# THIS YEAR NEXT YEAR

## U.K. FORECAST UPDATE

**MARCH 2021**

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# INTRODUCTION

**It could be argued that the defining feature of the UK advertising market in 2020 was its resilience.** Against the backdrop of the worst economic recession since 1709 (-13% vs. the relatively modest -9.9% of 2020), the UK advertising market in 2020 ended up declining by only 3.8%. To many, this might seem modest. For many years, advertising market growth has been understood as directly tied to the economic health of the broader economy. Therefore, when the economy was expected to contract severely, advertising revenue was expected to suffer similarly. It's clear that it did not, and while the drivers are less clear, we have some thoughts on why things have played out in the way that they have.

**On a real basis, while GDP declined more sharply than it has in over three centuries, we also saw some of the highest levels of real household disposal income in post-war Britain.** As a percentage of GDP, the UK government's discretionary fiscal response to COVID-19 ranks third among advanced economies globally, and first when compared to other large European economies. A defining feature of Britain's fiscal package last year were measures focused on guaranteeing the incomes of households and businesses, such as the Coronavirus Job Retention Scheme.

**We also know that small retail-focused businesses have and are continuing to fare better than large businesses on an aggregate basis.** In 2020, small businesses accounted for 30% of all retail sales, a figure that was higher than all other years since 2008. In January of this year, growth for small businesses excluding fuel was 9.5% while for large businesses the decline was 5.5%. To add to these tailwinds, it is worth remembering that newly formed small businesses have a higher propensity to spend on advertising than businesses formed in the past. As a result, we should expect that over time a growing share of advertising to come from small businesses, and for advertising to outperform the broader economy.

In short, this has meant that much of the population had more money to spend, and so for businesses with the means to do so, the incentive to advertise persisted. In some cases, the incentive increased.

> *As a percentage of GDP, the UK government's discretionary fiscal response to COVID-19 ranks third among advanced economies globally.*

# 2021: THE YEAR SO FAR

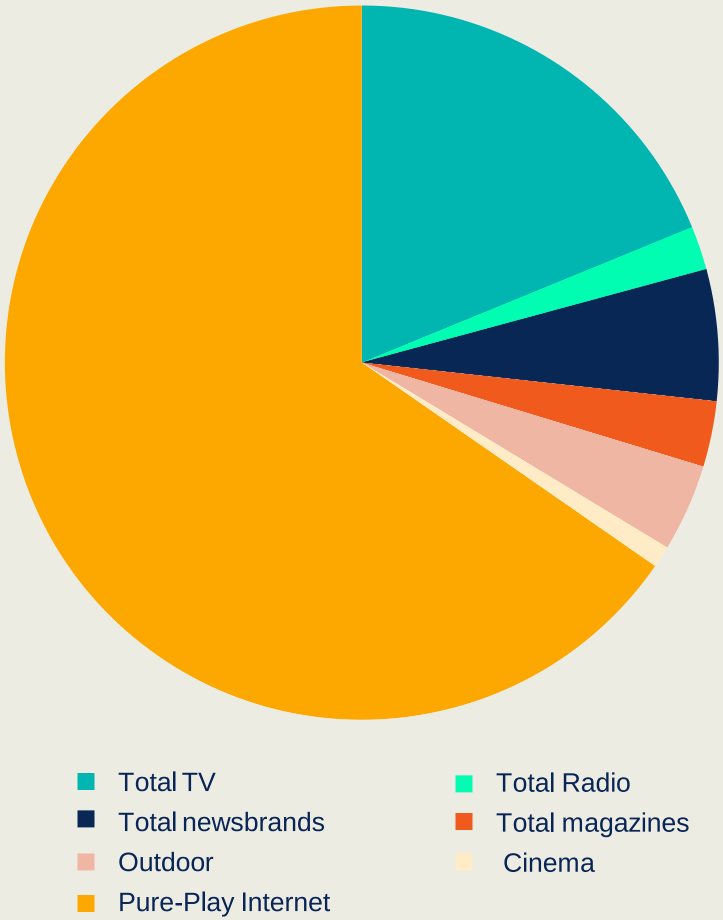
**The first three months of 2021 have been defined by cautious optimism.** After several perceived missteps, the UK's outperformance on vaccinations has imbued the country with a sense of hope. The IMF is forecasting a rebound of 4.5% this year, and we expect much of that growth to come from the second quarter onwards, by which time most social restrictions will be removed, according to the Roadmap outlined in in the Government's COVID-19 Response – Spring 2021. This does not change the fact that the first three months of 2021 have been spent under relatively strict social lockdown conditions. As a result, we estimate a relatively soft advertising market, especially in comparison to the same period last year which was almost completely free of any social restrictions.

**2021 did not start as strongly as many hoped, but we expect conditions to improve with growth forecast at almost 13% for the year.** Positive sentiment aside, the realities of a full lockdown are inescapable. As such, we suspect that many marketers are behaving defensively and waiting to see what others do before reacting. We would advise against this.

**Consumer preferences and habits remain relatively fluid amidst a rapidly evolving economic and policy context, and proactive marketers have a unique opportunity to define the role they play in their consumers' lives**. Once social restrictions are removed and people begin to settle into their new habits, that opportunity will recede. However, opportunities do not equal outcomes. To take advantage, marketers should consider all strategic levers available to them, including their media choices, and build an approach that optimises for their overall business goals. That would be a better use of efforts than looking to optimise budgets within individual channels, for instance.

*2021 did not start as strongly as many hoped, but we expect conditions to improve with growth forecast at almost 13% for the year.*

## 2021 Media Share




18% Total TV
2% Total Radio
5% Total Newsbrands
2% Total Magazines
3% Outdoor
1% Cinema
69% Pure-Play Internet

# DIGITAL

*We estimate that pure-play digital advertising will grow by around 12% during 2021, following 2020's 6.0% rate of growth. By 2023 we should see growth reach around 8.7%, tapering off toward 8.4% after that.*

**Data from the end of last year illustrates small business trends that continue to support digital advertising growth in 2021.** As indicated above, small businesses in certain sectors grew faster than larger ones during the pandemic. As well, data from the ONS suggests double digit annual growth in new business formation since June 2020. Strong 2020 growth from Shopify (+86% in Gross Merchandise Volume), an e-commerce platform heavily skewed to small businesses, and for whom the UK is its second largest market, offers further evidence of this trend. With low barriers to entry and suitedness to performance goals, digital advertising has been a beneficiary here, as small business advertisers continue to shift resources online to capitalise upon our a social-contact restricted context. Another related observation is that to the extent that a business formed today has a higher propensity to spend on digital advertising than a business formed in the past, we would expect a growth in the number of small businesses to have a positive impact on the digital advertising market.

**Larger businesses are leaning on e-commerce strategies, and spending on digital media in support of those efforts.** It should by now be relatively obvious that e-commerce has become increasingly important to UK consumers. Our forecasts anticipate that e-commerce will grow by approximately 21% in 2021, and account for 28% of total retail sales using the ONS' definition. Such a scale leads brands to increasingly shift their resources into digital media to support these efforts, although we note that it remains critically important for brand owners to consider how their offline and online media can work together to optimise overall results.

**Uncertainty likely helps support digital at the present time.** Whatever the drivers of spend at the individual advertiser level, we can assume that the ability to activate digital campaigns at short notice would have worked in the medium's favour. While uncertainty remains a feature of the landscape in 2021, improving sentiment based on an assumption of imminent easing of social restrictions have continued to support growth in digital so far this year.

*We estimate that pure-play digital advertising will grow by 12% during 2021, following 2020's 6.0% rate of growth.*

**Google and Facebook's significant share of the UK digital advertising market means that any analysis of it must pay them special attention.** With no realistic threat to that share, regulators' attention has now become scrutiny. The Digital Markets Unit, a newly formed division within the Competition and Markets Authority (CMA), has been set up to "oversee a pro-competition regime for platforms including those funded by digital advertising, such as Google and Facebook." While it has not yet begun operations (it will start next month), a report published in December by the CMA states that it is not currently seeking a 'break up' of the big platforms. Instead, its priority is to establish "a regulatory regime to address the market power of the most powerful digital firms". However, in recent weeks, it's become clear that international developments could have an impact on operations within the UK regardless of the CMA's preferences.

# TELEVISION

*For 2021, we estimate that television will grow by around 11%, after a similar rate of decline last year. We estimate that TV will grow around 3.2% next year, tapering off to around 1.2% by 2024.*

**At the time of writing, there are good reasons to be optimistic about the outlook for the TV advertising market, which we expect to grow by around 11% in 2021.** 2020 was not nearly as bad as it was expected to be. In many cases, spend was deferred rather than cancelled, with the same 'budget flush' activity seen in digital as well as expected seasonal strength. Still, the imposition of social restrictions in December saw a drop off in spend from non-essential retail and entertainment. The CPG, Telco and Auto categories made up for some of that lost revenue, with digitally focused brands, in particular, increasing their spend at the end of the year. However, we expect that the recently articulated roadmap out of lockdown supported by encouraging vaccination progress, is again leading to deferrals rather than cancellations which we expect will lead to a very tight TV market, and strong double-digit growth in the second and third quarters.

**The long-term is less certain for free-to-air TV. The effectiveness of television remains very high, justifying high spend levels from large advertisers presently.** However, at the same time, developments in the streaming market could put some of this effectiveness at risk in the future. According to the British Film Institute, total spend for the UK was £2.84 billion in 2020. Netflix's content spend for 2020 is estimated to have been around £750 million. This is not happening in isolation, nor is Netflix the only game in town. Disney have recently announced their intention to develop non-English language content for Disney+ in Europe. This brings into even sharper focus non-ad supported streaming services growing positions of power. This is important because to the extent that spending on non-ad supported television content outpaces spend on ad-supported television content in the UK, we should expect that television's capacity to produce the reach and frequency goals that advertisers rely on will be challenged. This will not happen overnight, and television will continue to be a great option for advertisers' trying to reach large audiences. We think that recognition of this trend is a good opportunity for advertisers to think about the fundamental role that television plays.

# OTHER MEDIA

**Out-of-home ("OOH") advertising is set for growth of +31.1% in 2021, followed by growth of +41.2% in 2022.** Our view on growth for OOH remains relatively unchanged. Revenue declined by around 45% last year with revenue in the year unsurprisingly dictated by social restrictions. With those restrictions set to be significantly eased from mid-April, we are already seeing advertisers begin to return the medium in anticipation of increased impacts. Our previous estimates assumed a widely distributed vaccine by July 1 and given that this timeline appears to set to be met, we maintain our outlook. We continue to expect digital OOH to grow share of total OOH advertising as media owners invest in digital sites to respond to growing demand from advertisers. We expect digital OOH to comprise 65% of OOH by 2024. Innovation in measurement and trading, supported by digital should also contribute to improving growth prospects over the next few years. As in other channels, we noted that government spending was a key contributor to growth in OOH in 2020. We anticipate that government spending on public health messaging will decline over the year, and while we expect that this spend will be replaced by commercial advertisers, such as those in travel and entertainment, it should be noted.

**Revenue growth for audio-based media showed very strong growth in the final quarter of 2020, with a significant portion of full-year revenue coming at the end of the year.** On comparable basis, growth in Q1 looks to be weaker than last year's first quarter, but with less extreme declines than in other media. Podcast advertising continues to attract interest, however in the context of the medium represents a very small share of revenue (2%). That being said, podcasts continue to grow, and we expect this form of the medium to become increasingly meaningful over time. To the extent that interest in podcasting can draw interest for audio overall, its growth will have a multiplier effect on the medium. However, we suspect that the difference in types of advertisers interested in podcasting vs. those in traditional radio will limit the extent to which this is the case. Streaming services such as Spotify also provide further "good PR" to encourage further growth in audio spending as well. While a reduction in commuter hours may have impacted consumption, we have observed that listening in the home through smart speaker and similar devices has made up for some of that decline.

*We expect digital OOH to comprise 65% of OOH by 2024.*

**The growth outlook for print advertising remains weak. To make matters worse from an advertising revenue perspective, the industry response appears to be focused on diversifying revenue beyond advertising.** We maintain that over the long-term, disinvestment in quality content has been the main driver for revenue decline. We have observed that for some advertisers it is viewed as non-essential (meaning that during periods of uncertainty it is at risk of being taken off media plans). Still, for the right advertisers, print remains a powerful advertising option and as social restrictions lift and circulation picks back up, we may see some lost revenue return. Separately, we might have anticipated increased demand for local news during the pandemic, with people keen to better understand their local situation. However, the British public appears relatively uninterested in local news (just over a third say they're interested compared to just under a half in the US). This may also be because of the relatively low quality of local news digital products, due to a lack of investment in video and mobile. Ultimately, sustained disinvestment in the medium is the most significant structural headwind and will continue to temper efforts to return the medium to pre COVID-19 levels of revenue.

# COVID & BREXIT IN FOCUS

**At this point in time, separating the effects of COVID-19 and Brexit on the advertising economy is difficult.** In combination, the impact caused by both the pandemic and Brexit represent economic headwinds that affect most individuals and businesses. However, at the sector level, it is possible to assess the acute impact of each, and to some extent see how each affects fairly distinct groups.

**Focusing first on the impact of COVID-19, those sectors most affected have largely been those engaged in non-tradable services, reliant on social contact**. Here, hospitality and non-essential retail are some of the more obviously and significantly impacted sectors. Interestingly, in the near-term and in an immediate sense, we wouldn't expect such sectors to be significantly impacted by Brexit. That isn't to say that there won't be medium to long term and less direct impacts. For instance, lower direct investment and employment deterioration are all significant risks to most businesses.

**We observe that the immediate effects of Brexit are most strongly felt by those businesses in sectors that rely on trade with the EU.** Recent survey data from the British Chambers of Commerce suggests companies are experiencing disruption, with half (49%) of exporters reporting difficulties in adapting to the changes. Examples of affected industries include manufacturing and wholesaling. While there may have been a short-term impact right at the beginning of lockdown measures last March, such companies will not have felt direct impact of social restrictions associated with COVID-19.

**Beyond the short-term, it becomes much harder to isolate impact.** We anticipate some reduction in economic capacity due to a reduction in corporate risk appetite. For example, we think that smaller businesses are less able to invest in innovation due to diminished levels of capital. It would appear that the opportunity cost equation during the pandemic has been altered in favour of conservatism. Looked at this way, the long-term damage is potentially immeasurable.

On the other hand, it is possible that creative destruction, accelerated by the pandemic will actually lay the foundations for more positive long-term growth prospects. For instance, thinking of the advertising industry, to the extent that businesses formed during the pandemic have a higher propensity to spend on advertising than businesses that have ceased operations as a result of the pandemic, the net effect could be positive.

*Companies are experiencing disruption, with half (49%) of exporters reporting difficulties in adapting to the changes.*

**As it stands, the realisation of those risks is being delayed by unprecedented levels of government fiscal support.** While the government has been successful at preserving jobs and businesses, it is possible that their actions will result in some unintended long-term consequences. Allowing uncompetitive businesses to fail and be replaced by those better suited to a changing operating environment is an important feature of a healthy economy. It could be argued that a more discerning program of fiscal support would have allowed for a more gradual reallocation of resources such that once all social restrictions are removed (at the time of writing, June 21st) and wage support ends (at the time of writing, September 30th), the shock would be less severe. As a result, we anticipate high levels of unemployment and associated economic decline once support is removed, and this could have serious consequences for individuals and businesses.

**It is important to note that while most will feel this impact, levels of resilience will vary.** As previously mentioned, household savings as a percentage of GDP currently sit at a post-war high. This may smooth the economic disruption that we anticipate will be triggered by the end of furlough. At the business level, many firms have shown remarkable levels of adaptability which have likely fast-tracked innovation and in cases set themselves up to be stronger businesses in the long-term. This is not to diminish the impact that removal of government support will have. There will be pain, but if anything has become clear in the past twelve months, it is that it will be distributed unevenly.

U.K.

# FIGURES INCLUDE DIGITAL EXTENSIONS IN TRADITIONAL MEDIA LINES

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| £ in mm | | | | | | | | | | | | | |
| Total TV | 3,808.0 | 3,899.3 | 4,076.1 | 4,370.8 | 4,432.6 | 4,290.7 | 4,395.9 | 4,289.1 | 3,913.6 | 4,329.6 | 4,466.7 | 4,528.0 | 4,580.6 |
| Growth | -0.7% | 2.4% | 4.5% | 7.2% | 1.4% | -3.2% | 2.5% | -2.4% | -8.8% | 10.6% | 3.2% | 1.4% | 1.2% |
| Total Radio | 473.9 | 455.2 | 486.9 | 513.6 | 553.1 | 585.0 | 584.4 | 571.7 | 496.1 | 554.4 | 571.9 | 585.6 | 598.8 |
| Growth | 5.5% | -3.9% | 7.0% | 5.5% | 7.7% | 5.8% | -0.1% | -2.2% | -13.2% | 11.7% | 3.2% | 2.4% | 2.3% |
| Total Newsbrands | 2,496.4 | 2,326.4 | 2,230.1 | 2,038.9 | 1,797.2 | 1,640.5 | 1,534.9 | 1,459.7 | 1,041.1 | 1,193.3 | 1,083.2 | 976.0 | 873.9 |
| Growth | -8.3% | -6.8% | -4.1% | -8.6% | -11.9% | -8.7% | -6.4% | -4.9% | -28.7% | 14.6% | -9.2% | -9.9% | -10.5% |
| • National newsbrands | 1,304.3 | 1,221.4 | 1,164.7 | 1,039.2 | 929.2 | 886.6 | 851.1 | 848.2 | 629.8 | 733.8 | 666.2 | 596.0 | 529.5 |
| Growth | -5.9% | -6.4% | -4.6% | -10.8% | -10.6% | -4.6% | -4.0% | -0.3% | -25.8% | 16.5% | -9.2% | -10.5% | -11.2% |
| • Regional newsbrands | 1,192.0 | 1,105.0 | 1,065.5 | 999.7 | 868.0 | 753.9 | 683.8 | 611.5 | 411.3 | 459.4 | 417.0 | 380.0 | 344.4 |
| Growth | -10.8% | -7.3% | -3.6% | -6.2% | -13.2% | -13.2% | -9.3% | -10.6% | -32.7% | 11.7% | -9.2% | -8.9% | -9.4% |
| Total Magazines | 935.9 | 882.4 | 844.1 | 800.2 | 745.6 | 659.7 | 610.0 | 556.2 | 384.3 | 427.2 | 390.9 | 345.5 | 304.9 |
| Growth | -9.4% | -5.7% | -4.3% | -5.2% | -6.8% | -11.5% | -7.5% | -8.8% | -30.9% | 11.2% | -8.5% | -11.6% | -11.8% |
| • Consumer magazine brands | 533.6 | 507.8 | 486.5 | 465.8 | 442.8 | 401.7 | 369.8 | 334.7 | 256.6 | 284.7 | 257.2 | 224.4 | 194.1 |
| Growth | -4.8% | -4.8% | -4.2% | -4.2% | -4.9% | -9.3% | -7.9% | -9.5% | -23.3% | 10.9% | -9.6% | -12.7% | -13.5% |
| • B2B magazine brands | 402.2 | 374.6 | 357.7 | 334.4 | 302.9 | 258.0 | 240.2 | 221.5 | 127.7 | 142.5 | 133.7 | 121.0 | 110.8 |
| Growth | -14.8% | -6.9% | -4.5% | -6.5% | -9.4% | -14.8% | -6.9% | -7.8% | -42.4% | 11.6% | -6.2% | -9.5% | -8.5% |
| Outdoor | 776.1 | 791.8 | 815.2 | 846.4 | 902.1 | 915.5 | 967.3 | 1,040.6 | 559.3 | 733.0 | 1,035.0 | 1,075.1 | 1,116.2 |
| Growth | 9.5% | 2.0% | 3.0% | 3.8% | 6.6% | 1.5% | 5.7% | 7.6% | -46.3% | 31.1% | 41.2% | 3.9% | 3.8% |
| Cinema | 198.1 | 157.2 | 169.2 | 181.1 | 188.8 | 191.7 | 187.7 | 212.4 | 38.2 | 44.8 | 109.4 | 114.7 | 120.3 |
| Growth | 13.5% | -20.7% | 7.6% | 7.1% | 4.2% | 1.5% | -2.1% | 13.2% | -82.0% | 17.3% | 144.1% | 4.9% | 4.9% |
| Pure-play internet | 5,045.2 | 5,828.1 | 6,427.9 | 7,546.1 | 9,035.9 | 10,614.6 | 12,264.5 | 14,208.4 | 15,058.5 | 16,919.6 | 18,340.5 | 19,932.7 | 21,616.4 |
| Growth | 14.2% | 15.5% | 10.3% | 17.4% | 19.7% | 17.5% | 15.5% | 15.8% | 6.0% | 12.4% | 8.4% | 8.7% | 8.4% |
| • Search | 3,297.2 | 3,717.0 | 3,767.8 | 4,137.0 | 5,093.2 | 5,931.7 | 6,791.3 | 7,849.7 | 8,402.2 | 9,463.0 | 10,025.3 | 10,749.6 | 11,510.7 |
| Growth | 14.5% | 12.7% | 1.4% | 9.8% | 23.1% | 16.5% | 14.5% | 15.6% | 7.0% | 12.6% | 5.9% | 7.2% | 7.1% |
| • Non-Search, Ex-Ecommerce | 1,748.0 | 2,111.0 | 2,660.1 | 3,389.1 | 3,887.7 | 4,572.9 | 5,243.2 | 5,809.7 | 5,754.6 | 6,017.8 | 6,391.5 | 6,893.2 | 7,406.1 |
| Growth | 13.5% | 20.8% | 26.0% | 27.4% | 14.7% | 17.6% | 14.7% | 10.8% | -0.9% | 4.6% | 6.2% | 7.8% | 7.4% |
| • E-Commerce | 0.0 | 0.0 | 0.0 | 20.0 | 55.0 | 110.0 | 230.0 | 549.0 | 901.7 | 1,438.8 | 1,923.7 | 2,290.0 | 2,699.6 |
| Growth | ------ | ------ | ------ | ------ | 175.0% | 100.0% | 109.1% | 138.7% | 64.2% | 59.6% | 33.7% | 19.0% | 17.9% |
| Media total £m | 13,733.5 | 14,340.2 | 15,049.6 | 16,297.1 | 17,655.3 | 18,897.6 | 20,544.7 | 22,338.1 | 21,491.1 | 24,201.9 | 25,997.8 | 27,557.6 | 29,211.1 |
| Growth | 2.9% | 4.4% | 4.9% | 8.3% | 8.3% | 7.0% | 8.7% | 8.7% | -3.8% | 12.6% | 7.4% | 6.0% | 6.0% |



*SOURCE: GroupM, The Advertising Association/WARC, IAB, Company Reports*

GroupM's This Year Next Year is published twice a year with the goal of informing analysts and marketers of GroupM's market observations.



GroupM is the world's leading media investment company responsible for more than $63B in annual media investment through agencies Mindshare, MediaCom, Wavemaker, Essence and m/SIX, as well as the outcomes-driven programmatic audience company, Xaxis. GroupM's portfolio includes Data & Technology, Investment and Services, all united in vision to shape the next era of media where advertising works better for people. By leveraging all the benefits of scale, the company innovates, differentiates and generates sustained value for our clients wherever they do business.

Methodology: Forecasts are based upon observations of GroupM's industry-leading client base. Historical figures informed by internal estimates, data from the AA/WARC, the IAB and analysis of public company reports.

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Published March, 2021