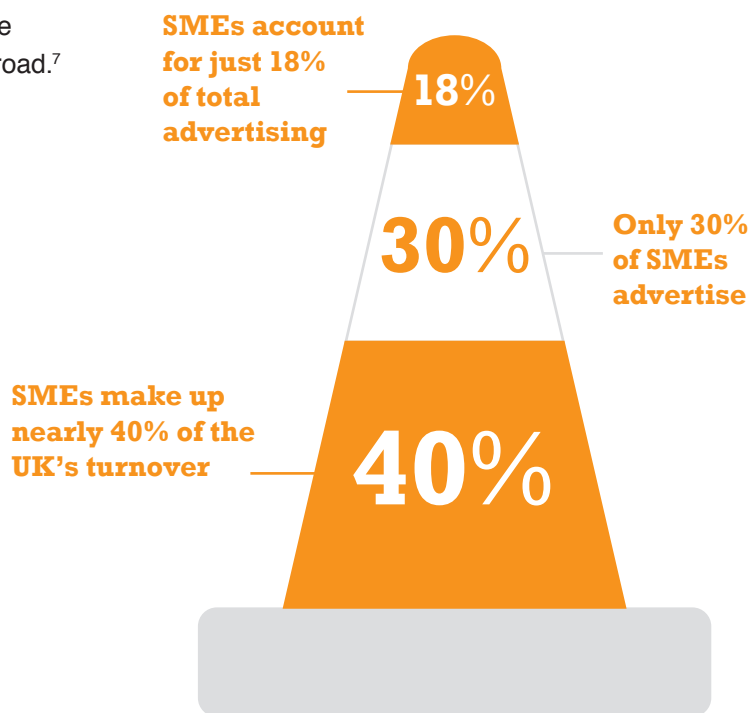
Source: Deloitte analysis of BIS business population estimates for the UK and regions 2012 including micro-businesses

2

BARRIERS LIMIT SME ADVERTISING

SMEs are important to UK growth, but they face challenges in expanding both in the UK and abroad.⁷

While there are many factors restricting SMEs' growth, part of the problem lies in their limited use of advertising. The SME population contributes only 18% of advertising spend in the UK,⁸ despite accounting for nearly 40% of all turnover.⁹



⁷ Department for Business, Innovation and Skills (2013): 'Guidance: Small business: GREAT ambition'.

⁸ Based on Deloitte analysis of a sample of firms extracted from Nielsen Ad Dynamix and FAME databases, excluding micro-enterprises.

⁹ Based on Deloitte analysis of BIS business population estimates for the UK and regions 2012, excluding micro-enterprises.



SMEs generate nearly 40% of UK turnover but they contribute only 18% of advertising spend.

To examine the reasons behind this imbalance, Deloitte and the Advertising Association commissioned a YouGov survey of over 1,000 UK SMEs to explore their use of advertising.

The results suggest that many SMEs choose to limit their advertising expenditure because of concerns over cost. Two-thirds (67%) of SMEs which do not advertise believe that advertising is 'too expensive' and additionally, 66% believe it is 'financially risky'.

As a result, it is estimated that fewer than one-third of SMEs invest in any form of advertising,¹⁰ and the percentage of businesses which advertise is highest among the largest SMEs. Financial concerns are not restricted to smaller SMEs.¹¹ Among businesses with more than £10 million turnover, fewer than 1 in 2 (46%) currently advertise.

Cost, however, is not the only factor limiting SME advertising. In detailed interviews conducted with SMEs, a more complex picture emerged.

Among businesses with more than £10 million turnover, fewer than 1 in 2 (46%) currently advertise.¹²

MORE >>

¹⁰ Based on Deloitte analysis of the Advertising Association/Deloitte survey. Only about a third (35%) of SMEs surveyed invest in advertising. Advertising rates were calculated for each SME size band and weighted using BIS data on the total number of micro, small and medium businesses in the UK SME population to obtain an estimate of the advertising rate in the UK SME population.

¹¹ Deloitte/Advertising Association. Survey conducted by YouGov, November 2013.

¹² 'SMEs which use paid advertising' refers to the percentage of advertisers out of total SMEs. 'SMEs which believe advertising is too expensive' refers to the percentage of non-advertisers which believe advertising is too expensive out of total non-advertisers.



INDUSTRY INTERVIEWS SUGGEST BARRIERS TO SME ADVERTISING ARE NOT JUST FINANCIAL

Interviews were conducted with SMEs and a number of industry representatives, described in Appendix B. Each of these interviews explored the use of advertising by SMEs, its role in the growth of businesses and the barriers to its effective use.

The importance and value of advertising to companies of all sizes was clearly recognised. However, interviewees also noted that limited use of advertising by SMEs resulted from a range of complex, interrelated factors.

SMEs may underinvest in advertising relative to larger firms because they are more risk-averse and cautious about cash expenditure than larger firms. Their wariness is reinforced by the difficulty they see in quantifying the return on their investment.

However, their concerns go beyond the purely financial, and many SMEs are often less able to extract the maximum value from their campaigns because:

- They are less likely to develop a consistent, planned advertising campaign. By designing each advert in isolation, many SMEs get less long-term value from advertising than they otherwise could.
- They are less likely to measure the results of their advertising, particularly where doing so requires additional resources. As a result, it is more difficult for them to calculate an accurate return on investment and harder for them to improve and refine their campaigns over time.



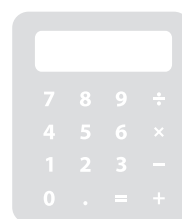
SMEs are often unable to extract maximum value from campaigns



SMEs are less likely to develop a **consistent, planned advertising campaign** and often design each advert in isolation.



SMEs are less likely to **measure the results of their advertising**. As a result, it is more difficult for them to calculate an accurate return on investment and harder for them to improve and refine their campaigns.



3

SME ADVERTISING INVESTMENT COULD ACCELERATE GROWTH



A number of studies have examined policy options to support SME growth,¹³ but few have focused explicitly on the potential for advertising to help smaller businesses expand.

64% of SMEs say their advertising has been a success. High-growth SMEs are more likely to advertise.

Although this study finds evidence of significant barriers to the use of advertising by SMEs, it also finds evidence of benefits to those who do advertise:

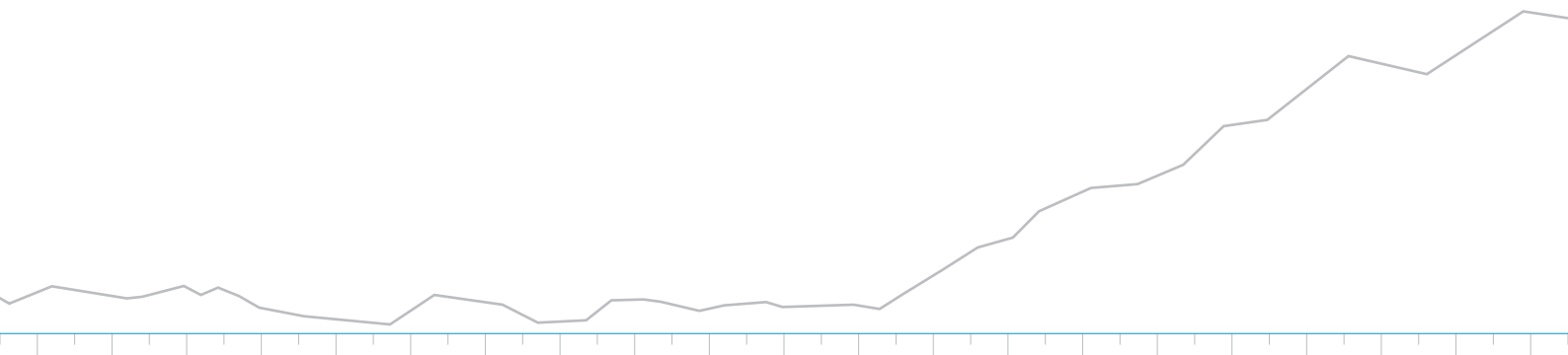
- Even among micro-businesses, a majority (59%) of those which advertise reported a direct increase in sales, and nearly two-thirds of all SMEs believe their investment in advertising represents value for money.¹⁴
- Many high-growth SMEs have had success with low-cost and local advertising.¹⁵ This includes making use of local radio and newspapers which offer an opportunity to attract a regionally specific audience, or online pay-per-click services that allow SMEs to monitor their advertising closely.
- High-growth SMEs are more likely to advertise. Some 61% of high-growth SMEs are knowledgeable about marketing – they advertise, consult marketing advisers, or have their own marketing experts. Only 43% of SMEs not experiencing growth do any of these things.¹⁶

¹³ See for example Dods (2013), Growth Britain: Unlocking the potential of our SMEs.

¹⁴ Deloitte/Advertising Association. Survey conducted by YouGov, November 2013.

¹⁵ High-growth SMEs are those that experienced an increase in turnover or employment of 20% or more in the previous year.

¹⁶ Deloitte/Advertising Association. Survey conducted by YouGov, November 2013.



Addressing the barriers to the use of advertising by SMEs could play an important role in supporting the government's growth strategy.

Increasing growth and employment of smaller businesses



Expanding the UK's export potential

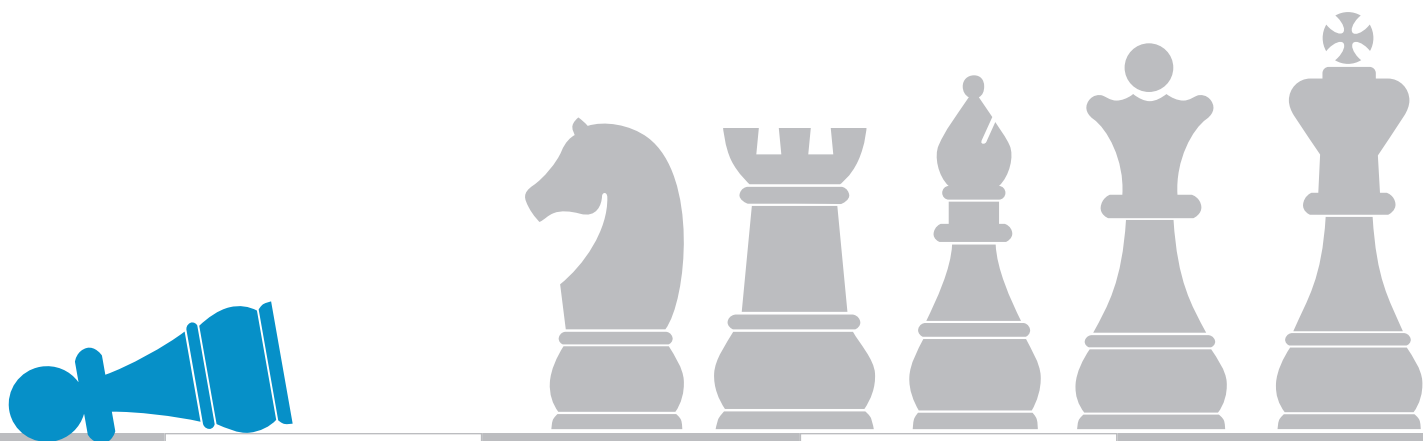


Enabling stronger innovation-led growth across the economy



MORE >>





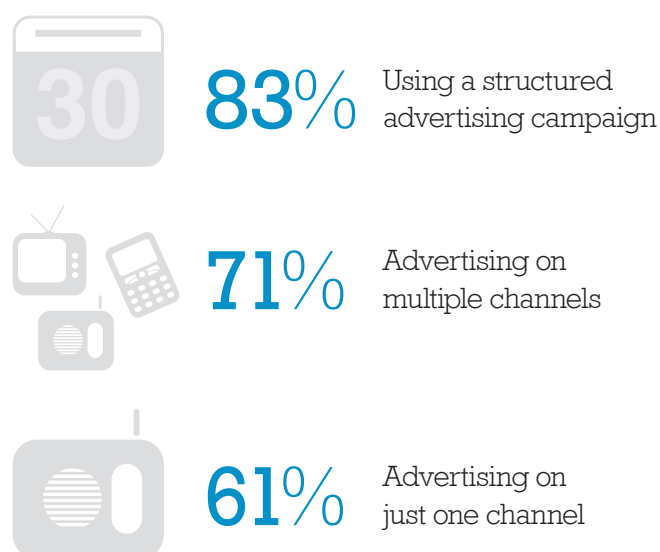
Among SMEs which advertise, the strongest results are achieved when businesses use multiple advertising channels and develop a structured campaign, rather than relying on an occasional advert or just using one channel. The 64% of all SMEs that believe their advertising has been a success rises to 83% for those who have a structured multi-channel campaign.¹⁷

“We had to shift our focus in order to reach a larger audience and grow further, so we started using TV advertising and an integrated marketing strategy. It has been a real fuel for boosting growth. Our business started in 2008, and since launching, we now have over 750,000 customers in the UK and US.”

Protectyourbubble.com, a medium-sized online insurance firm

The highest perceived success rate came from SMEs which used planned campaigns across multiple channels.

Percentage of advertiser SMEs whose advertising strategy has been a success



Source: Deloitte/Advertising Association survey

¹⁷ Deloitte/Advertising Association. Survey conducted by YouGov, November 2013.



TECH START-UP DOUBLES IN SIZE AFTER CROSS-CHANNEL CAMPAIGN

BLOOM FM

Bloom FM is a music-borrowing mobile app founded in 2012.

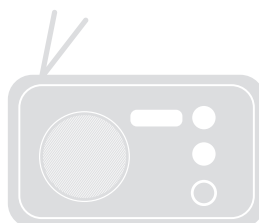
THE CAMPAIGN

Bloom used offline advertising to build brand awareness and drove app downloads with targeted online ads. In 2013, Bloom launched its first television campaign.

THE RESULTS

Bloom FM has increased its registered users to 750,000 since its launch 12 months ago. It has also had interest from a number of large mobile, ISP and retail companies about potential commercial partnerships.

Source: Bloom FM interview



“Our integrated marketing strategy coupling both traditional and digital advertising has been essential to growing our business and building a brand.”

David Mollison, Bloom FM



Registered users increased to **750,000** since its launch.

Partnership opportunities with mobile, ISP and retail companies.



3.¹

BUSINESS GROWTH AND EMPLOYMENT

Small and medium-sized enterprises sustain and create millions of jobs across the economy. Between 1998 and 2010, SMEs accounted for 77% of all job creation.¹⁸

However, SMEs also face significant challenges, and only around 65% of UK SMEs survive their first three years, threatening the stability of job creation and employment in the UK.¹⁹

One of the most important factors in the sustainability and success of these firms is their capacity to manage cash flow alongside growth. Those that are most successful and likely to survive achieve growth in demand while managing costs.

While advertising is important for all businesses, it is particularly important for the growth and survival prospects of SMEs, because of its potential to raise awareness of the business and its products or services.

¹⁸ 44% of this arises through increased employment in existing SMEs, with the remaining 33% arising through start-ups. Department for Business, Innovation and Skills (2011), *Job Creation and Destruction in the UK: 1998–2010*.

¹⁹ University of Surrey and Kingston Smith (2012), *Success in Challenging Times: Key Lessons for UK SMEs*.

Between 1998 and 2010,
SMEs accounted for
77% of all job creation.

MORE >>



BOLD ADVERTISING ON A LOW BUDGET **TRANSFORMED RADLEY + CO.**

RADLEY

Radley is a premium British handbag manufacturer, founded in 1998.

THE CAMPAIGN

Radley played on its distinctive designs in its 'Truly Radley Deeply' press campaign. Spending significantly less than rivals, Radley aimed to get customers and influential fashion buyers talking about the brand.

THE RESULTS

'Truly Radley Deeply' was hugely successful, paying for itself nearly six times over through increased sales. The value of Radley tripled in less than two years, and the business was sold for over £130 million.



Increased sales nearly
6 times campaign cost.



Radley's value tripled in less
than two years.



Business sold for over £130m.

"The benefits of the Truly Radley Deeply campaign go way beyond strong sales and awareness gains. Radley continued to take market share in the UK and our advertising strategy produced some outstanding results for the company."

Roger Best, Radley

Source: IPA (2008), 'Radley – From bags to riches'.



An additional £1 spent on advertising by an SME has eight times the effect on sales relative to its size.

Advertising Pays (2013) showed how advertising does more than just benefit individual businesses by helping them generate sales; advertising can drive growth for the economy as a whole by helping businesses communicate with consumers, promoting innovation, enhancing competition and expanding and developing markets. This report reveals the particularly powerful impact advertising has on SMEs' business prospects.

Deloitte's econometric analysis estimates that an additional £1 spent on advertising by an SME has eight times the effect on sales relative to its size, compared to the impact of an extra £1 for a large business.²⁰



²⁰ See Appendix A. Results relate to change in marginal advertising spend by SMEs which advertise. Appendix A also shows how marginal and average effects differ from each other.



ADVERTISING **STIMULATES GROWTH FOR GÜ**

GÜ PUDDINGS

Gü is a premium dessert company founded in 2003.

THE CAMPAIGN

The 2011 'Give in to Gü' campaign repositioned the puddings as an everyday guilt-free treat aimed at both new and existing customers.

THE RESULTS

The campaign was a great success, achieving a return of £1.84 for every £1 spent. This boosted revenues by £6.5 million, and put Gü on course to double its sales within three years.

Source: IPA (2012), 'Gü: Give in to the power of TV. Give in to Gü'.



A return of £1.84 for every £1 spent.



Revenues boosted by £6.5m.



Gü on course to double its total sales within 3 years.

NEXT STEP >>

If UK firms export at the same rate as their European counterparts, UK exports could be increased by £40bn.

3^{.2}

UK EXPORT POTENTIAL

Policy makers and commentators have long argued the need to increase UK exports.

“Improving the UK’s export performance is central to our future prosperity. With public finances constrained and domestic consumers still burdened by debt, one of our best prospects for sustainable economic growth is through increased exports.”

CBI, *The Only Way is Exports*, April 2013

UK businesses are broadly aligned with this objective. In the government’s most recent SME survey, companies identified a sales-oriented export strategy as the second most important aspect in delivering growth (69%), behind increasing the skills of their workforce (75%).²¹

However, while there is a clear desire to increase exports, the most recent government data shows that only 19% of UK SMEs currently export, compared to 25% of EU SMEs.²²

The SMEs questioned for this report identify uncertainty over demand as the most significant barrier to exporting, ahead of financial and regulatory concerns:

“Overseas advertising to promote export sales would help but we have no idea how to go about it.”

Manufacturing business, South of England²³

²¹ Department for Business, Innovation and Skills (2013), *Small Business Survey 2012: SME Employers*.

²² Department for Business, Innovation and Skills (2013), *Small Business Survey: Growth Special Report*.

²³ Deloitte/Advertising Association survey, conducted by YouGov, November 2013.

²⁴ *ibid.*

Firms which overcome concerns about demand uncertainty export at more than double the rate of other exporters.

Many firms recognise that advertising and marketing represent part of the solution, but express confusion over how to achieve this:

“In foreign markets, knowing which publications/conferences are the most relevant for the product being sold into that market [would help increase exports].”

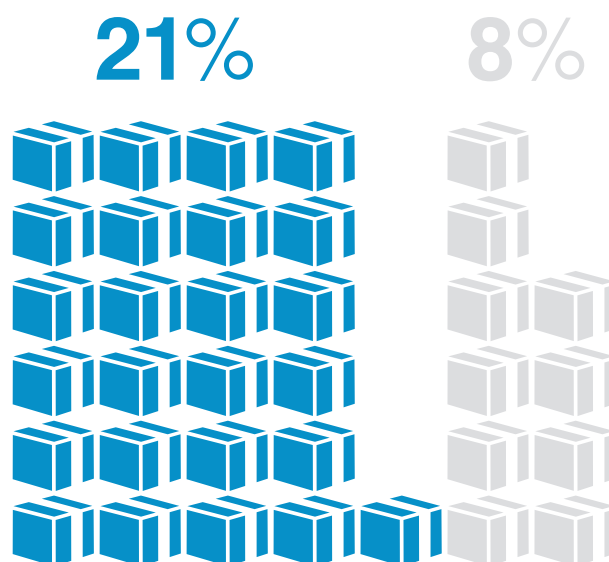
Health and social work business, Midlands²⁴

The survey shows that SMEs which are uncertain about overseas demand export at less than half the rate of other exporters.²⁵ The cost of this to the UK is significant.

If UK SMEs, by overcoming uncertainty about demand, were able to export at the same rate as their European counterparts, UK exports could be increased by £40 billion.²⁶

SMEs who do not face demand uncertainty rely more on exports. **21%** of their turnover comes from exports.

Exports make up only **8%** of turnover among SMEs who are concerned about demand overseas.



Source: Deloitte/Advertising Association survey

²⁴ Deloitte/Advertising Association survey, conducted by YouGov, November 2013.

²⁶ Deloitte analysis. This figure is a broad estimate designed to illustrate the significance of the opportunity. Export increase assumes all additional exports are incremental and there is no cannibalisation. It also assumes that additional firms export at same rate as current SME exporters. The figure is calculated by taking the difference between export rates of UK and EU SMEs and multiplying this by UK SME export turnover. SME export turnover is estimated by taking SME share of total turnover and weighting it by the proportion of SMEs which are exporters. ONS (2013), 'Annual Business Survey, exporters and importers, GB, 2011', available from <http://www.ons.gov.uk/ons/rel/abs/annual-business-survey/characteristics-of-exporters-and-importers--gb--2011/index.html>

3.³

INNOVATION-LED GROWTH

“[Small businesses] are the backbone of our economy. They create the vast majority of jobs, and export their goods and products across the world. They are at the heart of innovation, which is often copied by larger businesses, and drive growth throughout the United Kingdom.”

Simon Danczuk, MP for Rochdale²⁷

Small businesses are recognised as crucial to the government's achievement of its *Plan for Growth*, and they generate 40% more of their sales from innovative products than larger firms.²⁸ However, while SMEs are an important source of innovation, they are among the most concerned about the financial risks of innovation and the uncertainty of demand for their products.

Small businesses generate 40% more revenue from innovative products than large firms but small businesses are 30% more likely to be concerned that the costs of innovation are high.²⁹

More effective use of advertising could help boost the UK's innovative potential by helping to increase demand for innovative products and services, and reduce the risks of investing in innovation.

Advertising also plays a wider role in supporting innovation. It communicates the presence of new products to consumers and, through stimulation of demand for those products, increases the incentives for firms to invest in future innovations.³⁰

²⁷ UK Parliament (2013), 'Daily Hansard debate', available at <http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm131128/debtext/131128-0003.htm>

²⁸ Specifically, 40% more of small businesses' turnover relates to the sale of innovative products, relative to larger firms, based on new-to-market products. Source: Department for Business, Innovation and Skills (2013), *UK Innovation Survey 2011*. Small businesses are those with <50 employees; large businesses are those with 250+ employees.

²⁹ Data drawn from Department for Business, Innovation and Skills (2013), *UK Innovation Survey 2011*.

³⁰ This relationship has been widely established, including in the seminal paper: Borden, N.H. (1942), *The Economic Effects of Advertising*, Chicago.

Small businesses generate 40% more of their sales from innovative products.

MORE >>



COST-EFFECTIVE ADVERTISING BOOSTS RIVERFORD'S CHRISTMAS SALES

RIVERFORD

Riverford is an award-winning company with an innovative scheme to deliver organic produce.

THE CAMPAIGN

Riverford used social media advertising to run competitions and promote Christmas products to new and existing customers in the run-up to Christmas 2013.

THE RESULTS

Riverford had 2,000 new visitors to its website and quickly sold out of the mini gift hamper that was being advertised. Sales of promoted products increased by 7% in just one day, and half of all competition entrants opted to hear more about Riverford thus growing its prospective customer base.



2,000 new website visitors, and sold out of the advertised product.



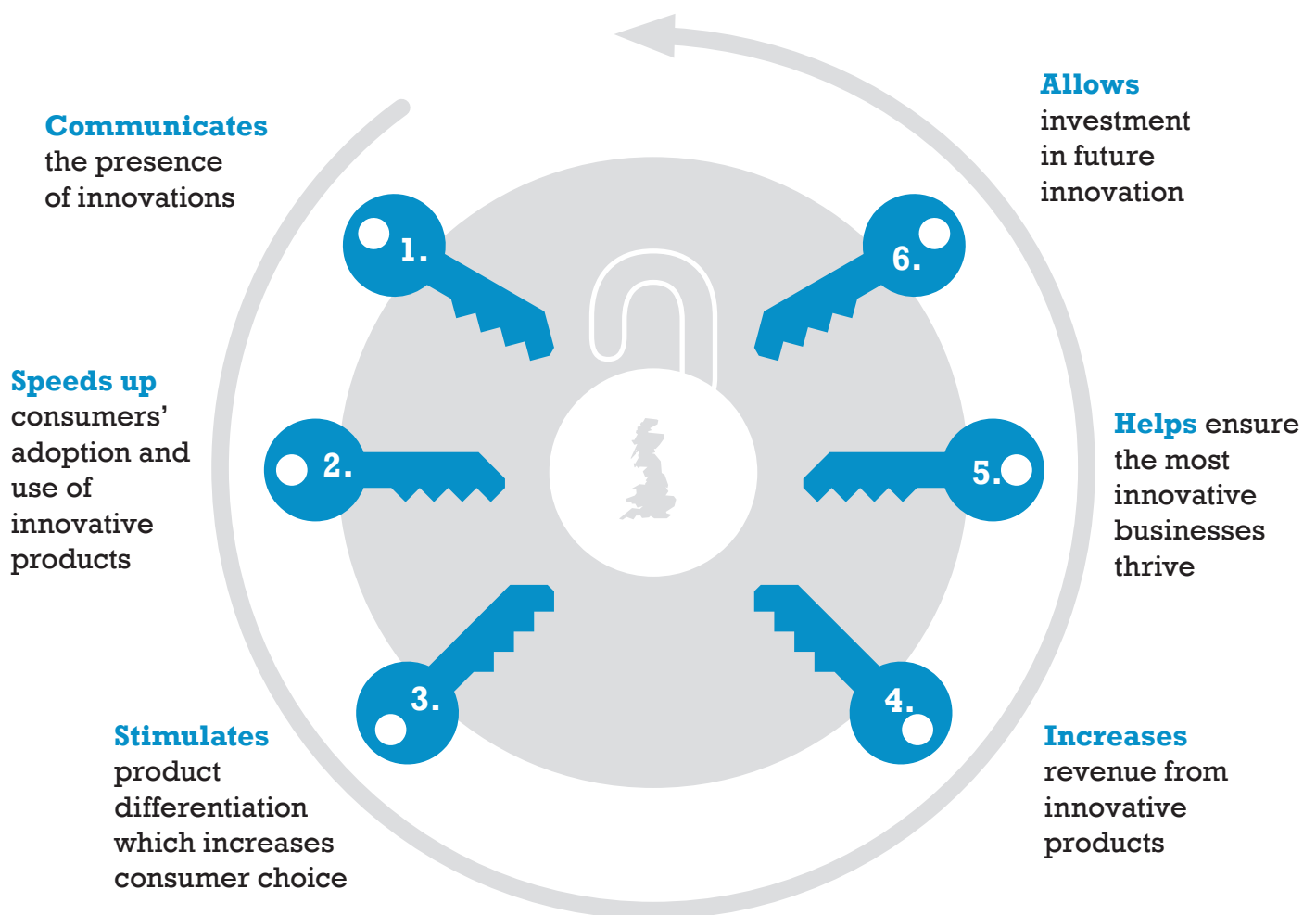
Sales of promoted products **increased by 7%** in a day.



50% of competition entrants **opted to hear more**.

Source: Riverford interview

Advertising unlocks
value from new
innovation.



RECEIVED BY: SIGNATURE:

ADVERTISING **GENERATES DEMAND IN NEW MARKETS**

HUBBUB

Hubbub is a home delivery service for independent food stores launched in 2010.

THE CAMPAIGN

Hubbub experimented with an outdoor advertising campaign to build awareness and increase demand in new markets.

THE RESULTS

The campaign not only generated additional sales, but gained the attention of the mainstream press. Increased exposure led to over 6,000 website hits within 12 hours.



“We wanted to scale the business fast and a visible ad campaign was a key part of building brand awareness and generating interest from customers, suppliers and the media.”

Marissa Leaf, Hubbub

Source: Hubbub interview

4

SME VIEWS ON GOVERNMENT SUPPORT

SMEs were also surveyed by YouGov on the issues affecting their businesses and their awareness of existing government support schemes. The findings identified a number of areas where SMEs feel additional support is needed from government and the advertising industry.

Provide more practical help and support with domestic and international advertising

A strong and consistent message from SMEs is the need for more structured support to help them advertise, both domestically and internationally. SMEs expressed a desire to grow into new markets, but uncertainty over how best to achieve it.

“Our business used to grow regularly with support on general business strategy and individual campaigns from Business Link. The closure of Business Link has been a great loss, and their unbiased expertise is not something we can afford to invest in.”

Service business, East of England³¹

Help manage the short-term cost of advertising

As the survey and detailed interviews highlighted, many SMEs have difficulty in managing the trade-off between short-term cash constraints and the benefits of advertising. Advertising is widely perceived as ‘risky’.

“SMEs are cash conscious and need to see immediate returns to their decisions.”

Advertising executive, London³²

³¹ Deloitte/Advertising Association. Survey conducted by YouGov, November 2013.

³² *ibid.*

³³ *ibid.*



However, most SMEs recognise the value advertising can provide, and they seek help managing the costs to mitigate the perceived financial risks.

“Tax breaks for marketing expenditure [would help].”

Professional services business, Scotland³³

Make it easier to find the support that already exists

The government estimates that there are over 700 support and funding schemes, services and initiatives for SMEs,³⁴ as well as numerous private sector programmes. Many SMEs do not know which organisation to turn to when they need support.

“There are too many programmes to make a sound business decision.”

Manufacturing business, London³⁵

While SMEs articulated a need for support, low awareness of how to access existing schemes is limiting their ability to use them effectively. Even among firms interested in increasing exports, the survey revealed only 25% use, or intend to use, existing support programmes and services such as UK Trade and Investment (UKTI), which helps UK-based businesses access international markets.

MORE >>

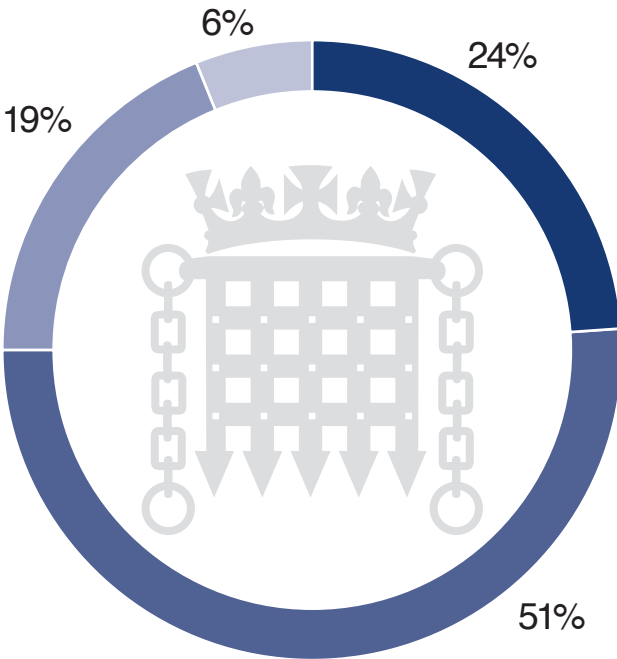


³⁴ Major support schemes for SMEs include GrowthAccelerator, Passport to Export and apprenticeships. GOV.UK (2013), 'Finance and support for your business' available at <https://www.gov.uk/business-finance-support-finder/search>

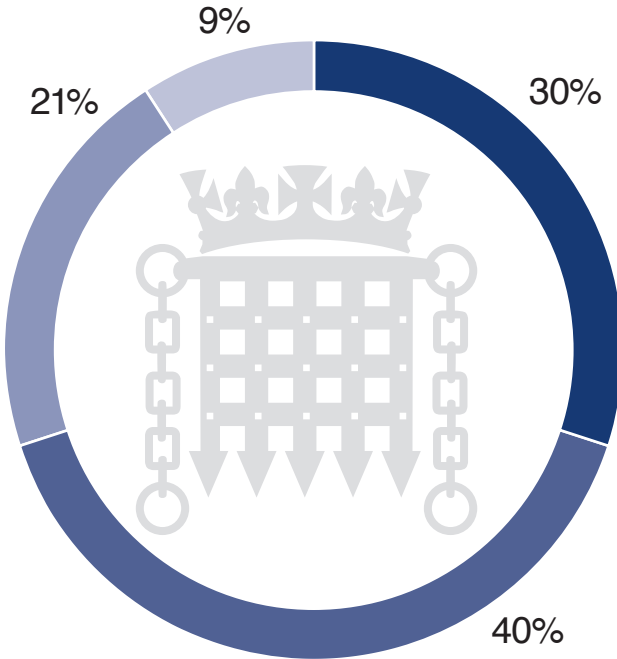
³⁵ Deloitte/Advertising Association. Survey conducted by YouGov, November 2013.

Perceptions of key government support schemes

Perceptions of UKTI; SMEs potential exporters



Perceptions of GOV.UK, all SMEs



- I've never heard of this scheme
- I've heard of this scheme but don't know much about it
- I understand what this scheme can do for me
- I have used or intend to use this scheme in the next 12 months

Source: Deloitte/Advertising Association. Survey conducted by YouGov, November 2013.

There are over 700 support and funding schemes, services and initiatives for SMEs. Many SMEs do not know which organisation to turn to when they need support.

MORE >>



PROVIDING ADVERTISING & MARKETING **ADVICE TO SMES**

TAG DIGITAL

Tag Digital is a digital agency founded in 2011, with offices in London and Glasgow.

THE PROGRAMME

Tag developed a training programme with local councils in Scotland to deliver advertising, marketing and digital expertise to local SMEs. The programme was supported by local government funding.

THE RESULTS

The programme received positive feedback from small businesses and was quickly expanded to other councils in Scotland. Many of the SMEs which participated in the training went on to work with Tag Digital to create digital marketing strategies.



Positive feedback from SMEs.

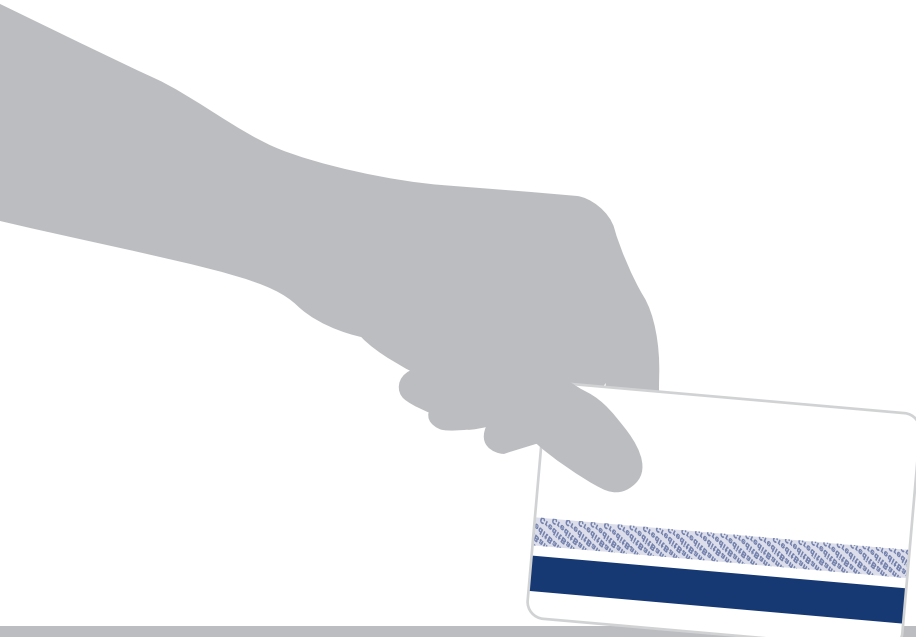


Expanded to other councils.



Many SMEs in the training created digital marketing strategies with Tag.

Source: Tag Digital interview



ADVERTISING **HELPED SMALL BUSINESSES REACH BIG AUDIENCES.**

SMALL BUSINESS SATURDAY

The Small Business Saturday initiative encouraged consumers to celebrate and support small businesses.

THE CAMPAIGN

The campaign, in association with American Express, used national TV, local and national radio and press to encourage people to shop in independent and local shops on 7 December 2013.

THE RESULTS

Nearly half of all shoppers were aware of the initiative and, of those, 57% said they had visited an independent shop. Reports estimated that the day boosted the UK's independent retailers' takings by £468 million.

Sources: City AM (2013) and Telegraph (2013)

47%

Nearly half of all shoppers, 47%, were aware of the initiative

57%

57% of those said they had visited an independent shop

£468m

Consumer support equated to £468 million being spent in independent shops on the day.

INTERNATIONAL SCHEMES TO SUPPORT ADVERTISING

In the UK there are over 700 different government schemes designed to support SMEs. Notable schemes include *Start-up Loans*, *Growth Accelerator* and *Mentors Me*, as well as the *British Business Bank* and *Growth Vouchers* initiatives which are due for launch in 2014. There are also a number of regional and industry-specific schemes which are run by local authorities.

Schemes that explicitly provide advertising and marketing advice for companies looking to grow, either domestically or internationally, are limited. Other governments around the world have provided such support through a range of interventions.

Financial support for SME exports

Australia's Export Market Development Grants scheme helps SMEs enter overseas markets by reimbursing up to 50% of eligible export promotional expenses above AUS\$10,000. Providing SMEs meet qualifying criteria, grants can be used to pay for overseas advertising and to hire marketing consultants in foreign markets.³⁶

Italy and **Spain** have historically offered financial incentives for market research, marketing and promotional activities.³⁷

Export advice online and in person

The **United States** government operates Export.gov, which provides country-specific market research and advertising advice. It also offers an online community for exporters to share advice. The US Commercial Service has a network of trade and industry specialists in over 100 cities in the US and over 80 countries staffed with trade specialists that can help businesses discuss and plan export strategies.³⁹

Business advice and funding for capacity development

New Zealand Trade and Enterprise has established 14 regional business partners across the country as hubs of business development and R&D knowledge. Partners work with businesses to provide advice, support and access to funding, including NZTE Capability Development Vouchers that can be used to pay up to 50% of the cost of capacity development and training in areas such as exports and marketing.³⁸

Market access information and support

Many governments, including those in **Czech Republic**, **France**, **Finland** and **Hungary**, offer market access intelligence and/or business promotional services.⁴⁰



³⁶ Australian Government (2013), 'Export market development grants' available at <http://www.austrade.gov.au/Export/Export-Grants/What-is-EMDG>

³⁷ United Nations Industrial Development Organisation (2005), *Support Systems for Export Consortia*.

³⁸ New Zealand (2013), 'Regional business partners' available at <http://www.business.govt.nz/support-and-advice/advice-mentoring/regional-business-partners>

³⁹ Based on analysis of <http://www.export.gov>

⁴⁰ OECD (2009), *Top Barriers and Drivers to SME Internationalisation*.

5

RECOMMENDATIONS FOR INDUSTRY AND GOVERNMENT

Although a vital part of the UK economy and an essential element in the UK's growth strategy, SMEs have the potential to play an even greater role in the UK's economic resurgence. A number of previous studies⁴¹ have examined potential factors that may assist growth, but few focus on the role of advertising.

This is important, as this report has shown that an increase in advertising spend by £1 for a UK SME would have eight times the impact on its sales growth rate compared to £1 spent on advertising by a larger firm. Despite this potential impact, and the fact that SMEs contribute 40% of UK turnover, they account for only 18% of total advertising expenditure.

The survey conducted for this report and supporting interviews point to a range of interrelated factors for this underinvestment in advertising. These include cost pressures on businesses, particularly when balancing short-term cost pressures against longer-term gains.

These pressures are significant and apply to medium-sized businesses – those most poised for growth – as well as the smallest SMEs. Of firms with more than £10 million turnover, fewer than 50% currently conduct any advertising. Of those, 30% choose not to advertise because the cost is considered prohibitive.⁴²

UK SMEs are also significantly less likely to export compared to their European competitors, with only 19% selling their goods and services overseas, compared to 25% of EU SMEs. This potentially costs the UK economy as much as £40 billion. SMEs report that uncertainty about international demand is one of the key barriers that prevent them from increasing their exports. Despite this, only a quarter of those surveyed understood or accessed the support offered by organisations such as UK Trade and Investment.

⁴¹ See, for example, Dods (2013), *Growth Britain: Unlocking the potential of our SMEs*.

⁴² Deloitte/Advertising Association. Survey conducted by YouGov, November 2013.

SMEs have the potential to play an even greater role in the UK's economic resurgence.



When asked how they could be helped to overcome these challenges, SMEs articulated a need for:

- 1. Support in meeting the short-term cost pressures of investing in advertising**
- 2. Practical advice and support with the marketing of their businesses, both domestically and internationally**
- 3. A clearer route to accessing existing support provided by government.**

The findings of this report raise important challenges for both the advertising industry and government. SMEs clearly need better support and education to understand the benefits that advertising can offer. The industry must do more to explain the commercial benefits of advertising and consider ways to make its expertise more accessible to companies of all sizes.

SMEs also pointed to a need for more accessible support from central government, particularly during critical phases in their growth. This could take the form of specialist support and education for SMEs or first-time advertisers, advice on how to use advertising to help them enter overseas markets, or taking steps to mitigate the perceived risk of advertising among companies with high growth potential.

The policy response to these challenges is likely to require close coordination between the advertising industry and government. However, if these issues can be overcome, the potential benefit for the UK economy is considerable.

The evidence shows that many SMEs have a strong appetite for growth and, with the right support from industry and government, they also have considerable potential to help the UK innovate, export and grow.

Advertising already contributes £100 billion to the UK economy. The findings from this study suggest the potential is even greater.

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APPENDICES

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APPENDIX A

DETAILED ECONOMETRIC METHODOLOGY

This appendix presents the details of the econometric estimation carried out in order to measure the impact of advertising on firms' sales. Specifically this analysis includes estimating:

- the impact of advertising on sales and firm growth
- the relationship between firm size and the effectiveness of advertising.

THE DATASET EMPLOYED

Data was collected from a number of sources in order to obtain a quantitative description of advertising spend across the UK. The dataset includes data on firm sales (the dependent variable of interest) and advertising expenditure at the firm level. A number of other firm characteristics that influence sales (such as the number of employees) were also included. The main variables used in the analysis are summarised in Table 1.

All data was collected annually at the firm level for UK firms (firms with main operations based in the UK) for years 2008–12. The source databases included Nielsen Ad Dynamix⁴³ and FAME.⁴⁴

An initial dataset of countries was constructed by collecting publicly available data from the World Bank's World Development Indicators.⁶⁰ This was supplemented by data from the Advertising Association, WARC and Nielsen, as well as by data from the International Labour Organization (KILM and LABORSTA). This generated a panel of 17 countries comprising the world's largest economies as well as some developing economies, spanning a 14-year period from 1998 to 2011.

Table 1: Main variables used in the analysis

Variable	Description	Source
Advertising	Annual advertising spend by firm (GBP constant prices, excludes Internet searches)	Nielsen Ad Dynamix
Turnover	Annual turnover by firm (GBP constant prices)	FAME
Number of employees	Total number of employees by firm	FAME

⁴³ Nielsen (2013), Ad Dynamix Database, available from <http://www.nielsen.com/uk/en.html>

⁴⁴ FAME (2013), Database available from <https://fame.bvdinfo.com/version-2013116/Home.serv?product=fameneo>

THE MODEL

That advertising positively impacts sales is easily understood. An example from the literature shows that in the German car market, the impact of ad spend varies across market segments and advertising media, with radio and TV advertising having a positive impact on sales in the medium-sized car segment. Competitors' advertising also had a positive impact on car sales in this segment, possibly because competitors' ads describing innovations had an informative effect across all brands.⁴⁵ At a national level, Deloitte and the Advertising Association have previously shown that £1 spent on advertising generates on average £6 across the economy.⁴⁶ While these studies have demonstrated that advertising can have a positive impact on growth, this study adopts a novel methodology to test for advertising impacts at the firm level.

A variety of specifications were tested, the basic model was a random effects estimation that took the following functional form:

$$\log(\text{Turnover})_{it} = \alpha + \beta_1 \text{AdvExp}_{it} + \beta_2 \log(\text{Empl})_{it} + \gamma_t + \varepsilon_{it}$$

On the left-hand side is turnover (firm sales), which is expressed as a function of variables including advertising expenditure and employment, as well as time/year dummies.⁴⁷

Time-invariant firm characteristics and other factors may impact firms' sales, such as quality of management, region of operation, sector, quality of products, etc. These effects are taken into account by comparing the basic model to a fixed effects model, which controls for unobserved firm characteristics.

The model was estimated using fixed and random effects methods, as explained in the section on diagnostic tests.

The model allows us to estimate the absolute and marginal impact of changes in advertising expenditure on turnover, depending on the size of the firm.

The model supports the following findings:

- The absolute impact of advertising is greater the larger the size of the firm. For every £1 spent on advertising, sales increase by £6 on average across all firm sizes. Comparing the sample for subsets of small and large firms, the average impact of advertising on sales is an increase of £10 for large firms and £2 for SMEs. This is an indication that larger firms are more effective in transforming ad spend into turnover because of their size.
- Advertising increases turnover at a greater speed in smaller companies. That is, SMEs can increase growth through advertising more than larger firms (for every £1 spent on advertising, the growth in turnover is approximately eight times as great for SMEs compared to large firms).

⁴⁵ P. Mariel, C. López and K. Fernández-Aguirre (2006), 'Sales-advertising relationship: an application of panel data from the German automobile industry', *Prague Economic Papers*.

⁴⁶ Deloitte/Advertising Association (2013), Advertising Pays, available at <http://www.adassoc.org.uk/Advertising-Pays>

⁴⁷ Table 2 below describes the various alternative specifications that were tested.

Table 2: Econometric results from base model (unbalanced panel)

Log (Turnover)	Coefficient
AdvExp _{it}	2.24e-8**
Employment	0.85***
T ₂₀₁₁	0.19**
Constant	5.56***
Observations	216

Note: *** significant at 1% level, ** significant at the 5% level.

DIAGNOSTIC TESTS

To ensure the model produced the correct specification, it was tested for bias due to unobserved characteristics, bias due to endogeneity and for non-linearity. The specification tests and model comparisons are summarised in Table 3. The findings show that the random effects model provides an appropriate specification to measure the impact of advertising on firm turnover across a range of firm sizes; the particular specification chosen resulted from a comparison to alternative model specifications, as explained below.

Table 3: Specification tests and alternative models

Model	Rationale for this test	Result
Linear/non-linear functional forms. To test for non-linearities we applied Box-Cox estimation and tried out different polynomial forms for this model.	Relationship between advertising and sales might be non-linear.	Log turnover is linear in advertising for observed level of spending so a non-linear function is not required.
Fixed effects estimation method. See for example Cameron, A. C. and Trivedi, P. K. (2005), <i>Microeconometrics: Methods and applications</i> .	Allows us to test whether results are biased by unobserved firm characteristics.	Results are qualitatively similar to random effects estimator.
Arellano and Bond estimation method and functional form. See Arellano, M. and Bover, O. (1995), 'Another look at the instrumental variable estimation of error-components models', <i>Journal of Econometrics</i> , Vol. 68, pp. 29–51.	Tests for the endogeneity of advertising with respect to turnover.	Results are qualitatively similar to random effects estimator.

Source: Deloitte analysis.

APPENDIX B

SURVEY METHODOLOGY

B.1 OVERVIEW

YouGov was commissioned to survey 1,053 SMEs in order to gain a better understanding of factors influencing growth, smaller businesses' experiences with advertising and their views on the role of government and advertising in supporting growth. The survey was conducted online between 28 October and 4 November 2013.⁴⁸

Questions included in the survey covered four core categories:

- Firm profile: region, industry, size and growth trajectory
- Advertising: use or intended use of advertising, nature of advertising strategy, and impact of advertising
- Exports: current and planned export operations and barriers to exporting
- Policy: awareness, understanding and use of government support programmes, and reactions to proposed policies.

A copy of the survey and results are available at [http://cdn.yougov.com/cumulus_uploads/document/t41mikca0j/Results-for-Advertising-Association-\(Marketing-and-Growth\)-OMI013-375-05112013.pdf](http://cdn.yougov.com/cumulus_uploads/document/t41mikca0j/Results-for-Advertising-Association-(Marketing-and-Growth)-OMI013-375-05112013.pdf).

⁴⁸ For details of the underlying database of contacts and the selection method, see <http://research.yougov.co.uk/services/panel-methodology/>

B.2 DESCRIPTION OF THE SAMPLE

Coverage was obtained across a range of industries and locations and included an over-sampling of medium-sized businesses, defined by YouGov as having 50 to 249 full time employees, who made up 18% of the sample.

Table 4: Coverage of sample by industry

Industry	Small (1–49 employees)	Medium (50–249 employees)	Total
Accountancy	22	5	27
Construction	79	11	90
Education	30	9	39
Financial services	47	12	59
Hospitality and leisure	39	10	49
IT & telecoms	116	21	137
Legal	30	13	43
Manufacturing	90	38	128
Media/ marketing/ advertising/ PR & sales	76	17	93
Medical & health services	18	6	24
Other	152	25	177
Real estate	42	4	46
Retail	98	14	112
Transportation & distribution	21	8	29
All firms	860	193	1053

Table 5: Coverage of sample by region

Region	Small (1–49 employees)	Medium (50–249 employees)	Total
Scotland	47	13	60
Wales	28	7	35
North England	157	29	186
Midlands	125	29	154
East England	67	11	78
London	154	48	202
South England	265	55	320
Elsewhere (i.e. outside Great Britain)	17	1	18
All firms	860	193	1053

B.3 SUPPLEMENTARY INTERVIEWS

To further inform the study, in-depth interviews were conducted with industry stakeholders and high-growth SMEs. Industry stakeholders included representatives from the following organisations:

- AMV BBDO (advertising agency)
- Advertising Standards Authority
- Barclays
- British Chambers of Commerce
- BT
- Department of Culture, Media & Sport
- Golley Slater (advertising and PR agency)
- Institute of Practitioners in Advertising
- Nesta

Telephone interviews were conducted with representatives from a variety of SMEs across the UK:

- Beyond Dark
- Bloom.fm
- Braant Accounting
- Descience
- Fever Tree
- Hubbub
- OutSec
- Protectyourbubble.com
- Tag Digital

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About the Advertising Association

Advertising is a vital enabler in the economy, underpinning at least £100 billion of UK GDP.

The Advertising Association unites those businesses and industries which contribute to that effect – the agencies that create and buy campaigns, the commercial media that carry them and the vast array of brands that use advertising to communicate with consumers, drive their businesses and be successful.

The Association exists as the single voice for advertising in the UK – championing its role, defending its rights and delivering its responsibilities. It works to keep advertising high on the business agenda, develop support and understanding in government and ensure that responsible practice earns the continued confidence of the public, regulators and policy-makers alike.



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