



Research on local advertising markets

A report for Nesta
prepared by Oliver & Ohlbaum Associates Ltd

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Nesta...

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Foreword by Nesta

Introduction

At the start of its 'Destination Local' programme, Nesta gathered together a roundtable of industry stakeholders to identify areas of essential research for policymakers and practitioners in the field of hyperlocal media in the UK. Given the role advertising plays in funding media providers, it is unsurprising that the roundtable highlighted local advertising markets as a key area of interest. Despite many assertions, there was little hard evidence about the size, or potential, size of hyperlocal advertising markets in the UK.

The sustainability and growth of both commercial and not-for-profit hyperlocal services are based upon, to a greater or lesser degree, their ability to generate advertising revenue. We therefore hope that this research is of interest to practitioners across the entire spectrum of hyperlocal providers as well as to advertisers, potential investors and policymakers.

The lack of publicly available data to date on local advertising markets in the UK contrasts with the US, where there are several firms which specialise in analysing and publishing data about local advertising and advertising opportunities for hyperlocal media.

To address this knowledge gap, we commissioned Oliver and Ohlbaum (O&O) - one of Europe's leading media strategy consultancies - to help address key questions concerning the nature of local advertising markets in the UK and the opportunities this presents for creators of hyperlocal content. This report, written for Nesta by O&O, presents the findings of its research which draws on insights from twenty in-depth interviews with people and organisations active in local advertising markets, discusses the industry data currently available on local advertising, and finally presents the analysis of a survey we commissioned of 1,053 small businesses in seven areas around the UK which looks at their use of advertising and their awareness and potential of hyperlocal media. We commissioned this telephone survey of small businesses as we believed that this was the most reliable way to understand use of and attitudes towards advertising by those businesses which industry stakeholders had consistently indicated would be most likely to be interested in hyperlocal advertising.

Findings and key points

The research makes an important distinction between 'hyperlocal' and 'location based' advertising. The former is advertising targeted at small geographic areas such as towns, villages and neighbourhoods, while the latter enables adverts to be served to consumers via location-aware devices such as smartphones. Location-based advertising does not need to be associated with local or hyperlocal content in any way, and is likely to be one of many ways in which large brands can segment and target current and potential customers. In contrast, small, locally based businesses serving consumers in the locality are more likely to be interested in advertising on hyperlocal media services.

Another finding of this report is the fact that there is limited industry-level data collected about online local advertising expenditure, despite online being the largest single advertising channel by expenditure for several years in the UK. For example, over the past five years, industry figures show that regional newspaper advertising revenues have fallen significantly, and that overall online advertising has grown, but even today it is not clear where local online advertising revenues are flowing and whether or not these are helping to fund local and hyperlocal content. Addressing this gap in data collection is likely to require the advertising industry, content providers and large online providers to work together, and provide information at a more granular level of detail than they have done previously.

In the absence of robust industry-level figures we believe that our survey of small businesses (those most likely to advertise on hyperlocal websites) provides critically important primary evidence. Over three-quarters of the businesses surveyed (77 per cent) advertise. Of these, two-thirds (67 per cent) advertise online in some form, but there is limited awareness and use of hyperlocal websites for advertising. Price appears to be a key factor in determining where small businesses advertise, though interestingly, even among small consumer-facing businesses, a significant minority do not advertise.

Finally, drawing all of this together, in Section 5 of the report, O&O presents estimates for current and forecasts future hyperlocal advertising expenditure. These suggest that small consumer facing businesses are currently spending £731 million on online advertising each year, potentially rising to over £1.1 billion per year over the next five years. Of this total expenditure, around £23 million is spent by these businesses on advertising on hyperlocal websites, which might rise to £32 million over time. Other online expenditure is directed towards even greater investment in the businesses' own websites and online advertising products such as those provided by Google, neither of which is guaranteed to help fund hyperlocal content.

Conclusion and next steps

We note that the forecasts provided by this research may not be heartening reading for hyperlocal providers. It suggests that many of them will face challenges in significantly growing their advertising revenues unless they are able to appeal to a broader range of advertisers, or team up with location based platform owners. Traditional local media organisations may fare better, because they have existing advertising sales relationships and the ability to offer local and regional advertising opportunities, in addition to opportunities at the hyperlocal level. Furthermore, our existing research suggests that consumers are resistant to paying for hyperlocal content, suggesting that paywalls are unlikely to be a suitable alternative for many.

The advertising industry stakeholder interviews undertaken by O&O suggest to us that substantive growth in the advertising market may come from nationwide or even international platforms that can serve content that is based on user's geographical location, rather than stand-alone services which provide content about a specific town, village or postcode. However, it is currently unclear what levels of investment are supporting the development of innovative new platforms in the UK to meet this potential growth nor is it clear which large platforms will want to deliver a wide range of hyperlocal content.

We hope this report is useful to a wide range of our stakeholders in the hyperlocal space and that it helps to prompt debate and discussion about business models and the potential for industry to work together to continue to research this area as online advertising matures.

The findings from this work will help to inform our future work in this area. We would like to thank O&O and ICM Direct for their support and assistance during this work. We would also like to thank all individuals and organisations who took time out to talk to O&O and whose insights helped to shape the final report.

Jon Kingsbury

Director, Creative Economy Programme

Nesta

Executive Summary

Nesta is an independent charity with a mission to help people and organisations bring great ideas to life. It is currently conducting a programme of work - "Destination Local" - which aims to develop an understanding of the potential for hyperlocal media services in the UK.

Nesta defines hyperlocal as "online news or content services pertaining to a town, village, single postcode or other small geographically defined community". Nesta has identified a knowledge gap surrounding attitudes towards the use of hyperlocal media in the UK, which could lead to the sector being overlooked by policymakers due to a lack of understanding. This report seeks to establish the total size of the UK advertising market which is available to hyperlocal media providers, and how this might evolve.

Our work has centred around four work streams: a programme of interviews with key industry stakeholders, analysis of existing data on UK advertising expenditure, a survey of advertisers, and forecasts of the future size of the market.

The meaning of hyperlocal

We have explored hyperlocal advertising and established to whom it appeals, and what competition it faces from other platforms through a programme of interviews with senior stakeholders across the sector. We targeted the interviews to provide a number of important perspectives on the subject of hyperlocal advertising, as well as an insider assessment of trends both in terms of the size of the hyperlocal advertising market and uptake of mobile adverts through mobile specific websites and/or apps. Interviewees covered 20 organisations involved in all aspects of the sector, from global media buyers to hyperlocal website owners, as well as local authorities and trade associations.

There is an important distinction to make between location based advertising and hyperlocal advertising. While both relate to geography, the former concerns advertising which is targeted - using geo-location enabled connected devices - based on the recipient's current location, while the latter is advertising targeted based on a catchment area covering a small geographically defined community such as a town, village, or single postcode. These two forms of advertising offer different audiences and appeal to different types of advertisers. This report is concerned with hyperlocal advertising, rather than location based advertising.

Hyperlocal advertising is a more focused version of local advertising. Local advertisers are traditionally served by platforms such as local and regional press as well as local radio stations. These platforms offer a larger catchment area than traditional hyperlocal media such as freesheets, leaflets, and community papers. More recently, as advertising has moved online, hyperlocal websites have developed as a new channel which allows advertisers to target a tightly defined geographic audience. Nesta's definition of hyperlocal media is specifically online, and focuses on advertising which funds hyperlocal content such as that on hyperlocal websites. The highly targeted nature of hyperlocal media means that reach is very limited, with the catchment area of hyperlocal websites only extending to those who live in, or have an active interest in, the area in question. As such, hyperlocal advertising does not appeal to all advertiser groups.

Hyperlocal advertising and national advertisers

Hyperlocal advertising holds very limited appeal to national advertisers. Due to the broad appeal of their products, national advertisers tend to require a national reach which cannot easily be achieved using hyperlocal websites. Even if it were possible to achieve a national reach through a network of hyperlocal websites, their products' broad appeal means that national advertisers don't need to target by geography. Where national advertisers are interested in targeting specific consumer groups, there are better characteristics to target such as life stage, income, or intent. Finally, national advertisers tend to control their advertising budgets centrally, due to the importance attached to a consistent brand image. As such, local branches, which might otherwise be interested in hyperlocal advertising, tend to have little or no advertising budget and no autonomy over their advertising approach.

Where advertisers do wish to target by geography, there are a number of options available to target local audiences. Using traditional channels such as local radio, regional newspapers, and ITV regions, national advertisers can achieve as targeted a geographic audience as they need. Where advertisers wish to target online advertising at specific geographic locations there are also a number of options available including: location targeting via IP address, paid search advertising, targeting using personal data, and online marketing products such as Google Places for Business. Given the large number of online targeting options, hyperlocal websites hold limited unique appeal to national advertisers.

Hyperlocal advertising and local advertisers

Hyperlocal advertising does appeal to some advertisers. The tightly defined geographic catchment area and community focus of hyperlocal websites means that hyperlocal advertising holds obvious appeal for businesses principally serving the community in which they are based. Indeed, advertising via hyperlocal websites tends to be relatively cheap and could therefore be a more cost effective means for small businesses to reach a relevant audience than traditional channels such as local newspapers and leafleting. However, small businesses are often slow to adopt new technology and given their small advertising budgets they are highly receptive to the impact of their advertising expenditure. As such, the uptake of advertising on hyperlocal websites is hard to predict and any growth in expenditure is likely to be substitutional, from other platforms, rather than additive.

The size of the market

We collated the available data on both the national and local advertising market by platform and sector. The availability of advertising expenditure data varies significantly, with very little data available at local level and none available at hyperlocal level. This is due to the highly fragmented nature of the local advertising market.

At a national level, the UK advertising market suffered a decline between 2007 and 2009 following the impact of the global economic downturn. Since 2009 the advertising market has returned to growth, growing with a CAGR of 4.5 per cent since 2009. In total the UK indirect advertising market was worth £14.6 billion in 2012. The recent growth has been largely driven by the rapid expansion in internet advertising, which has grown with a CAGR of 15 per cent since 2009, more than offsetting the decline in print advertising expenditure over the same period. If we also consider direct marketing – which totalled around £6.8 billion in 2012, once we eliminate duplication – the total size of the UK advertising market in 2012 was £21.4 billion.

It is not currently possible to establish the size of the UK hyperlocal advertising market based on existing data. While some data does exist at a local level, it is also impossible to fully ascertain the size of the local advertising market in the UK, because data are not available for all platforms. In particular, there is no sensible basis on which we can estimate the extent to which online advertising and direct marketing are locally or regionally focused. For the remaining platforms (television, print, outdoor and radio), we estimate that the UK local advertising market is worth around £1.3 billion a year. Note that this is not the same as the hyperlocal advertising market as it covers advertising which has a local or regional coverage area, which is much larger than what we would define as hyperlocal.

To improve the availability of nationwide data on hyperlocal advertising expenditure, the measurement tools would need to improve for each platform so as to facilitate aggregation of expenditure data for each hyperlocal channel. However, it appears that there is no current appetite for hyperlocal advertising data collated at a national level. Adequate tools already exist to demonstrate the reach of hyperlocal media to advertisers and so advertising agencies and media groups should be able to collate this information, for the UK as a whole, if it were cost effective to do so. In the absence of existing data on hyperlocal advertising expenditure, we conducted a survey to establish advertiser attitudes and behaviours at a local level.

The survey

In order to establish the current and potential size of the UK hyperlocal advertising market we conducted a telephone survey of businesses. Based on our findings from our programme of stakeholder interviews,

which established that hyperlocal advertising appeals only to small local businesses, we focused our survey on businesses with fewer than 20 employees. We also targeted respondents based on industry sector, to ensure that they operated in industries which have a need to advertise.

Given the practical difficulties in conducting a survey which was nationally representative, we focused on seven case study areas covering a range of localities and markets of different scale. This provided us with coverage of a broad range of market characteristics and therefore ensured that our findings resonate on a national scale. We set out to interview 1,050 businesses, 150 from each of the seven case study areas, and ultimately obtained responses from 1,053 businesses.

Based on advertising expenditure reported by our survey respondents, we estimate that the total size of the UK hyperlocal advertising market is £2.6 billion a year. This represents total advertising expenditure incurred by UK businesses with fewer than 20 employees in the SIC codes which we identified as likely to advertise; this is the total amount spent by businesses whose advertising needs could be served by hyperlocal media. This estimate is based on a UK population of 1.3 million businesses which fit our employee number and SIC code criteria. Of this a total of £731 million is spent online, of which £23 million is on hyperlocal websites.

We analysed the result of our survey to establish how advertising expenditure varies with factors including, industry, case study area, turnover, business performance, age, and business size. We also identified variations in the use of advertising platforms as well as attitudes to online advertising and hyperlocal advertising in particular.

The level of advertising expenditure

The average level of advertising expenditure across the businesses we surveyed was £1,631 a year. We found that small businesses spend the least on advertising, with average advertising expenditure tending to increase with both reported turnover and number of employees.

There was no clear relationship between the level of advertising expenditure and the age of the business, nor was there a strong link between advertising expenditure and the reported performance (based on the reported change in turnover from the prior year), or reported business outlook (based on reported optimism for future business prospects). However, those reporting the most positive movements in turnover and the highest level of optimism for the future also reported the highest levels of average advertising expenditure.

The level of advertising expenditure also varied with the location of a business's customer base. Those serving a largely local audience also tend to have limited budgets. Businesses whose customers were all or almost all local recorded the lowest average advertising expenditure, at £1,320 per year, while those businesses with customers based locally and further afield, and mostly further afield both spent more on advertising, with an average annual expenditure of £1,968 and £1,836 respectively.

Advertising platforms

Online was the most commonly used advertising platform, selected by 52 per cent of our survey respondents. Online also had the 2nd highest average expenditure by platform at £2,278 per year. Television advertising recorded the highest average advertising expenditure by platform, at £11,967 but was used by just six respondents.

On average, the businesses we surveyed used two advertising platforms and this was broadly stable regardless of turnover. There was, however, variation in the number of platforms used by businesses with different numbers of employees and of different ages. In general, businesses employing more staff used more advertising platforms, while older businesses tended to use fewer. There was no clear relationship between the number of platforms used by a business and their reported performance or optimism.

When we asked which factors were most important in driving choices of advertising platforms, respondents across all platforms reported that price was the most important factor.

Online and mobile advertising

The internet is now the advertising platform which attracts the most expenditure across the UK as a whole, accounting for 36 per cent of total UK indirect advertising expenditure in 2012, and 26 per cent of total UK marketing expenditure (i.e. including direct marketing).

The uptake of online advertising was broadly even, regardless of turnover, though the lowest uptake was amongst businesses in the lowest turnover group of less than £50k. There was, however, a clear relationship between the age of the business and the uptake of online advertising, with older businesses the least likely to be online, possibly because they already have well established customer bases. The location of a business's customers was also an important factor in the online advertising decision, with the uptake of both online and mobile presences highest amongst businesses with a customer base mostly further afield.

The most commonly used online advertising channel, selected by 85 per cent of our survey respondents, was own website or email. This was followed by online directories and free social media with uptake rates of 48 per cent and 47 per cent respectively. Notably, self-service online advertising platforms such as Google's local advertising products were used by just 26 per cent of respondents who advertising online, suggesting that while the majority of small businesses have an online presence, it tends to be relatively unsophisticated and many businesses aren't taking advantage of all of the online tools available to them.

Hyperlocal advertising

Of the 1,053 businesses we surveyed, 211 currently advertise through hyperlocal media. This includes all hyperlocal advertising platforms, both traditional (such as freesheets and locally-focused newspapers) and online. While there was limited evidence of a strong relationship between reported turnover and uptake of hyperlocal advertising, businesses with the largest reported turnover (£1 million +) had the lowest uptake at 17 per cent. Uptake of hyperlocal advertising did tend to increase with the number of employees, though this fell away amongst businesses with 15 to 19 employees. There were no clear relationships between the uptake of hyperlocal advertising and the age of the business, business performance, or business outlook.

We found that the uptake of hyperlocal advertising was the highest amongst groups serving the most customers in their local area. Those businesses with only a few customers in the local area recorded a 15 per cent uptake of hyperlocal advertising. Businesses with some local customers in the local area and some further afield recorded the highest level of hyperlocal advertising uptake at 23 per cent, while those with most or all customers in the local area recorded a hyperlocal advertising uptake of 19 per cent.

Focusing on hyperlocal websites, we found that 262 of our respondents were aware of hyperlocal websites relevant to their area, and 61 advertised on them. We asked respondents to identify up to three factors which were important in the decision to advertise or not advertising on hyperlocal websites. Both those who were aware of hyperlocal websites and advertised on them and those who were aware but did not advertise on them identified price as an important factor in the decision. Amongst those choosing to advertise on hyperlocal websites, 61 per cent identified price as an important factor. The ability to target a specific geography was the second most frequently selected factor, chosen by 44 per cent of respondents. Amongst those who were aware of hyperlocal websites but who chose not to advertise on them, 54 per cent stated the fact that they don't need to advertise as an important factor in their decision. The second most frequently selected factor, chosen by 50 per cent of respondents, was price. This indicates that small businesses are highly receptive to the cost of advertising.

Future advertising

Across all survey respondents, 69 per cent reported that they expect to spend about the same on advertising, as they do currently, in two years' time. Of the remaining respondents, 13 per cent reported that they would spend more and 13 per cent reported that they would spend less. This indicates that the total level of advertising expenditure amongst local advertisers is unlikely to move considerably, however, there is scope for advertising expenditure to be substituted between platforms.

Across all respondents, 32 per cent expect to spend the most online in two years' time. Currently, online advertising is the dominant platform, in terms of advertising expenditure, for 21 per cent of respondents so this indicates that advertisers expect more of their expenditure to move online. This will most likely come from press, as circulation of local print publications continues to decline, news groups turn their attention to offering online impacts.

The extent of any move in advertising expenditure towards online depends on the willingness of local advertisers to embrace it. We asked existing online advertisers what factors would encourage them to spend more on online advertising and 45 per cent reported that a fall in price would encourage additional expenditure. A further 20 per cent of respondents reported that nothing would make them spend more online. Amongst those who do not currently have an online presence, 41 per cent reported that nothing would persuade them to advertising online, while price was the second most frequently selected factor with 26 per cent reporting that they would spend more online if the cost fell.

Of the respondents identifying as likely to increase online expenditure, over the next two years, 48 per cent reported that they intended to spend more on their own website. The second most frequently selected channels for online investment were Google Products and respondents' own mobile site or apps, which were selected by 29 per cent and 27 per cent of respondents respectively. This demonstrates that local advertisers are more interested in developing their own online presence than advertising through third party or local websites, each of which were selected by just 10 per cent of respondents.

Forecast

Across the whole of the UK, online advertising expenditure has grown at around 15 per cent a year over the last three years and is likely to continue to expand as traditional platforms such as press decline. While results from our survey found that small businesses do not intend to increase their overall level of advertising expenditure, 32 per cent of respondents expect to be spending most of their advertising budget online in two years' time. This is currently the case for 21 per cent of respondents, and so it represents a movement in advertising expenditure to online from other platforms.

Respondents reported that price was the most important factor in their advertising decision and that a reduction in the cost of advertising online would encourage them to spend more on the platform. There was also a sizeable group (41 per cent of the survey respondents who are not currently online) who stated that nothing could persuade them to advertise online. This suggests that many small businesses already have the online presence they desire. Where businesses are intending to invest more online, 48 per cent intend to spend money on their own website or by advertising via email. This, and the wealth of online channels available to advertisers, is likely to restrict growth in spending on hyperlocal websites.

Forecasting the potential size of such a fragmented market represents a significant challenge. Given Nesta's interest in online, in particular, we have assessed online and hyperlocal advertising in turn and considered the likely direction of travel for advertising expenditure by local businesses. This is based on discussion with key stakeholders, our survey results, industry trends, and our knowledge of the market.

We estimate that the total potential online hyperlocal market is currently £731 million a year, of which £23 million is currently spent on hyperlocal websites. This is based on advertising expenditure by small businesses and includes all hyperlocally focused websites (as per Nesta's definition) – both independent hyperlocal websites and those linked to traditional local media including local press and broadcasters. We believe that total online expenditure by small businesses could grow to between £927 million and £1,172 million over the next five years, with advertising via hyperlocal websites likely to contribute between £23 million and £32 million to this.

Recommendations

Online advertising is a rapidly growing sector, but the growth in available advertising inventory has outstripped demand, leading to low prices for standard internet display. This low cost relative to traditional media such as print, has made it extremely challenging for content owners to make online operations profitable. Increasingly we are seeing national newspapers retreat behind pay walls, having been unable to sufficiently monetise their content by online advertising revenues alone. It is in this

environment that hyperlocal websites are attempting to grow and, with the majority of them news driven, they face similar challenges in financing quality content through online advertising.

Hyperlocal websites face a more significant challenge than those with a national focus because of their limited geographic catchment areas and their resulting appeal to only the smallest businesses. In turn, these small businesses tend to be the slowest to adopt new technologies and, given their small advertising budgets, the least willing to experiment with platforms they are not familiar with. Those businesses which do intend to invest in online advertising will focus predominantly on their own websites, with hyperlocal websites a less considered option.

Overcoming the understandable aversion of small businesses to experiment with online is one way that the hyperlocal sector could grow. Businesses that are situated in the community are more likely to be seen as a “trusted guide” and may thus have a role to play in stimulating this activity.

The internet has not only revolutionised the way that advertising can be delivered. One of the key factors in its success is that it has transformed the way it can be measured. While individual sites can monitor their own traffic, as a sector, it is difficult to generate interest without robust data on the usage and growth of the sector. An improvement in the available data on hyperlocal advertising and its associated reach could be a starting point. At present there is no differentiation between online advertising expenditure at a local and a national level, or even any indication of how much is geographically targeted. Promoting the use of appropriate measurement tools, perhaps through an industry association, would provide advertisers with clearer sight of the opportunity available to them and allow small businesses to make easier comparisons between traditional platforms and hyperlocal websites. However, the ability to size the local market accurately would be reliant on Google's willingness to share its data on local and hyperlocal advertising.

1 Introduction

Nesta is an independent charity enabled by an endowment from the National Lottery, with a mission to help people and organisations bring great ideas to life. Nesta does this by providing investments and grants and mobilising research, networks and skills. As part of its broader work in the hyperlocal media sector, Nesta has asked O&O to conduct research into the UK's hyperlocal advertising market. For more information on Nesta's key areas of focus, visit www.nesta.org.uk.

O&O is one of Europe's leading independent media specialist strategy advisors. Our work covers the full spectrum of strategic advice, from regulatory and policy through high level strategy to commercial advice and transaction support. Founded in 1995, we are London based but with a global clientele. We have worked extensively on a range of issues that have a bearing on this project, from local radio and print, to Ofcom reviews of local/regional media, the crossover and convergence of digital and traditional media, and many advertising markets. For more information, visit www.oando.co.uk.

1.1 Nesta's work in the hyperlocal media sector

Nesta is conducting a programme of work – “Destination Local” – which aims to help the UK be the global leader in understanding the potential for and stimulating the development of hyperlocal services. Nesta defines hyperlocal as “Online news or content services pertaining to a town, village, single postcode or other small, geographically defined community”, in particular powered by new technologies, including location aware devices with the potential to provide news and other information geographically relevant to individuals.

“Destination Local” has supported a number of innovative hyperlocal services and business models which take advantage of mobile technology. Ten projects were selected by Nesta in July 2012 and given funding of up to £50k each to enable them to launch a service which uses mobile technology to deliver geographically relevant content to users. These are experiments with a wide range of business models and ownership structures.

In 2012, Nesta also published what it believes to be the first review of the hyperlocal media landscape in the UK – “Here and Now: UK hyperlocal media today”. Noting the genuine potential and breadth of the sector, the report concludes by arguing for further research into business models and the impact of the sector; this report forms part of Nesta's further research.

1.2 The scope of this report

The internet has enabled a wide range of media services aimed at specific, small geographies. Nesta has identified a knowledge gap surrounding attitudes towards the use of these hyperlocal media in the UK. This could discourage investment in the sector, and there is a risk of the sector being ignored by policymakers due to a lack of understanding.

This report provides a detailed review of existing advertising trends and an assessment of the size of the market, covering both advertising that targets consumers in small geographic areas and advertising that funds content targeted at a small geographic area. It answers two essential questions:

- What is the size of the advertising market for UK hyperlocal media providers?
- What do current trends suggest the future evolution of this will be?

Our research has included four work streams which collectively provide a rounded and detailed view of the hyperlocal advertising sector in the UK, covering the key interest groups, the current size of the market, and its future prospects. Our high level approach is set out below.

1.2.1 A programme of interviews with key industry stakeholders

Our work is founded on a wide-ranging interview programme with senior stakeholders across the industry. We have used these interviews to explore hyperlocal marketing in order to establish the validity of Nesta's definition of hyperlocal advertising and develop an understanding of what hyperlocal advertising means to different advertisers, as well as platform and content owners.

These interviews have helped us to establish who is interested in hyperlocal advertising, how it might fit with traditional media and whether hyperlocal advertising expenditure is additive or substitutional from other advertising media expenditure.

1.2.2 Quantification of current advertising expenditure

We have assembled and analysed available advertising data at both a national and local level, examining general trends in advertising expenditure over the last five years. This includes consideration of the breakdowns of expenditure at platform level and an assessment of how advertising expenditure varies by sector. We have also reviewed trends relating to mobile platforms, including those in mobile advertising expenditure and the uptake of internet enabled mobile devices.

We have assembled existing data on local advertising through traditional sources such as print and radio. We have sought to address limitations in existing data on local advertising expenditure through our third work stream: a survey, focusing on the advertising habits and attitudes of advertisers with an interest in the local and hyperlocal markets.

1.2.3 A survey of advertisers

Working with our data collection partner, ICM Direct, we have conducted a detailed survey of advertisers in order to provide insight into advertiser attitudes to hyperlocal media, preferred methods of advertising, and quantitative data on current advertising expenditure by respondents, as well as their future intentions. To our knowledge, this type of research has not been conducted before, and it offers unique findings which help us to form a view on the likely prospects for hyperlocal media.

1.2.4 Forecasts

Based on the findings from our interviews, data analysis, and the survey of advertisers, we have produced forecasts for the hyperlocal advertising sector.

We estimate that the total potential online hyperlocal market is currently valued at £731 million a year, of which around £23 million is currently spent on hyperlocal websites. We believe that total online expenditure by small businesses could grow to between £927 million and £1,172 million over the next five years, with advertising via hyperlocal websites likely to contribute between £23 million and £32 million to this.

Nesta defines hyperlocal media as “online news or content pertaining to a town, village, single postcode or other small geographically defined community”.

2 The meaning of hyperlocal

Nesta acknowledges that there is no single definition of hyperlocal which is accepted by all, and many definitions have been proposed. Nesta's first review of the UK's hyperlocal sector, *Here and now*¹, provided a definition of hyperlocal media which aimed to distinguish 'hyperlocal' from more established forms of local media such as local or regional newspapers and local radio.

Nesta defines hyperlocal media as "online news or content pertaining to a town, village, single postcode or other small geographically defined community". This captures websites and blogs, as well as hyperlocal services accessed via web browsers and apps, on smartphones and other connected devices such as tablets.

In terms of advertising, Nesta's definition is designed to cover advertising which funds content targeted at a local level and advertisers targeting individuals in small geographic areas. There is scope for this to be interpreted more broadly and, as such, we have sought to establish what 'hyperlocal' means to different groups and to whom it predominantly appeals.

2.1 Our work is based on a series of stakeholder interviews

In the absence of existing research into hyperlocal advertising, and in order to add detail and insight to the original research we have conducted, we undertook a series of interviews with a number of key stakeholders in the sector. These interviews were targeted to provide us with a number of important perspectives on the subject of hyperlocal advertising, as well as an insider assessment of trends both in terms of the size of the hyperlocal advertising market, and uptake of mobile adverts, through mobile specific websites and/or apps.

We interviewed a total of 22 individuals representing 20 organisations involved in all aspects of the sector, from global to community organisations. Respondents included: media buyers, content owners, digital marketing specialists, trade associations, hyperlocal website owners, those providing support services to hyperlocal websites, and local authorities. This provided us with a well-rounded, diverse, but surprisingly consistent view of hyperlocal advertising, its appeal, and the related opportunities. A full list of interviewees is included at Appendix A: Interview respondents.

The specific subject areas covered by each of the interviews varied depending on the interviewee's area of specialism and their role in relation to hyperlocal advertising. However, in all cases, we sought to establish their opinions on what 'hyperlocal' means to their organisations and clients, as well as their thoughts on how the appeal of hyperlocal advertising varies between advertisers, and their expectations for the future of the hyperlocal sector. Since we have established individual's views, rather than the official public positions of the organisations in question, we have collated and anonymised these discussions, using them instead to guide our own thoughts and findings, which are set out in the sections which follow.

2.2 Location based advertising

There is an important distinction to make between local, or hyperlocal advertising, and location based advertising. While both are related to geography, these advertising channels rely on different technology, offer different audiences and appeal to different types of advertisers. Our research is concerned with hyperlocal advertising, rather than location based advertising.

Location based advertising is an emerging form of advertising based on an individual's geographic location at a particular instant in time. This has been facilitated by the rapid growth in consumer uptake of geo-location enabled connected devices in recent years. Location based advertising is a contentless form of advertising, it is primarily served to potential customers via their smartphones, but it can also reach

¹ *Here and now* – UK hyperlocal media today, Nesta, March 2012

people using tablet computers. There are four key channels through which location based advertising can be served to potential customers:

- **Mobile browser:** mobile specialist advertising agencies offer advertising space around mobile websites and in browsers which target individuals based on their location at the time of viewing. This opens up the opportunity to reach any potential customers using the internet on their mobile device, in the local area, regardless of the websites which they are viewing (limited only by the reach of advertising agencies' network).
- **Mobile apps:** mobile applications can target advertising based on the location of the individual in a similar way to location based mobile advertising carried by mobile browsers. Apps also offer the opportunity to push advertising directly to potential customers' mobile devices – this could ultimately result in the rise of spam advertising to mobile phones, based on an individual's location.
- **Mapping software:** mobile device based mapping software, such as Google Maps, is now a well-established means for businesses to list their locations and for customers to find them. This exists through products such as Google Places for business, which allows business owners to produce a listing based on their geographic location which can be seen by potential customers either searching for their business, or using mapping software to view the local area.
- **Text messaging:** targeting potential customers in a particular location by text message requires the individuals to have opted in to the service. Advertisers are then able to define text messages which will be sent when the individual enters a particular geographic catchment area. The fact that opt-in is required limits the reach of this form of location based advertising but it also guarantees a receptive audience who view targeted advertising more as a service than an intrusion.

Knowledge of an individual's location allows for targeted advertising which relates exclusively to businesses whose catchment areas match potential customers' current locations. As such, the reach of location based advertising is not limited to a particular group, such as those living in or with an active interest in, a particular area, nor does it rely on traffic to a particular website, or related content. Location based advertising holds an advantage over other forms of targeting because it is relevant to all individuals to whom it is served, and is therefore an effective driver of passing trade. This broad and highly relevant reach means that location based advertising holds appeal across the whole spectrum of advertisers, both national and local – and for many advertisers, its relevance will justify the price premium which is charged for all forms of targeting.

The key appeal of location based advertising for both national and local advertisers is its ability to reach a relevant audience within the catchment areas of each of their premises. This means that it is particularly attractive to certain business types: coffee shops or other food outlets, for example, can offer discounts at off-peak times in order to boost demand when they would otherwise have spare capacity. Other business types, such as high-street retailers, can use localised discounts to increase footfall by making passers-by aware of offers which could coax them into the store.

Location based advertising appeals to both national and local advertisers.

As well as creating a reason for national advertisers to target by location, location based advertising allows national advertisers to use the same marketing tools to reach potential customers near each of their stores, with seemingly local deals. National advertisers tend to plan their campaigns centrally due to the complexity of running discrete campaigns for local areas; location based advertising allows them to reach a localised, relevant audience, without the need to produce campaigns with regional variations. This means that they can deliver offers to local areas at different times, without losing control of their centralised marketing budgets.

The location based advertising sector is still in its infancy, but given its broad appeal, it is likely to be an area of significant growth. This growth is likely to be driven by national brands in the coming years because they are well equipped to understand location based advertising's potential and roll out their campaigns, while SMEs tend to be late adopters of new technology and the perceived complexity of set up may be a barrier to entry for smaller businesses. Ultimately, the success of location based advertising will depend on how receptive consumers are and whether they view location targeted deals as a service

or an infringement on their privacy. If consumers are happy to be served relevant location based advertising, growth will then depend on how willing the UK mobile operators are to provide an ecosystem which can support a seamless advertising interface.

2.3 Hyperlocal advertising

Hyperlocal advertising is a more focused version of local advertising, based on a catchment area covering a small geographically defined community – such as a town, village or single postcode. Traditional channels for local advertising, including local newspapers and local radio, have a larger catchment area than media which serves a hyperlocal area. Traditional hyperlocal advertising channels include freesheets, leaflets, and community papers, as well as geographically focused editions of local or regional newspapers; in recent years this has expanded to include advertising on hyperlocal websites.

There is no single accepted definition of hyperlocal, and Nesta's definition of hyperlocal media is specifically online and primarily relates to news sites. Nesta's focus is therefore on advertising which funds hyperlocal content, such as that on hyperlocal websites, rather than advertising which targets individuals at a hyperlocal level through traditional channels such as leafleting. Since hyperlocal media services are the key carriers of hyperlocal advertising, recent growth in the number of hyperlocal websites offers an exciting opportunity for growth in the hyperlocal advertising sector; we attempt to quantifying the size of this opportunity through our survey in Part 4. Traffic to hyperlocal websites is driven by local news stories, and as such, quality journalism is essential to generate sufficient traffic to attract advertisers. Broadly speaking, there are three types of hyperlocal website, all of which rely on a committed editor to generate traffic:

- **Those established by a local journalist:** many hyperlocal websites are established by journalists with an interest in the area and a heavy involvement with the local community. The nature of these websites varies with some operated by professional journalists while others are run on a volunteer basis. As such, the extent to which these websites carry advertising also varies, with many generating no advertising income at all – either because the website is not being run as a business, or because those involved don't know how to monetise it.
- **Networked hyperlocal websites:** there are several networks of hyperlocal websites set up in the UK. These often operate on a franchise model and rely on an editor with a genuine interest in each of the areas they serve. By operating as a network, hyperlocal websites can offer a larger total reach to advertisers, though this is of limited interest to national advertisers for the reasons set out in 2.3.1.
- **Websites linked to traditional local media including local press and broadcasters:** many local news providers maintain websites affiliated with each of their print publications. As print revenues decline, the move to online is increasingly important for local news groups. Online news is difficult to monetise, but these websites may fare better than independents, given their existing sales network based on their print publications and the substitutability of print and online advertising. Some broadcasters, such as STV, have made similar steps into locally focused websites.

Hyperlocal advertising therefore offers a very different opportunity to location based advertising. The small geographic focus of hyperlocal media means that its reach is very limited. Its catchment area will only extend to those who live in the area in question or have an active interest in the area for another reason, such as because it is where they work or where their children attend school. As such, this type of targeting does not appeal to all groups of advertisers.

2.3.1 Hyperlocal advertising and national advertisers

Based on our stakeholder interviews, it is clear that national advertisers have very limited interest in hyperlocal advertising as a means of targeting potential customers. For national advertisers there is no alignment between the catchment area of hyperlocal media channels and their required reach, both in terms of audience size and characteristics. The reasons for this are set out below.

- **National advertisers tend to require a national reach:** The broad appeal of national advertisers' products means that they require a national reach and hyperlocal advertising does not provide a large enough catchment area to achieve this. Hyperlocal websites tend to have relatively low levels of

traffic and to build up national coverage through a series of hyperlocal websites would require a large number of relationships; a complexity which national brands do not want to manage. There are also easier and more effective means to reach a mass audience than hyperlocal media, these include television, outdoor and radio as well as national online campaigns. Even where hyperlocal websites form a network to extend the reach of their advertising offering, other barriers (below) restrict the appeal to national advertisers.

- **National advertisers don't require location based targeting:** National advertisers don't need to target potential customers based on location because their products hold a broad appeal. This means that with the exception of occasional events such as store openings, there is no need to deliver a differentiated advertising message based on location. As such, hyperlocal advertising doesn't offer a targeting opportunity which is required by national advertisers. Where a national brand does require targeted advertising, location is not the method of choice; there are many more relevant characteristics which they can target on, such as life stage, income, or intent. In addition, targeted advertising comes at a premium and given that national brands have no reason to target particular hyperlocal areas with differentiated messages, they won't pay a premium to do so.
- **National advertising budgets tend to be controlled centrally:** To manage their campaigns effectively, national advertisers tend to orchestrate their advertising centrally, with the intention of reaching a large audience with a largely undifferentiated message. This means that local branches do not tend to hold any advertising budget of their own. Where advertising budget is held at a local level, it tends to be a very small amount, and its use is restricted by guidelines designed to ensure that a consistent brand message is delivered by all outlets. This exists even under a franchise model, where it is important to ensure that franchisees behave as colleagues rather than competitors.

For these reasons, advertising via hyperlocal media does not meet the needs of national advertisers who do not generally need to target their advertising at audiences in tightly defined geographic locations. And, even where they do, there are more effective ways of doing so than through hyperlocal media.

2.3.2 Local audiences can be targeted in a number of ways

Where national advertisers are interested in some level of local advertising, traditional local advertising platforms such as local radio, regional newspapers, and ITV regions offer substantially greater reach than advertising via hyperlocal media. The catchment area of traditional local advertising platforms is the extent to which national advertisers would ever need to target geographically. These are businesses such as car dealerships and hardware stores which tend to have a catchment area of 10-15 miles, so hyperlocal advertising is more focused than they need; for these advertisers, traditional local media offers the right scale.

Where national advertisers wish to target online advertising to specific geographic locations, there are a number of options available – not just hyperlocal websites:

- **IP address:** Location targeting via IP address allows advertisers to target adverts at individuals based on their IP address, which is linked to a telephone exchange in a particular postcode. This is up to 95 per cent accurate (depending on area) and allows advertisers to reach all area relevant web traffic on the provider's network, rather than only those people visiting a particular hyperlocal website. As such, IP based targeting is more appealing than hyperlocal website advertising to advertisers wanting to target on location. The only downside is that some advertisers, particularly small businesses, may lack the required know how to implement an IP address based campaign.
- **Paid search:** This can be used to place advertisers' weblinks or branding alongside search terms which include the name of their targeted area. This means that their adverts are displayed only to individuals with a clear interest in the relevant geographic area. Paid search advertising therefore appeals to both national and local advertisers. While it does carry a risk that searchers are not local to the area and cannot easily be converted into customers, this risk is mitigated by the fact that advertisers tend to pay on a per click basis – meaning that they only pay when the searcher is sufficiently interested to click on their advert.

- **Personal data:** The use of personal data is an option most effective for national brands which hold large databases of personal information which users are required to provide in order to use their service. Where advertisers hold data on existing customers, they can use address or phone number information to establish customers' geographic location. These advertisers can therefore target advertising, often via email, based on the geographic location of their existing registered users. Similarly, social media websites such as Facebook can use the personal information, including location, of their registered users to offer targeted advertising to any business wishing to advertise on their site.
- **Online marketing:** Products such as Google Places for Business, allow businesses to establish a searchable online presence linked to their geographic location. These services hold particular appeal to small businesses as they increase visibility amongst potentially customers searching for terms related to the local area. Other online marketing services such as hibu (formerly Yell) also offer businesses the opportunity to target advertising at those interested in particular local areas. As with all online advertising, these products rely on the advertiser's willingness to try something new and in many cases small businesses, with limited advertising budget, will feel unable to experiment in this way.
- **National platforms with localised elements:** websites such as Facebook and Mumsnet can carry locally focused content which provides a further means of targeting a local audience. However, these platforms are used by advertisers to target on other characteristics. National advertisers will target Facebook users based on more useful information than geographic areas which they might be interested in, while Mumsnet is used by national advertisers to target mums nationally, rather than to provide geographically tailored messages.

Given the number of options available to advertisers seeking to target by location, advertising via hyperlocal websites offers limited unique appeal. Advertising on hyperlocal websites can be orchestrated in two ways, either by the websites themselves (operating either individually or as a network) or through an advertising exchange, such as Addiply², which allows advertisers to target their campaign across a network of otherwise independent hyperlocal websites. Neither option offers a unique opportunity to national advertisers, as a network of hyperlocal sites will, at best, provide the same reach as one national website, so national advertisers can achieve this level of coverage more easily through other channels.

2.3.3 Hyperlocal advertising and local advertisers

While advertising via hyperlocal media does not appeal to all advertiser groups, its unique community focus and tightly defined catchment area hold obvious appeal for small local businesses and sole traders whose catchment area matches that of a particular hyperlocal website. Indeed, the rise of hyperlocal websites, such as those delivering news for a small geographic area, has provided a new channel to reach a tightly defined local audience. Online advertising is cheaper than the channels traditionally used by small local businesses, such as local newspapers and leafleting, and could therefore be the most cost effective means for small local businesses to reach a relevant local audience.

Local Authorities and other local services providers, such as community groups, may also be interested in including hyperlocal advertising as part of their marketing mix. In general, Local Authority websites do not carry advertising, but they do have advertising budgets with which to promote their services. Where their catchment area matches the catchment area of a hyperlocal website, hyperlocal advertising is a sensible and cost effective channel through which to reach their desired audience. However, barriers do exist, such as the potential conflict between the editorial content of hyperlocal websites and Local Authority objectives, as well as the existence of other effective online advertising channels, including their own websites and, increasingly, social media. Local Authorities also

Advertising via hyperlocal media appeals to local advertisers who serve the same hyperlocal area.

² Addiply is a project funded the Technology Strategy Board. For more information see http://www.nesta.org.uk/areas_of_work/creative_economy/destination_local/assets/features/technology_strategy_board_destination_local_projects

tend to use traditional forms of local advertising, such press and outdoor, to target advertising at the residents in their area.

While hyperlocal advertising does appeal to small local businesses, spending is likely to be substitutional and uptake is hard to predict. Small businesses are slow to adopt new technology and tend to be highly receptive to the impact of their advertising expenditure; they have limited budgets and are keen to ensure that there is a tangible return. As such, local advertisers have a tendency to stick with what they know when it comes to advertising. If they do try something new, they are unlikely to stay with it unless they see instant results.

Furthermore, digital advertising and, hyperlocal media in particular, are not always the most effective approach for small local businesses. There are non-digital hyperlocal options available to local advertisers which provide similar certainty of reach as hyperlocal websites. Leafleting, for example, is a relatively low cost means of targeting a defined number of individuals, and in many cases this may be more effective for small businesses than targeting the same audience through hyperlocal websites. Those using hyperlocal websites as an advertising platform are likely to use it as a digital alternative to local print advertising. This could provide an opportunity for local press to expand their online presence, but online advertising tends to cost less than traditional press advertising, meaning that monetising online content remains a challenge for traditional local media groups.

Advertising via hyperlocal media appeals to local advertisers who serve the same hyperlocal catchment area.

3 The size of the market

In this section we present the available data on advertising expenditure at both a national and local level, in order to establish the general trends in expenditure over the last five years. The availability of data varies significantly between national and local expenditure; this is because the local advertising market is highly fragmented, preventing the effective collection and reporting of data. With the exception of regional press and local radio there are no reliable data available on advertising expenditure at a local level. In addition, hyperlocal advertising expenditure is entirely unquantified, and while this may overlap with local advertising expenditure to some extent, there is no easy way to separate the two.

Our survey (see Part 4) attempts to address this absence of local advertising expenditure data.

3.1 The availability of hyperlocal advertising expenditure data

There are two useful ways to consider the availability of hyperlocal advertising expenditure data:

- by platform; and
- by preferred delivery channel.

3.1.1 Hyperlocal advertising data by platform

UK advertising expenditure data is collected and reported by platform, at a national level, but expenditure data does not generally exist at a local level. This means that there is no way to determine local advertising expenditure across all platforms.

Where local advertising expenditure data does exist, such as for regional newspapers and local radio, there's a distinction to be made between expenditure by locally based businesses and that of national advertisers targeting at a local level. In considering hyperlocal advertising expenditure, which appeals almost exclusively to small local businesses, we are interested predominantly in the former. Available data is at a local level and, at the more focused hyperlocal level, no data exists across any platform.

Details of the key advertising platforms and the available expenditure data are set out below:

- **Internet** – Advertising data is provided by the Internet Advertising Bureau and no distinction is made between national and local online advertising expenditure, either via hyperlocal media or using other means, such as IP address or paid search.
- **Television** – Published advertising data for television are not broken down to a regional level. Local television is not yet an established advertising platform and therefore no advertising expenditure data exists for local television.
- **Print** – Advertising expenditure data for print can be split between national and regional publications, with regional display expenditure broken down between national and local. However, local expenditure is based on the circulation area of the newspaper, which tends to extend beyond what we would define as a hyperlocal area.
- **Outdoor** – Although outdoor advertising is necessarily local to a particular geography, there are no data available to indicate whether it is used to target by location, or whether local adverts form part of a national campaign.
- **Radio** – Advertising expenditure can be split between local and national, but this is not very sophisticated, with 'national' relating to advertising expenditure booked within the M25 and 'local' referring to that booked outside of the M25. So there are no data to indicate whether radio advertising is used by local or national advertisers.

3.1.2 Hyperlocal delivery channels

Advertising channels used to target hyperlocally are not easy to measure and no reliable data currently exists. Hyperlocal advertising expenditure is very fragmented and even for those channels which are suited to hyperlocal advertising, there are no data available for hyperlocally focused advertising expenditure.

The key traditional advertising platforms which are suited to hyperlocal advertising include: Business to Consumer (B2C) directories, local newspapers, leafleting, direct mail, and outdoor (e.g. billboards and sandwich boards). More recently, hyperlocal websites have offered a digital alternative to these traditional forms of hyperlocal advertising. However, given the number of hyperlocal websites and their limited reach, no data is currently collected on the level of advertising revenue that they generate.

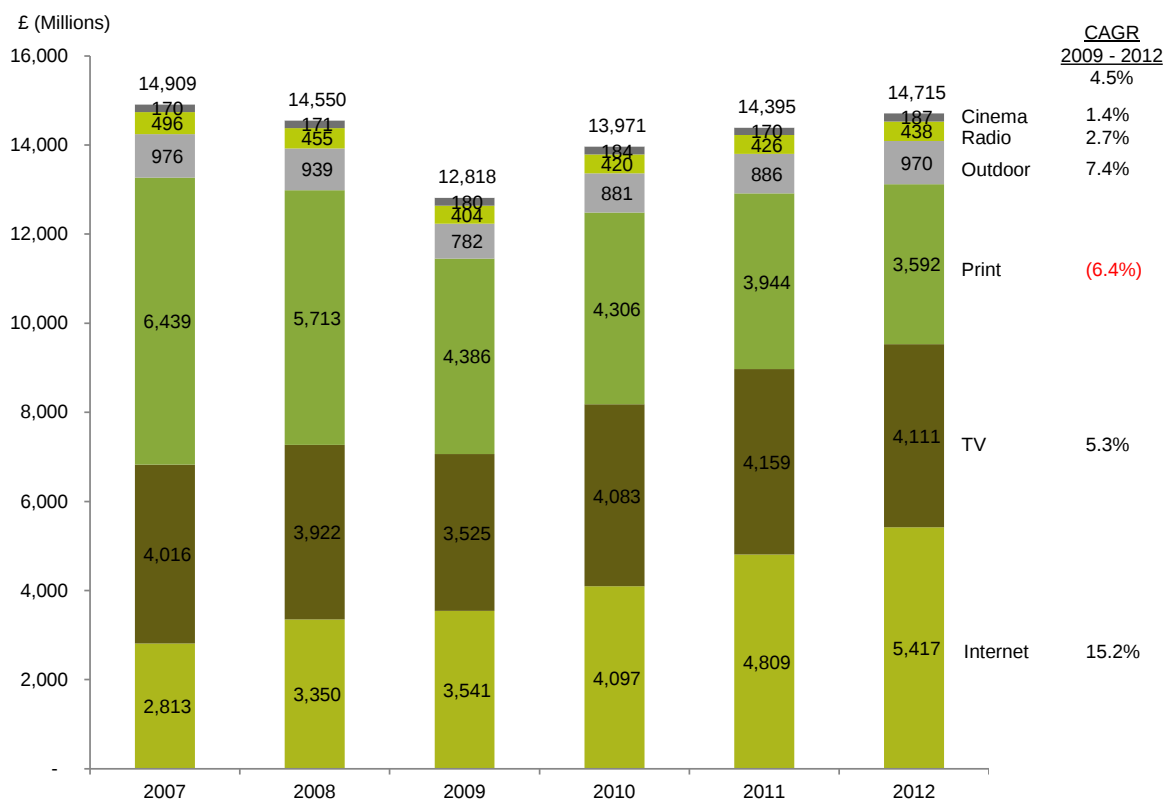
3.2 National advertising expenditure data

Advertising expenditure data are available at a national level across all major platforms in the UK. In general, advertising expenditure was badly hit by the global economic crisis in 2008 but has shown signs of recovery since 2009.

3.2.1 Expenditure by platform

The UK's total advertising market has seen growth over the last three years, as it has recovered from the global economic crisis. Figure 1 shows that total UK advertising expenditure fell significantly between 2007 and 2009 but has recovered steadily over the last three years, with at CAGR of 4.5 per cent. Growth has mainly been driven by the rapid expansion of Internet advertising expenditure, which has grown with a CAGR of 15 per cent since 2009. This has more than compensated for the decline in print advertising expenditure over the same period.

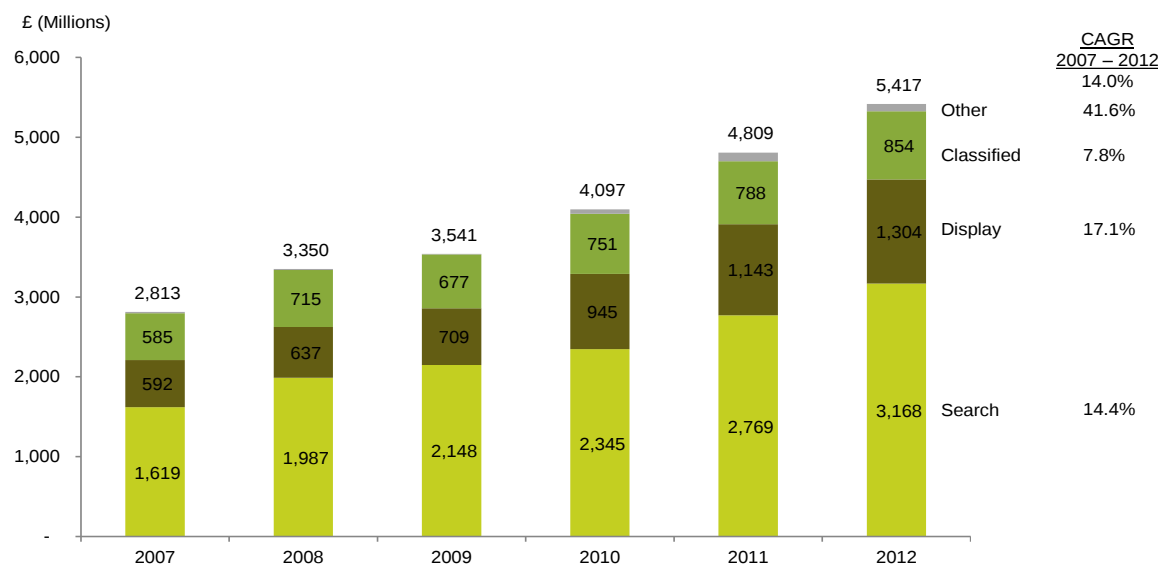
Figure 1: Total UK advertising expenditure, by platform, 2007-2012



Note: With the exception of Internet, 2012 numbers are comprised of actual Q1 – Q3 data and Q4 estimates
 Source: AA / Warc Expenditure Report, Oliver & Ohlbaum analysis

The UK market for digital advertising expanded by 93 per cent between 2007 and 2012, with all strands of digital advertising experiencing growth. Search accounts for the majority of digital advertising expenditure, making up around 58 per cent of the market in 2012. Display accounted for 24 per cent of the online advertising market in 2012, compared to 21 per cent in 2007, while classifieds has lost share over the last five years with 16 per cent of the market in 2012 compared to 20 per cent in 2007.

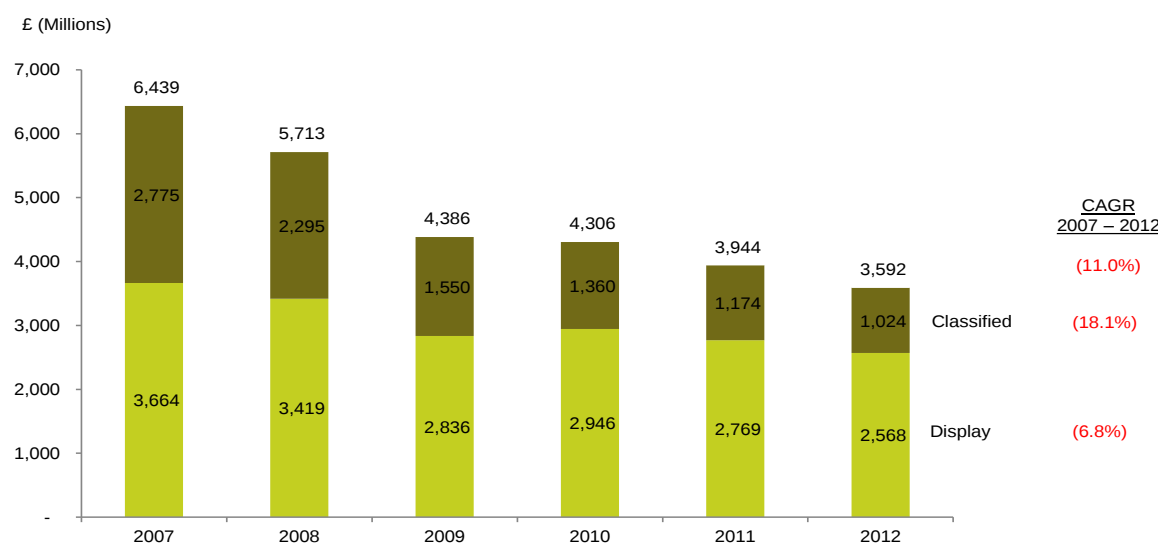
Figure 2: Total UK digital advertising expenditure breakdown, 2007-2012



Source: AA / Warc Expenditure Report, IAB / PwC UK Digital Adspend Study, Oliver & Ohlbaum analysis

While digital advertising expenditure has grown over the last five years, the print advertising market has suffered consistent decline. Total print advertising expenditure has fallen by 44 per cent over the five years to 2012; with a CAGR of -11 per cent. Classified advertising has been the hardest hit, with expenditure falling by 63 per cent between 2007 and 2012, as advertisers have moved online. Display advertising expenditure in the press has experience a relatively small decline of 30 per cent since 2007. The share of press advertising expenditure accounted for by classified advertising has therefore fallen since 2007; classified advertising accounted for 29 per cent of expenditure in 2012 compared to 44 per cent in 2007.

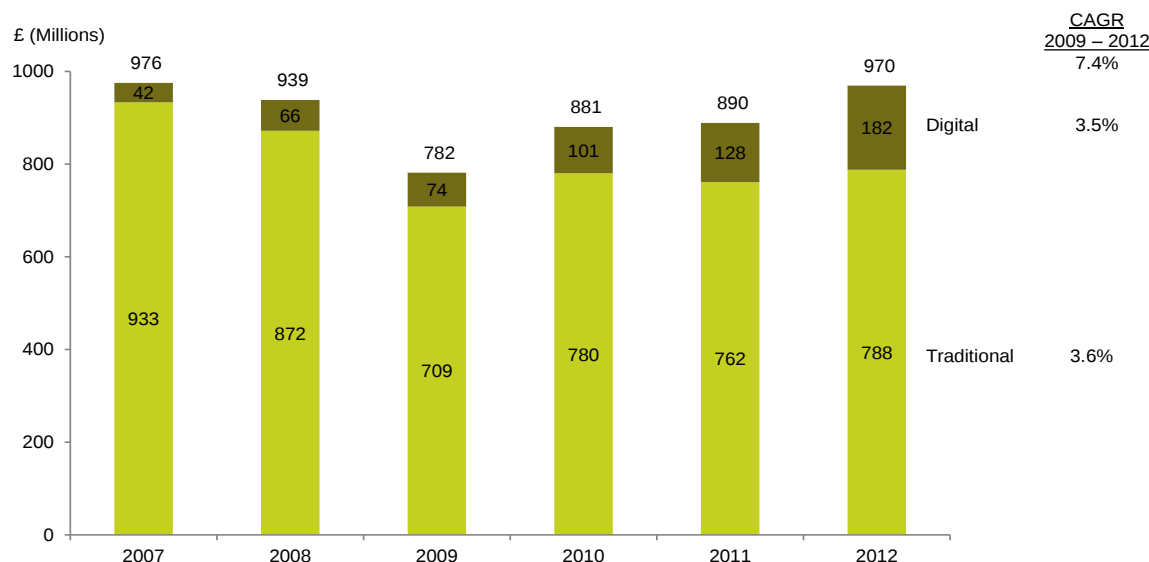
Figure 3: Total UK print advertising expenditure breakdown, 2007-2012



Source: AA / Warc Expenditure Report, Oliver & Ohlbaum analysis

Outdoor advertising was more affected by the global economic downturn than digital and press advertising. Total outdoor advertising expenditure fell significantly between 2007 and 2009 but has shown signs of recovery over the three years to 2012, with a CAGR of 7.4 per cent. Digital advertising has grown year on year since 2007 and is taking an increasing share of the outdoor advertising market. Digital accounted for 19 per cent of total outdoor advertising expenditure in 2012, compared to 4 per cent in 2007.

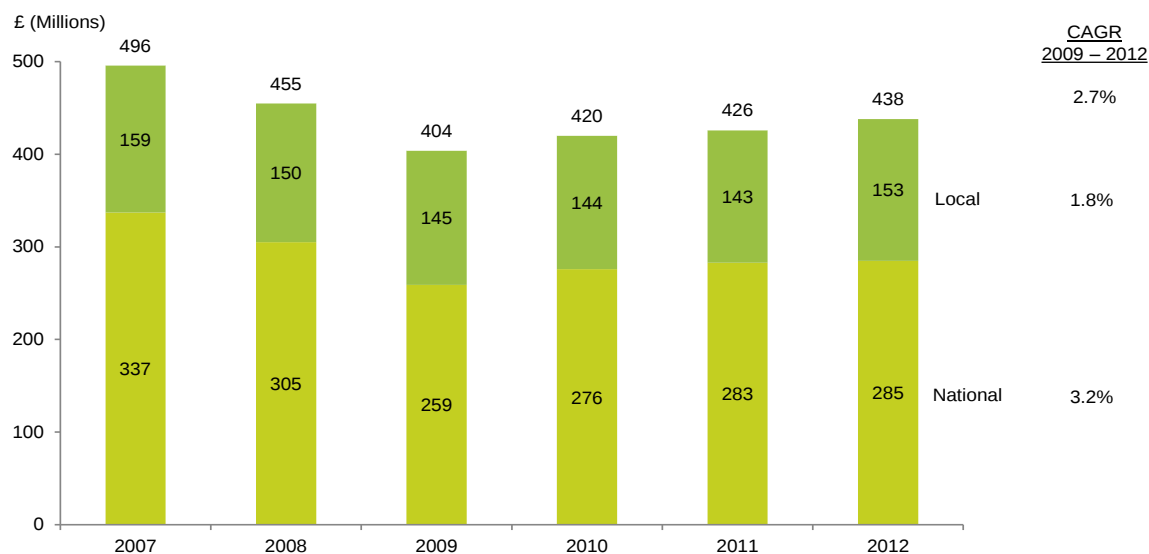
Figure 4: Total UK outdoor advertising expenditure breakdown, 2007-2012



Source: AA / Warc Expenditure Report, Outdoor Media Centre, Oliver & Ohlbaum analysis

Like print and outdoor advertising, advertising expenditure on radio suffered a significant decline between 2007 and 2009, as a result of the global economic downturn. Since 2009, total radio advertising expenditure has shown signs of recovery; growing with a CAGR of 2.7 per cent over the three years to 2012. This recovery has been predominantly driven by growth in national radio (advertising booked within the M25), which grew with a CAGR of 3.2 per cent over the three years to 2012. Advertising expenditure on local radio was relatively static between 2009 and 2011, but grew by 7 per cent in 2012.

Figure 5: Total UK radio advertising expenditure breakdown, 2007-2012



Note: Figures exclude sponsorship and brand integration revenue

Source: RAB/Ofcom, Oliver & Ohlbaum analysis

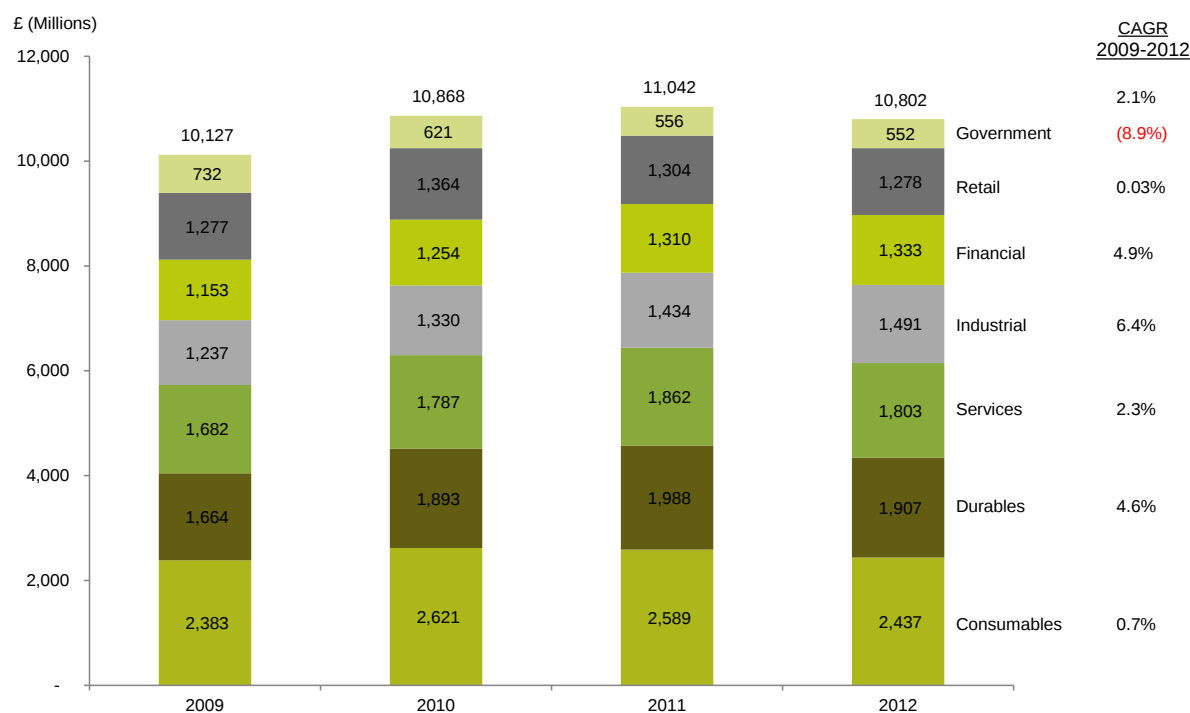
3.2.2 Expenditure by sector

Total UK advertising expenditure data are also available on a sector basis, across seven broad product categories which are grouped by AA/Warc using Nielsen data. Since this information is provided by Nielsen, using a different collection methodology, the total UK advertising expenditure figures do not reconcile to those in Figure 1. The seven categories are set out below:

- **Consumables:** Food; drink; cosmetics & toiletries; pharmaceutical; household stores
- **Durables:** Motors; household equipment; household appliances; leisure equipment; clothing; games & consoles
- **Services:** Entertainment & leisure; media; travel & transport
- **Retail:** Retail; mail order; online retail
- **Financial:** Finance
- **Industrial:** Telecoms; computers; business; property; gardening and agriculture
- **Government:** Government; social & political organisations; charities

Total advertising expenditure, based on Nielsen's sector data, has shown signs of recovery since 2009 (as seen in Figure 1). The consumables sector consistently spends more on advertising than any other sector, accounting for 22 per cent of the UK ad market in 2012. The Industrial and Durables sectors have seen the most growth over the last three years, growing with CAGRs of 6.4 per cent and 4.6 per cent respectively.

Figure 6: Total UK advertising expenditure by industry sector, 2009 to 2012



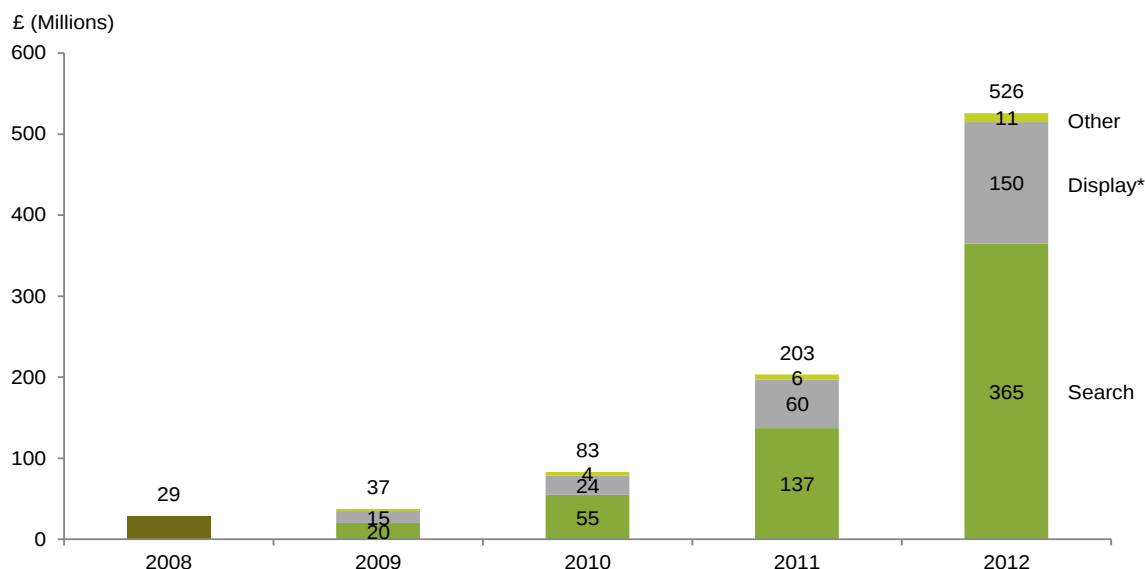
Note: Numbers are provided by Nielsen and do not correspond with total advertising expenditure numbers by AA / Warc
Source: Nielsen (AA / Warc Expenditure Report), Oliver & Ohlbaum analysis

3.2.3 Mobile advertising expenditure

The Advertising Association does not currently report mobile advertising as a separate series; it is instead included in the online advertising expenditure data which is shown in Figure 1. Mobile advertising expenditure data used by the Advertising Association is provided by the Internet Advertising Bureau (IAB), the UK trade association for online and mobile advertising, for whom PricewaterhouseCoopers conducts a biannual survey. The most recent data from the IAB shows that UK mobile advertising expenditure has grown with a CAGR of 163 per cent over the four years from 2008 to 2012. Given that mobile advertising is a relatively new platform, the breakdown of existing expenditure data is not easily

compared back to 2008 (for which no breakdown exists), though it is apparent that mobile advertising is an area of significant growth.

Figure 7: Total UK mobile advertising expenditure breakdown, 2008-2012

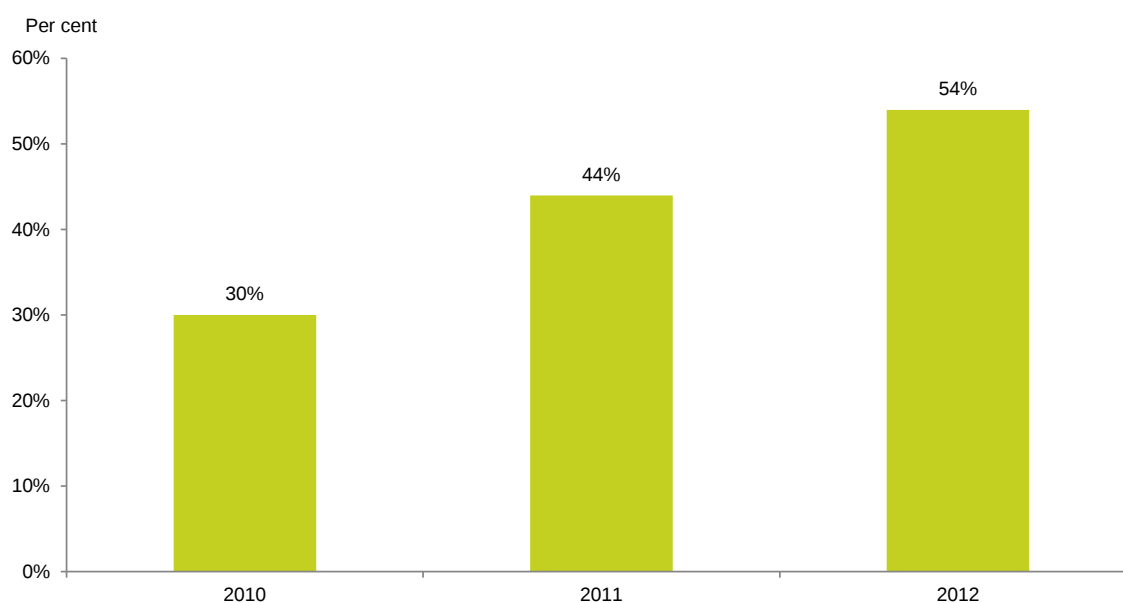


Note: *Display includes banner and text; no breakdown is available for 2008

Source: IAB / PwC Digital Adspend Study 2012, Ofcom Communications Market Report, Ofcom Adults Media Use and Attitudes Report, Oliver & Ohlbaum analysis

The growth in mobile advertising expenditure has been driven by an expansion in the use of smartphones and growth in ownership of location aware devices. Between 2010 and 2012 the take up of smartphones expanded by 24 percentage points, and this trend is likely to continue as smartphone producers begin to target the budget end of the market, which is not yet saturated. The more recent arrival of tablets has offered a further channel for mobile advertising, with tablet PCs enjoying a penetration of around 11 per cent of UK households in Q1 of 2012.

Figure 8: UK smartphone take-up, as a proportion of UK adults, 2010-2012



Source: Ofcom Adults' Media Use and Attitudes Report April 2013, Oliver & Ohlbaum analysis

3.3 Local advertising expenditure data

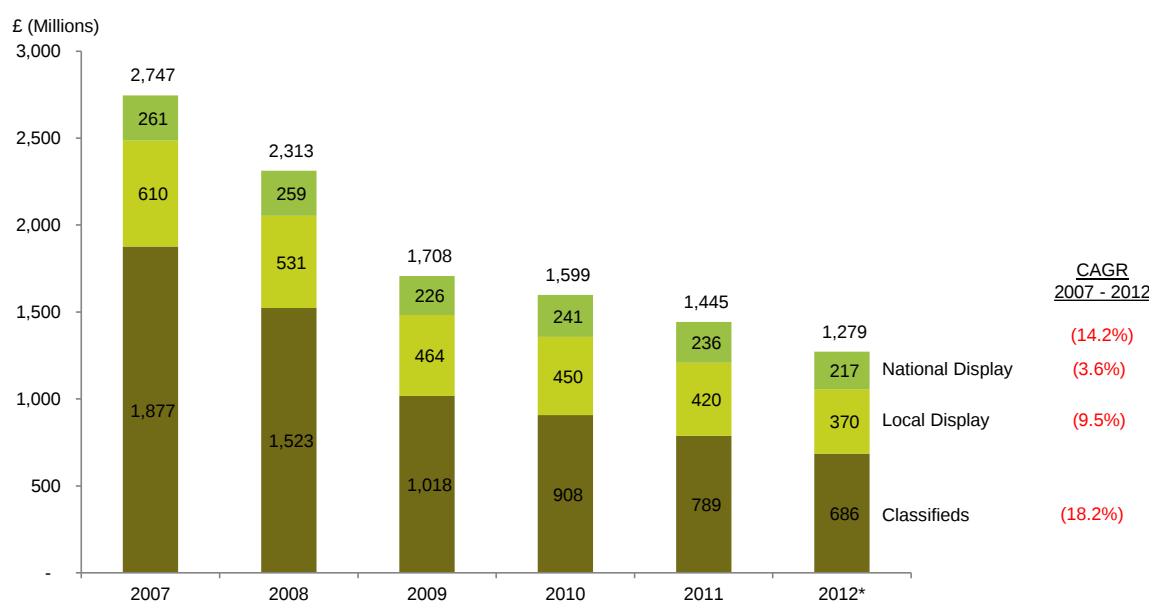
Limited data exists on advertising expenditure at a local level. Where it does exist, there is not always a breakdown of expenditure by local and national advertisers in the local media.

3.3.1 Regional newspapers

Data for advertising expenditure in regional newspapers are broken down between national display, local display, and classifieds. This gives a sense of the level of expenditure from local advertisers, which are the advertisers to whom hyperlocal media may appeal as a platform for advertising. However, local advertising refers to advertising expenditure by advertisers based in the circulation area of the newspaper, which normally extends beyond that which could be defined as hyperlocal.

The UK's regional newspaper advertising market has suffered the same pattern of decline over the last five years as seen for total UK print advertising expenditure, in Figure 3. Total regional newspaper advertising expenditure suffered a significant decline at the time of the global economic downturn between 2007 and 2009 and expenditure has continued to decline since then. This has been predominantly driven by a reduction in classified advertising, which has moved online. In 2012, classifieds accounted for around 54 per cent of total regional newspaper advertising, compared to 68 per cent in 2007: a decline of £1,191million or 63 per cent. Of the display advertising expenditure, national display has been more resistant to decline, falling by around 17 per cent between 2007 and 2012 compared to local display expenditure which fell by around 40 per cent over the same period.

Figure 9: Total UK regional newspaper advertising expenditure, 2007-2012



Note: *The 2012 split between local and national display is estimated based on previous growth rates
Source: AA / Warc Expenditure Report, Oliver & Ohlbaum analysis

3.3.2 Local radio

Radio advertising expenditure defined as local is that which is billed outside of the M25, this means that it is not possible to distinguish between national and local advertisers. It is therefore not possible to ascertain the level of expenditure currently being contributed by local businesses, i.e. the element of expenditure which could potentially be served by hyperlocal media.

While local radio can serve local businesses whose catchment area matches that of the local radio station, local radio also holds appeal to national advertisers. The nature of radio means that there are very few truly national stations, and so national advertisers use a combination of local radio stations to build up a national campaign. Advertising expenditure on local radio therefore consists of expenditure by

both national and local advertisers. Given the geographical reach of local stations it is not a close substitute for hyperlocal advertising, which is focused on a much narrower geographic area, and so local advertisers who do use radio will tend to have a much larger catchment area than that of the small businesses to whom hyperlocal advertising appeals.

As seen in Figure 5, local radio advertising expenditure fell by 10 per cent between 2007 and 2011, with a steep decline between 2007 and 2009 followed by a period of stabilisation between 2009 and 2011. In 2012, local radio advertising expenditure returned to growth, increasing by 7 per cent. Our discussions with industry stakeholders indicate that around 30 per cent of local radio advertising expenditure relates to multi-station campaigns, which are not really local advertising. The remaining 70 per cent are single station campaigns, which represent actual local advertising expenditure, which totalled £107 million in 2012.

3.3.3 Local TV

The advertising market on local television is not yet established. Following phase one of its licence issuing process, Ofcom recently issued 19 licences for local digital television programme services to be broadcast in specific local areas³. Most of these services will go live in the second half of 2013 and they will offer a new advertising channel to businesses. The catchment areas of these channels range from around 100,000 households in Oxford, to three to four million households in London and so the opportunity for local advertisers operating within a licenced area varies depending on where they are. The theme shared by each of the channels is that of local news; like hyperlocal websites they are content driven and rely on good quality news and features relevant to the area to drive viewers and attract advertisers.

The launch of local television channels will open up television advertising to businesses which could not previously afford it, and provide them with a TV coverage area which better matches their advertising needs. In most cases, advertising slots will be priced competitively against other forms of local media, such as local radio, and local businesses will also have the opportunity to feature in editorial content. Given the coverage of the local transmission areas, advertising on local TV is more likely to appeal to local and regional advertisers, rather than truly hyperlocal businesses. Local TV advertising revenues are most likely to be substitutional, from platforms with a similar catchment area, such as local radio and its success will most likely depend on the number of viewers it is able to achieve.

The multiplex licence holder Comux UK, currently faces a challenge in setting up a nationally accepted audience measurement tool for local television. An accepted measurement tool will be key to ensure that the licensees can demonstrate their reach to potential advertisers.

Until the local television channels are established, ITV and Channel 4's regional advertising are the only means to targeting advertising geographically on television. Based on discussions with these broadcasters, around 5 per cent of net advertising revenues for ITV (formerly ITV1) and Channel 4 are regionally targeted. We estimate that net advertising revenues for ITV and Channel 4 totalled £1,878 million in 2011, giving an estimated £94 million of advertising expenditure which was regionally targeted.

When it launches later this year, BSkyB's AdSmart service will offer an additional means of targeting television advertising. The service will allow advertisers to target advertising on the Sky channels based on information provided by Sky customers, such as postcode or TV package, which allows Sky to build up an idea of the types of products and services each customer might be interested in. This will allow national advertisers to serve differentiated adverts to customers likely to fall into different demographics; a car manufacturer, for example, could use the same advertising slot to advertise its family model to certain homes while advertising a sports car to others. AdSmart will also allow targeting based on geography, which could further open up television advertising to local and regional advertising, to which geographic targeting is most relevant.

³ Phase two, which covers a further 28 areas, is expected to commence later in 2013.

3.4 The total size of the UK advertising market

The above analysis focuses only on indirect marketing channels, and therefore doesn't represent total UK advertising expenditure. It is important to recognise the level of direct marketing expenditure undertaken across the UK because this forms part of the overall opportunity available to media owners, and thus impacts on the share occupied by hyperlocal media.

The key direct marketing channels omitted from our above analysis are: direct mail and door drops, email marketing, telemarketing, social media campaigns, experiential marketing, and freepost and business reply. In 2011, these channels accounted for £6.4 billion of advertising expenditure with estimated expenditure of £6.8 billion across these channels in 2012⁴.

The total size of the UK advertising market is therefore around £21.5 billion – the £14.7 billion total indirect advertising expenditure, as seen in Figure 1 and the additional £6.8 billion of direct advertising expenditure estimated for 2012.

3.5 The size of the UK local advertising market

While we have seen that there are very limited data available on locally targeted advertising expenditure, for some platforms, we can estimate the proportion of total advertising expenditure which is targeted locally. This includes both local and regional advertising and therefore extends beyond the advertising expenditure which could be captured by hyperlocal media. We have used our survey in Part 4 to quantify the advertising market which is available to hyperlocal media.

We estimate that of the £21.5 billion of UK advertising expenditure in 2012, £1.3 billion is locally focused. Note that the estimate excludes internet advertising, which was the platform with the largest level of expenditure in 2012, totalling £5,417 million; and Direct Marketing, which totalled £6.8 billion in 2012. This is because there is no reliable basis on which to estimate how this expenditure is split between national and local advertising. The breakdown of our estimate of the total size of the UK local advertising market, by platform, is set out on the next page.

⁴ Putting a price on direct marketing, 2012, The Direct Marketing Association.

Figure 10: Estimated size of the UK local advertising market, by platform, 2012

Platform	Explanation	Estimated local expenditure
Internet	There are no available data on how internet advertising expenditure is split between locally and nationally focused campaigns, and so there is no useful basis on which to make an estimate.	Unknown
Television	Published advertising expenditure data are not broken down into national and regional catchment areas. However, until the Local TV networks are established, ITV and Channel 4's regional advertising are the only means of targeting advertising on television. We estimate that net advertising revenues for ITV (formerly ITV1) and Channel 4 totalled £1,878 million in 2011 and that around 5 per cent of this is regionally targeted.	£94 million
Print	As seen in Figure 9, UK regional newspaper advertising expenditure totalled £1,279 million in 2012. This can be broken down between national display, local display and classified advertising expenditure. On the assumption that all classified advertising in regional print is local, local advertising expenditure totalled £1,056 million in 2012.	£1,056 million
Outdoor	Outdoor advertising is used by both national brands and smaller local businesses. It could be argued that all outdoor advertising is locally targeted, since it is positioned in locations which offer advertisers the most reach. However, our discussions with industry stakeholders indicate that around 95 per cent of expenditure is part of a national advertising campaign, with the remaining 5 per cent truly locally focused.	£48 million
Radio	Figure 5 shows that local radio advertising expenditure totalled £153 million in 2012. However, our discussions with industry stakeholders indicate that around 30 per cent of this relates to multi-station campaigns, which aren't really local advertising. The remaining 70 per cent are single station campaigns, which are truly local.	£107 million
Direct marketing	Data available on direct marketing expenditure from The Direct Marketing Association's 2012 report, Putting a price on direct marketing, did not distinguish between local and national campaigns, and so we have no clear basis on which to estimate the level of local expenditure.	Unknown
Total		£1,305 million

Source: Oliver & Ohlbaum analysis

3.6 Improving hyperlocal data availability

Given the fragmentation of the hyperlocal advertising market, it is extremely challenging to establish an accurate estimate of the size of the sector. In order to improve the quality of the data on local and hyperlocal advertising expenditure, the measurement tools would need to improve across all platforms. However, a question mark exists over whether or not such granular measurement is required at sector level and whether it would be cost effective.

As we have seen, hyperlocal advertising appeals exclusively to those businesses with a hyperlocal catchment area. This means that to drive advertising, hyperlocal media channels need to understand their reach and they need to be able to demonstrate this to advertisers. Adequate tools already exist for these purposes; hyperlocal websites know how much traffic they attract, and traditional channels, suited to hyperlocal advertising, such as the local press, already collect circulation data. For most platforms the gap in the data therefore exists at the aggregated level and a nationwide picture of locally targeted advertising expenditure could be established by advertising agencies and media groups were there an appetite to do so.

Due to the large number of online advertising channels, it is particularly challenging to define the extent to which online advertising is locally or hyperlocally targeted. As we have seen in Part 2, as well as advertising on hyperlocal websites, there are a large number of options available to advertisers wishing to target locally. This creates a challenge when it comes to monitoring and reporting online advertising expenditure targeted at specific geographies.

The IAB produces digital advertising expenditure figures via its biannual survey, but this does not currently include an assessment of advertising targeted by location. The value of advertising is established via confidential submissions by media owners to the IAB's research partner, PwC. One

means of establishing the level of locally targeted online advertising expenditure would be for PwC to request a breakdown from media owners and work in conjunction with the major agency groups to develop an understanding of the local-national split. Such an approach could establish the extent to which online advertising is targeted locally by the main players, but locally targeted paid search advertising would remain unquantified due to the lack of information published by Google. There would also be a lack of data on expenditure on local advertising via standalone hyperlocal websites or other independent sites and its aggregated measurement may not be cost effective.

The size of the hyperlocal advertising market is highly fragmented and no definitive data is currently available.

4 The survey

As we have seen in Part 3, the fragmentation of the local media market means that there is no easy way to establish the current size of the hyperlocal advertising market. Expenditure on the platforms most suited to campaigns targeting hyperlocal audiences, such as local press, leafleting, or, more recently, online, is particularly hard to quantify. As such, very limited expenditure data exists and, where it does, it is collated at a local rather than a hyperlocal level. This means that as well as there being no data on advertising expenditure on hyperlocal media platforms, there is no visibility of advertising expenditure which is aimed at a hyperlocal audience but targeted through local media.

We have therefore conducted a survey, to estimate the current and future size of the hyperlocal advertising market. Informed by our stakeholder interviews, we focused the survey on small businesses, because they are most interested in hyperlocal advertising. The survey provides insight into advertiser attitudes to hyperlocal media, their preferred methods of advertising, and quantitative data on current advertising expenditure amongst respondent businesses – as well as their future advertising intentions.

The survey was conducted by telephone. A full methodology is set out in Appendix B: Survey methodology.

4.1 The scope of the survey

It would not be practical to assess advertiser attitudes to hyperlocal media across the whole of the UK. Our approach has therefore centred around seven case study areas; these areas cover a range of localities with markets of different scale. Our findings are representative of the seven case study areas and, by selecting areas which exhibit a broad range of characteristics, the survey offers findings which resonate on a national scale – despite limitations of scope preventing a nationally representative survey, in statistical terms.

4.1.1 The case study areas

The survey is focused on seven case study areas; these are based around Local Authority areas⁵. We defined the case study areas, in consultation with Nesta, so as to represent a broad range of characteristics which are exhibited in different regions across the UK. The characteristics which we considered are set out below and are a mixture of both objective and subjective traits.

- **Type** – whether the area consists predominantly of urban, town, or rural areas
- **Population** – based on the most recent census data available
- **Income** – the case study areas cover a range of average income levels
- **Ethnicity** – the proportion of the population that is white British, based on the most recent census data
- **Location** – to cover areas in both the north and south of England, as well as in the Nations
- **Hyperlocal media penetration** – using the number of hyperlocal websites currently operating in each Local Authority area, based on data collected by the Openly Local project⁶

While these characteristics aren't exhaustive, they offer enough variability to provide assurance that we have selected areas which are broadly representative of the UK. The seven Local Authority areas providing the focal points for our case studies are:

- Camden Council;
- Guildford Borough Council;
- Mansfield District Council;

⁵ The case study areas are, in fact, defined by postcode regions, and do not share boundaries with Local Authority areas. A full explanation of our methodology, in terms of defining the boundaries of the seven case study areas is included at Appendix B: Survey methodology.

⁶ For more information on the Openly Local project, visit <http://openlylocal.com>

- Ryedale District Council;
- South Norfolk Council;
- Glasgow City Council; and
- Powys County Council.

We avoided selecting major cities because their population size means their characteristics are less consistent and are thus harder to define – in the case of Glasgow, the selected area focuses on the four wards of Craigton, Govan, Pollokshields, and Southside Central, rather than the city as a whole.

Figure 11: Case study areas and their characteristics

Area	Type			Pop.	Avg. income	% White British	Location			Local websites
	Urban	Town	Rural				N	S	Na	
Camden	✓			220,338	A range of income levels	44%		✓		High (6)
Guildford		✓		137,200		83%		✓		Low (1)
Mansfield		✓		104,400		93%	✓			Low (0)
Ryedale			✓	51,700		96%	✓			High (10)
South Norfolk			✓	124,000		95%		✓		Low (1)
Glasgow (selected wards)	✓			112,100		87%*			✓	Low (0)
Powys			✓	132,976		98%			✓	Low (1)

Note: 'High' rankings for hyperlocal media penetration are based on three or more hyperlocal websites. This number is taken from the Openly Local website

*for Glasgow City as a whole, as census data are not available by individual wards

Source: Census data, Openly Local, Glasgow Community Planning Partnership, Oliver & Ohlbaum

Further details of the case study areas, are included in Appendix B: Survey methodology.

4.1.2 Targeting the survey

This research aims to establish the size of the hyperlocal advertising market, so it is important to focus our survey on the type of advertisers to whom hyperlocal advertising appeals. Our work in Part 2 determined that hyperlocal advertising is not an attractive proposition for national advertisers, and appeals almost exclusively to small local businesses, whose catchment area matches that of the hyperlocal advertising channels available to them. We have therefore focused our survey on small businesses which are local to the seven case study areas.

We identified small businesses based on their number of full time employees. We have surveyed only businesses with less than 20 employees, including sole traders. We also filtered out branches, focusing exclusively on single site businesses and headquarters. This allowed us to ignore national retailers, where advertising decisions are made centrally, and local branches which have very limited autonomy over their advertising budgets.

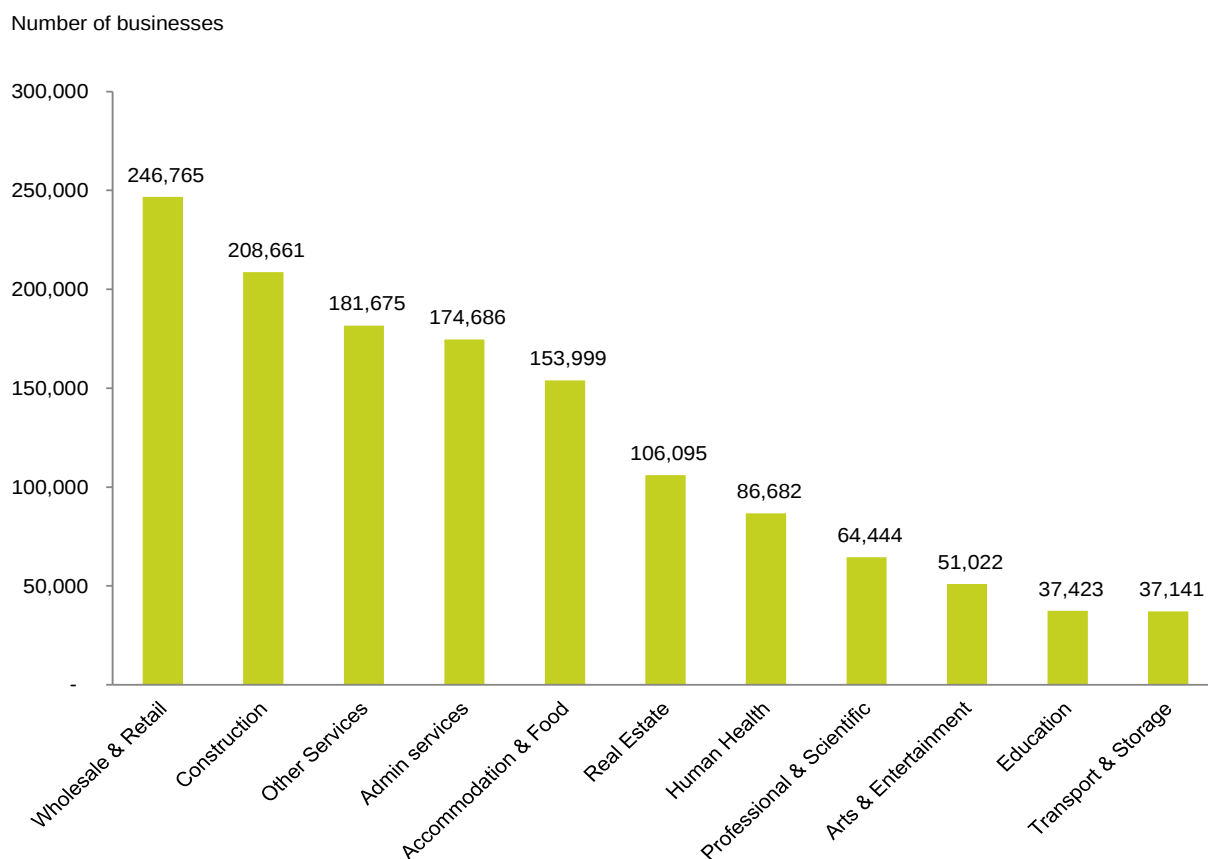
As well as filtering out businesses based on their size, we filtered out businesses based on their SIC codes. SIC codes, or Standard Industrial Classification codes, are a widely accepted means of classifying businesses based on their industry; full details of the SIC codes we have surveyed are included in Appendix C: SIC codes included in the survey. Filtering by SIC code means that we are able to rule out sectors such as Mining and Quarrying, which are unlikely to advertise to consumers or small businesses. SIC codes also provided us with a valuable means of identifying businesses in the most relevant industries, such as Retail and Other Service Activities, which cover a broad range of activities and business types and for whom hyperlocal advertising is most likely to be an attractive proposition.

The fact that the survey is focused on small businesses in industries which are most interested in hyperlocal advertising means that our findings are highly relevant to hyperlocal advertising. Our survey population is therefore a sub-section of the local market place in each of the case study areas; it doesn't attempt to cover or define the local economies in these areas since that would include larger SMEs and national advertisers.

4.2 Size of the local market

We identified the businesses in our survey population using data from Dun & Bradstreet⁷; a full explanation of the data we used is set out in Appendix B: Survey methodology. Using these data we established the total number of trading businesses which met our criteria (i.e. with fewer than 20 employees, in the SIC codes we identified), both across the UK and in each of the case study areas. There are a total of 1,348,593 across the UK which meet our criteria, these are set out by SIC code below.

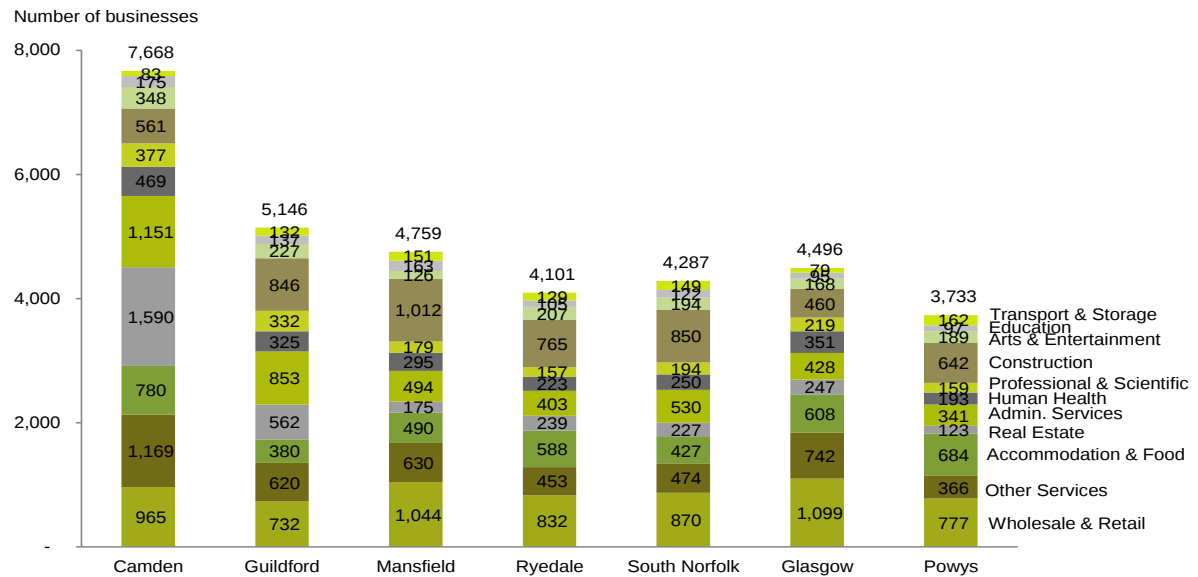
Figure 12: Total number of businesses (meeting our criteria) across the UK, by SIC code



Source: Dun & Bradstreet, Oliver & Ohlbaum analysis

Of the seven case study areas, Camden contains the most businesses which meet our criteria, with 7,668; this compares to an average of around 4,900 across each of our case study areas. In total there are 34,190 businesses in our case study areas which meet our SIC code and employee number criteria.

⁷ Dun & Bradstreet is a leading provider of business information. For more information see <http://www.dnb.co.uk/>

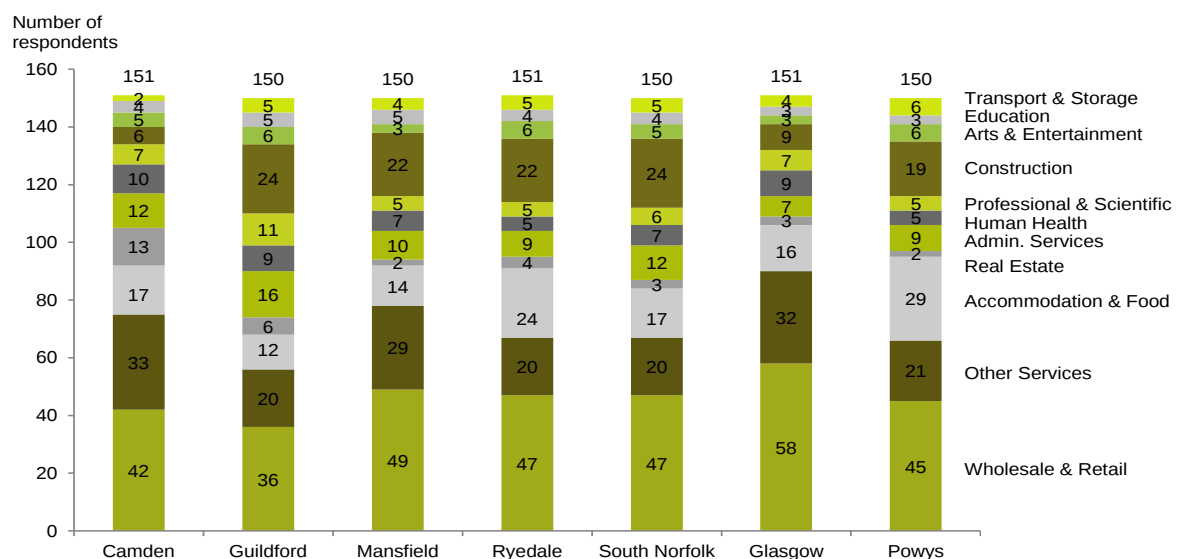
Figure 13: Total number of businesses (meeting our criteria) in each case study area, by SIC code

Source: Dun & Bradstreet, Oliver & Ohlbaum analysis

4.3 Results of the survey

We set out to conduct 150 interviews in each of the seven case study areas, thus providing coverage of 1,050 businesses across the UK. We surveyed businesses across a range of SIC codes, allowing us to identify variations in advertising attitudes and behaviours across industry sectors as well as geographies. We established the number of respondents required from each SIC code, in each case study area, based on the proportion of businesses in each SIC code for each area as a whole. We up scaled the sample for the retail and other services SIC codes because we believe that they contain the broadest range of advertisers.

The number of respondents in each case study area, by SIC code, is set out below, in total we surveyed 1,053 businesses.

Figure 14: Survey respondents in each case study area, by SIC code

Note: The SIC code descriptions are abbreviated; full details are available in Appendix C

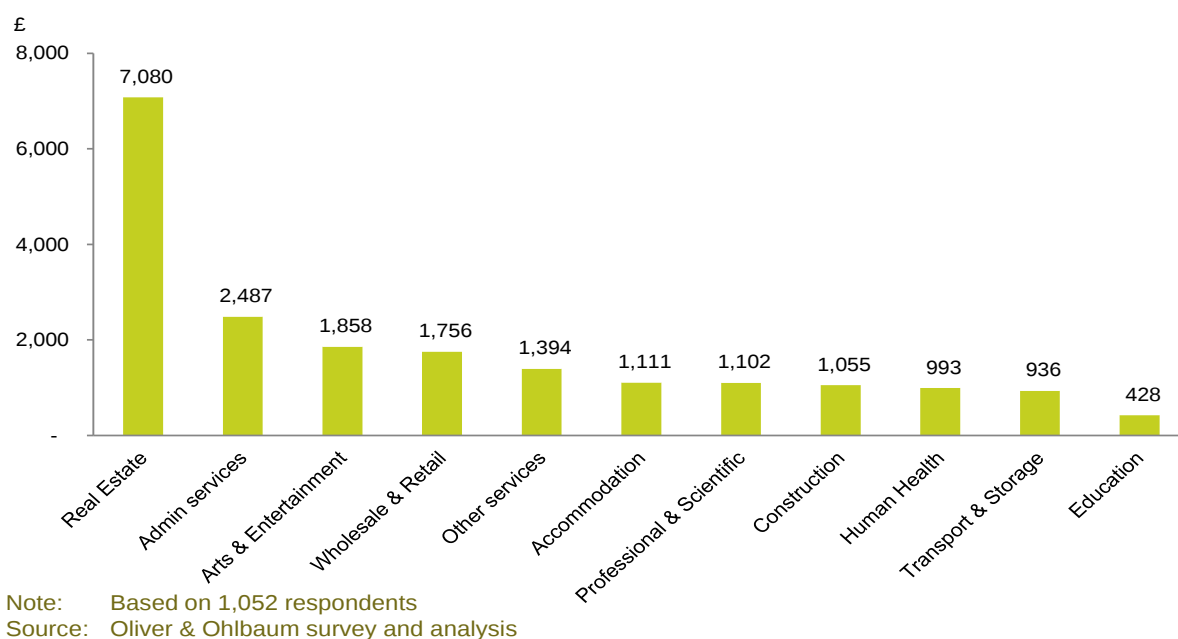
Source: Oliver & Ohlbaum

4.3.1 The level of advertising expenditure

The average (mean) level of advertising expenditure across the businesses we surveyed was £1,631 per year, with zero advertising expenditure the most common level (mode) of advertising expenditure amongst the businesses we surveyed. Amongst the 815 businesses which advertise, the average level of expenditure was £2,105. A business's level of advertising expenditure is likely to relate to factors, such as industry, location, turnover, business performance, and the age and size of the business. We analysed our survey results to establish which factors are correlated with advertising expenditure.

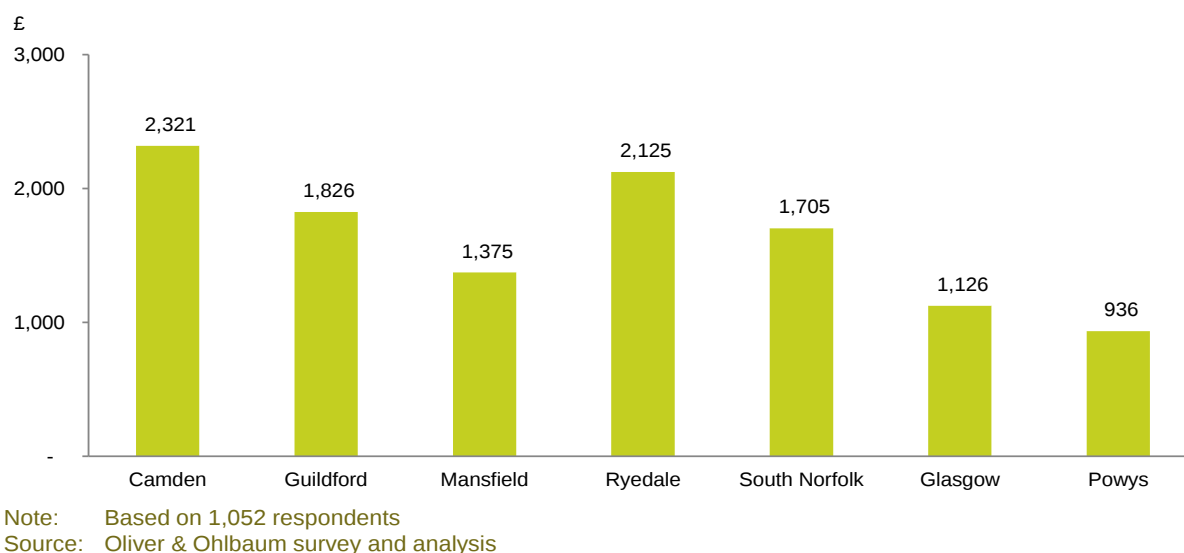
Real estate was the SIC code which reported the highest level of advertising expenditure of all the SIC codes we surveyed. Real Estate respondents reported an average advertising expenditure of £7,080 a year, well above the overall average.

Figure 15: Average advertising expenditure by SIC code



The average level of advertising expenditure varied across the case study areas, with Camden recording the highest average expenditure at £2,321 per year, while Powys recorded the lowest at £936 per year.

Figure 16: Average advertising expenditure by case study area



Of the businesses which reported turnover, the average advertising expenditure incurred by survey respondents, increased with turnover. This is in line with expectations since those businesses with the largest turnovers are likely to have a larger advertising budget to attract and retain customers.

Figure 17: Average advertising expenditure by reported turnover group

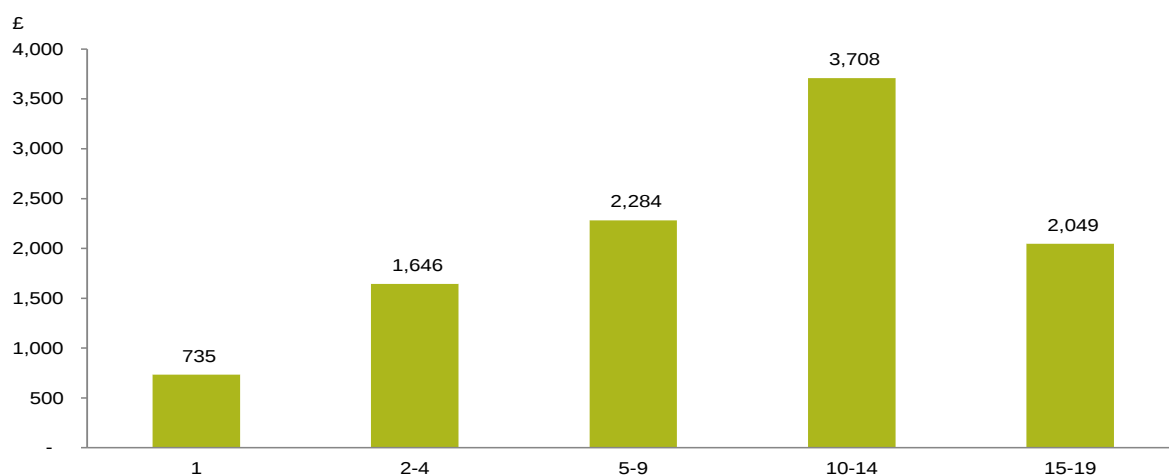


Note: Based on 439 respondents' answers to: 'Approximately how much have you spent on advertising over the last year?' and 'What was your company's approximate turnover for the last year?'

Source: Oliver & Ohlbaum survey and analysis

We found that the level of advertising expenditure, incurred by respondents, increased with the number of employees. The number of employees is a useful proxy for the size of the business and our data show that, in general, the level of advertising expenditure increases as the business gets larger and employs more staff. The survey results show that the average level of advertising expenditure falls as the number of employees expands beyond 14; though this could be due to the relatively small number of businesses (36) in that bracket not providing a sufficiently large base.

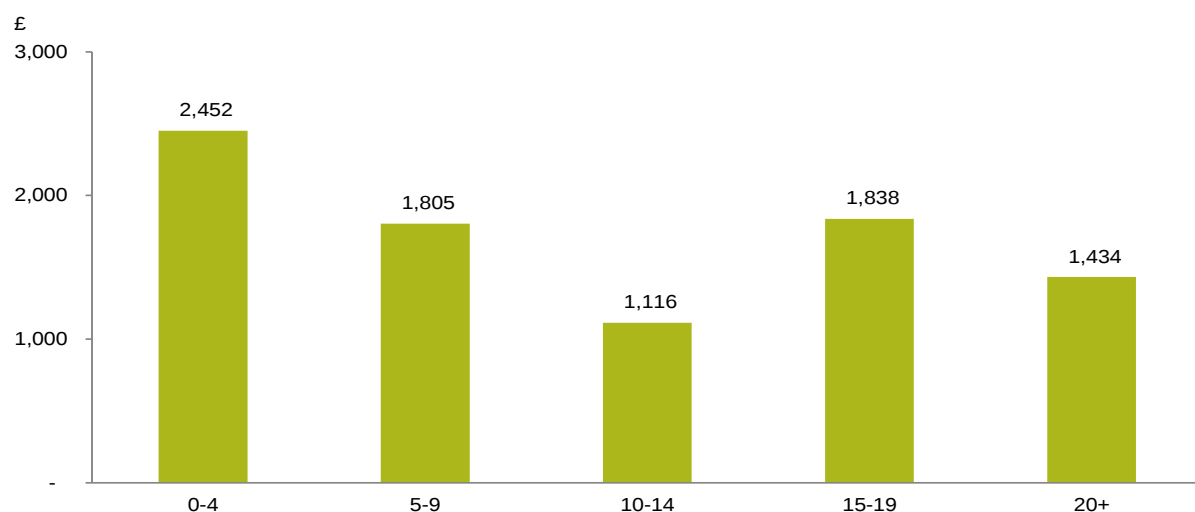
Figure 18: Average advertising expenditure by number of employees



Note: Based on 1,052 respondents' answers to: 'Approximately how much have you spent on advertising over the last year?' and 'How many employees do you have?'

Source: Oliver & Ohlbaum survey and analysis

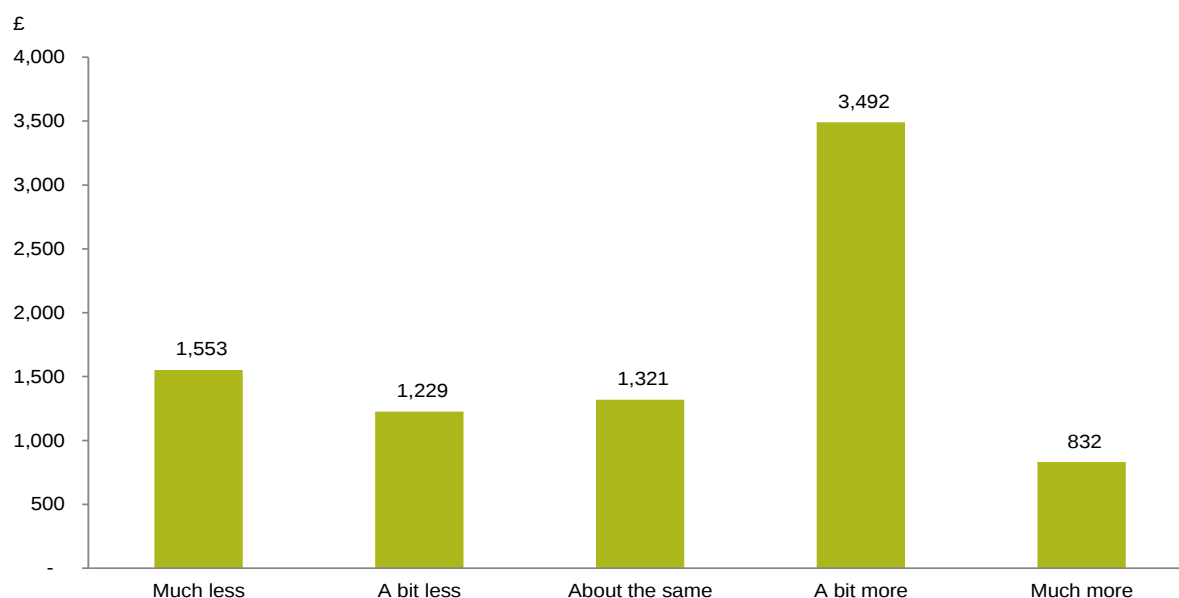
The age of the business has limited impact on the level of advertising expenditure incurred by our survey respondents. Businesses between zero and four year old had the highest average advertising expenditure at £2,452 per year, with those between 15 and 19 years old exhibiting the second highest average level of advertising expenditure at £1,838 per year.

Figure 19: Average advertising expenditure by age of business

Note: Based on 1,052 respondents' answers to: 'Approximately how much have you spent on advertising over the last year?' and 'For how many years has your company been established?'

Source: Oliver & Ohlbaum survey and analysis

There was also little evidence of a strong relationship between respondents' advertising expenditure and their reported change in turnover from the prior year. Our survey asked respondents how their level of turnover had changed since the prior year; using this as a proxy for business performance, we found that those who had experienced a slight increase in performance spent the most on advertising, on average. The group averaging the second highest level of advertising expenditure were those who reported that their turnover was much less than the prior year.

Figure 20: Average advertising expenditure by reported change in turnover

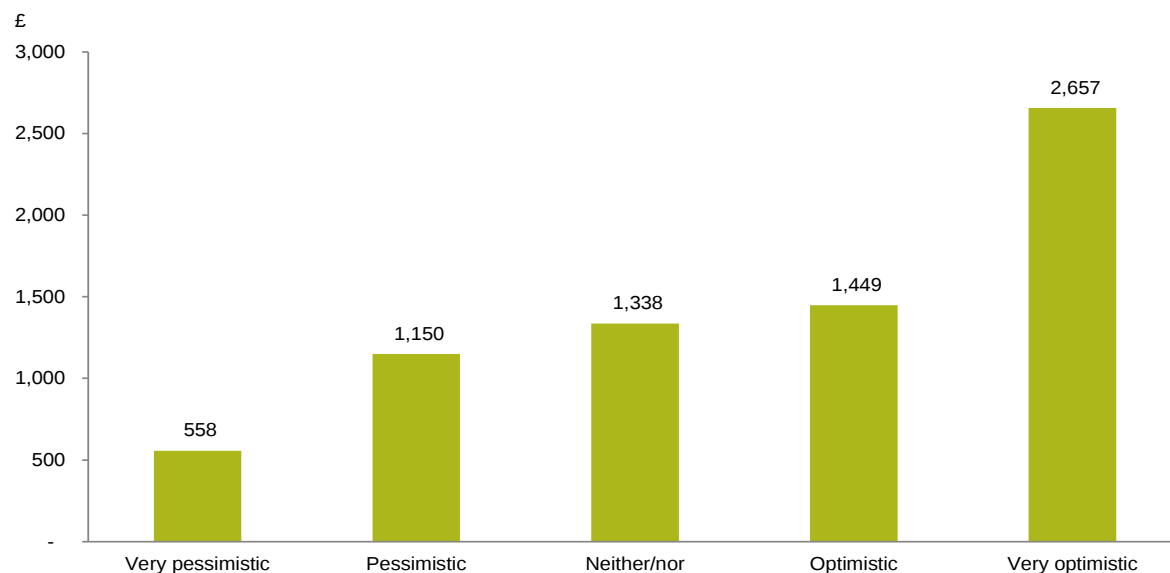
Note: Based on 953 respondents' answers to: 'Approximately how much have you spent on advertising over the last year?' and 'How has your turnover changed from the prior year?'

Source: Oliver & Ohlbaum survey and analysis

Respondents with a very optimistic outlook for the future had incurred the highest level of advertising expenditure. Our survey asked respondents how optimistic they were about the prospects of their business over the next two years; using this as a proxy for business outlook, we found that those who were most optimistic about the prospects for of their business averaged the highest level of expenditure

on advertising at £2,657 a year. Those with a very pessimistic outlook averaged the lowest level of advertising expenditure at £558 for the year.

Figure 21: Average advertising expenditure by reported optimism for business prospects

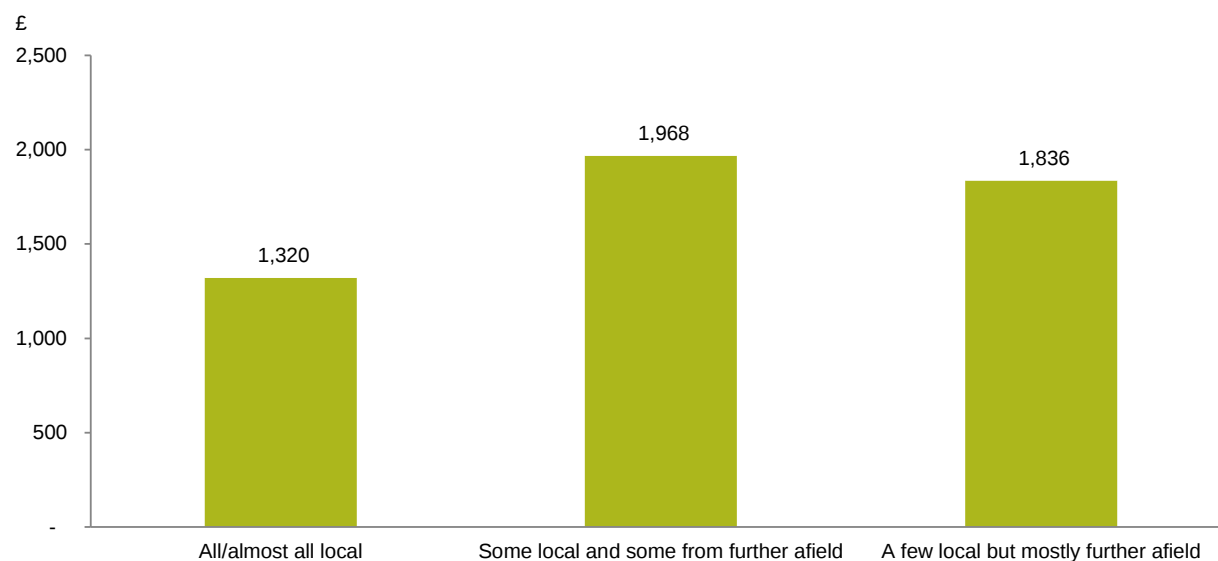


Note: Based on 1,052 respondents' answers to: 'Approximately how much have you spent on advertising over the last year?' and 'How optimistic are you about the prospects for your business over the next two years?'

Source: Oliver & Ohlbaum survey and analysis

We found that the average level of advertising expenditure varies with the area which the business serves. We asked respondents where most of their customers come from; those which serve a mostly local audience average the lowest level of expenditure on advertising, at £1,320 per year. Businesses with customers based locally and further afield, and mostly further afield, both spent more on advertising, with an average annual expenditure of £1,968 and £1,836 respectively. This indicates that businesses serving local audiences, to which hyperlocal advertising is most appealing, have the smallest advertising budgets.

Figure 22: Average advertising expenditure by location of customers



Note: Based on 1,052 respondents' answers to: 'Approximately how much have you spent on advertising over the last year?' and 'Where do your customers come from?'

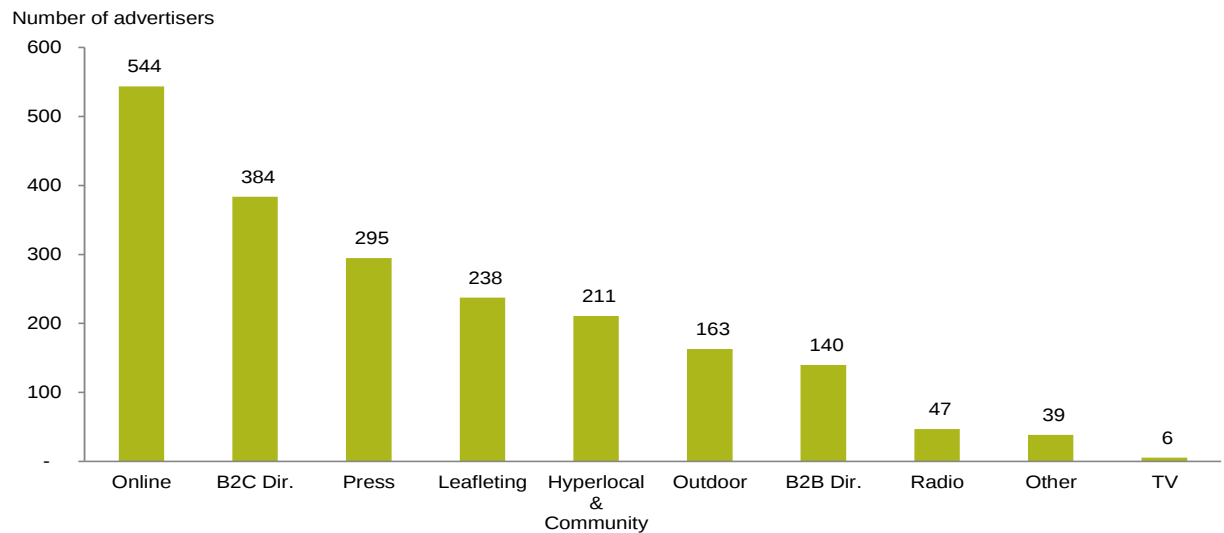
Source: Oliver & Ohlbaum survey and analysis

4.3.2 Advertising platforms

The advertising platforms currently used by the businesses we surveyed vary. We found that online advertising was the most widely used form of advertising amongst respondents and the platform with the highest average annual expenditure (by those using the platform) was press.

Of the 1,053 businesses surveyed, 816 do some-form of advertising, and 544 of these advertise online. TV was the least frequently used form of advertising, of the businesses we surveyed, with 6 businesses running a TV campaign.

Figure 23: Total number of advertisers by platform, by survey respondents

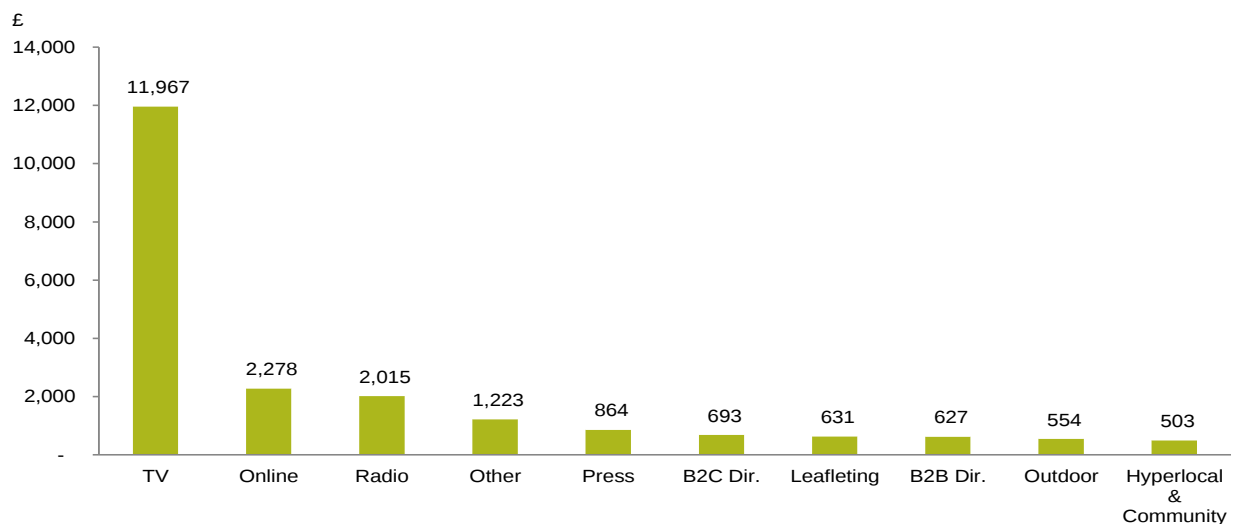


Note: Based on 816 respondents' answers to: 'How have you advertised over the last year?'

Source: Oliver & Ohlbaum survey and analysis

The platform with the highest average annual expenditure, amongst those who use the platform, is television, with an average annual expenditure of £11,967. Hyperlocal and Community advertising (including both traditional and online channels) had the lowest average annual expenditure amongst those using this platform, at £503 per year. Note that average television advertising expenditure is inflated by one respondent who reported spending of £70,000, of the remaining five, four stated that they advertised on television free of charge (probably via editorial features) and the other spent £1,500.

Figure 24: Average advertising expenditure by platform



Note: Based on 816 respondents' answers to: 'How have you advertised over the last year?'

Source: Oliver & Ohlbaum survey and analysis

On average respondents use two platforms to communicate with potential customers, and this is broadly consistent regardless of the level of turnover generated by the business. We saw in Figure 17 that the average level of advertising expenditure increases with turnover; the same is not true for the average number of advertising platforms used by our survey respondents. Note that this is based on the whole population of respondents who reported turnover, including those who do not advertise.

Figure 25: The average number of advertising platforms used by turnover group

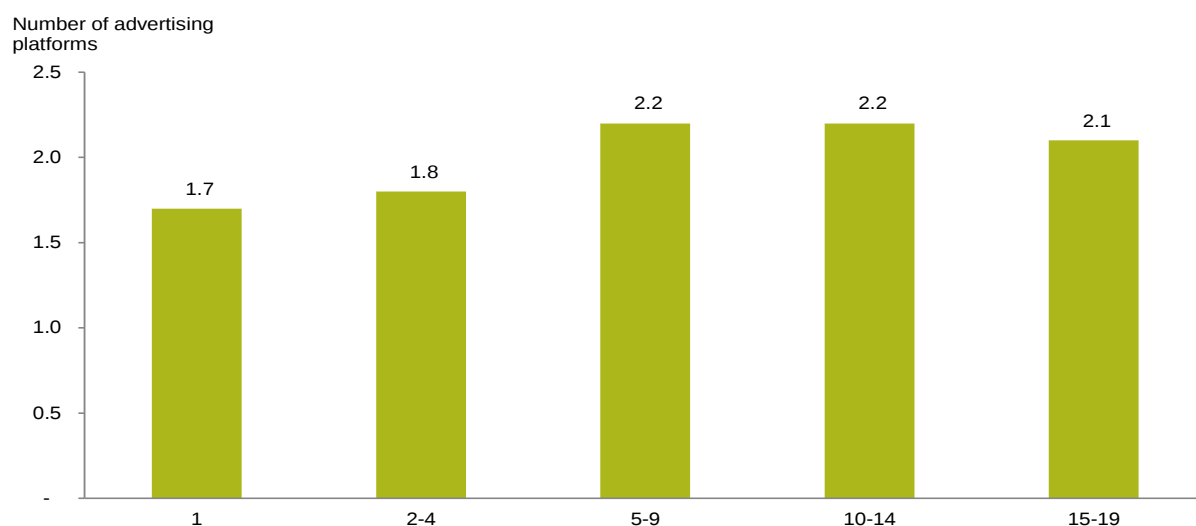


Note: Based on 440 respondents' answers to: 'How have you advertised over the last year?' and 'What was your company's approximate turnover for the last year?'

Source: Oliver & Ohlbaum survey and analysis

As the size of a business increases, the number of advertising platforms used increases slightly. Taking the number of employees as an indicator of the size of a business, our survey results show that, in general, the number of advertising platforms used increases with the size of the business.

Figure 26: Average number of advertising platforms used by number of employees



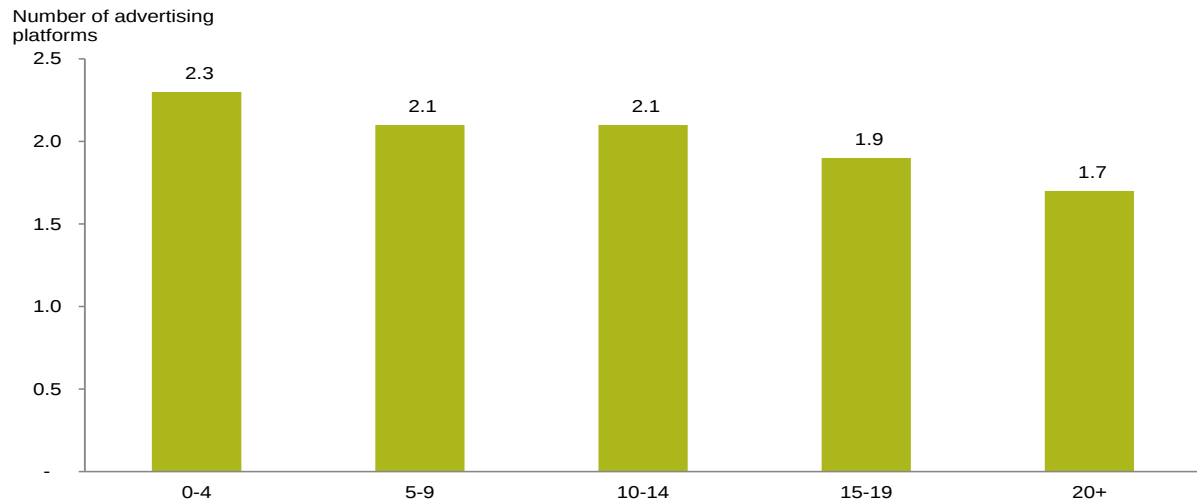
Note: Based on 1,053 respondents' answers to: 'How have you advertised over the last year?' and 'How many employees do you have?'

Source: Oliver & Ohlbaum survey and analysis

The average number of advertising platforms used by our survey respondents declined with the age of the business. Businesses younger than five years old averaged 2.3 advertising platforms compared to those older than 20 years which averaged 1.7 platforms. This could be related to the fact that older businesses are more likely to have an established customer base than younger businesses. Younger

businesses are therefore more likely to have a need to advertise and are also more receptive to new platforms such as online (see Figure 32).

Figure 27: Average number of advertising platforms used by age of business



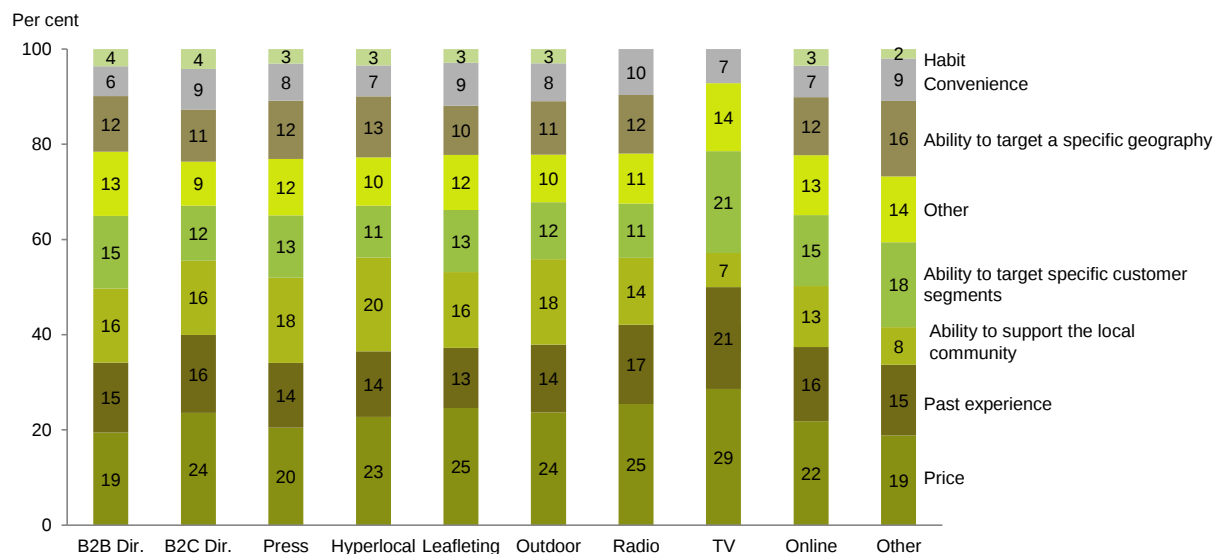
Note: Based on 1,053 respondents' answers to: 'How have you advertised over the last year?' and 'For how many years has your company been established?'

Source: Oliver & Ohlbaum survey and analysis

There is no clear relationship between the average number of advertising platforms used by a business and respondents' reported change in turnover from the prior year. Nor is there a link between the average number of advertising platforms used and reported optimism for business prospects.

We asked respondents which factors were most important in deciding how to allocate advertising expenditure. Respondents could select up to three factors which were important; we attributed these to each platform used by that advertiser, to establish which factors are most important amongst advertisers on each platform. Based on the proportion of times selected, price was considered the most important factor across all platforms, while ability to support the local community was considered more important by those choosing hyperlocal advertising than any other platform.

Figure 28: Factors driving choices of advertising platforms, share of total votes by platform



Note: Based on 816 respondents' answers to: 'Which of the following factors are important in deciding how to allocated advertising expenditure?'

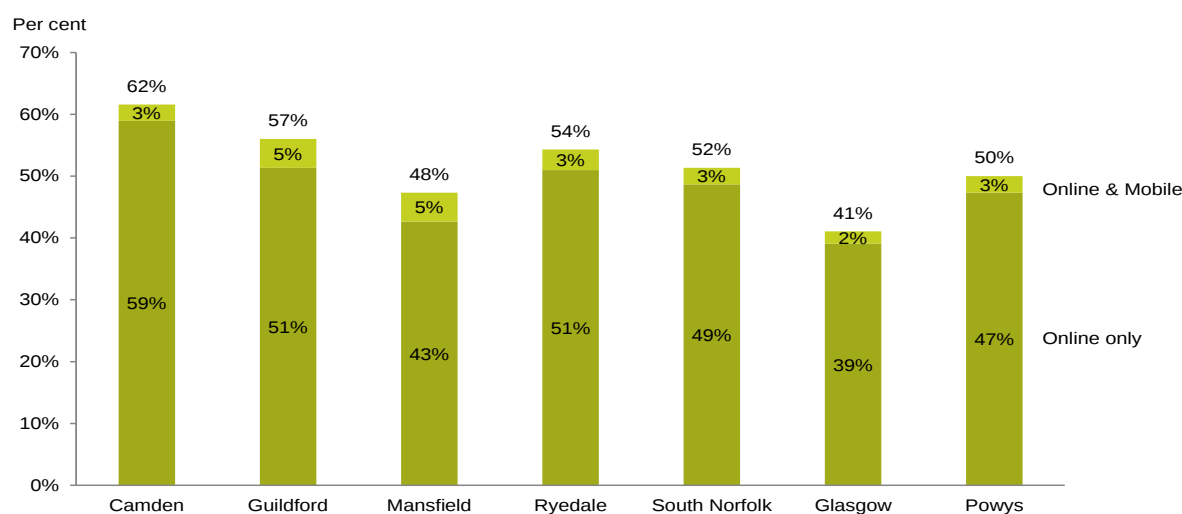
Source: Oliver & Ohlbaum survey and analysis

4.3.3 Online and mobile advertising uptake

The internet is now the advertising platform which attracts the most advertising expenditure, accounting for 36 per cent of total UK indirect advertising expenditure in 2012 (Figure 1). Based on our estimate of the total UK advertising market, of £21.6 billion in 2012 (3.4), internet advertising accounted for 26 per cent of total UK advertising expenditure in 2012. Our survey respondents reported that they spend 32 per cent of their advertising budget online (including mobile) over the last year.

In total, 52 per cent of respondents had an online presence. Of the seven case study areas we surveyed, respondents in Camden were most likely to advertise online with respondents in Guildford and Mansfield most likely to advertise by mobile.

Figure 29: Online and mobile advertising uptake by case study area

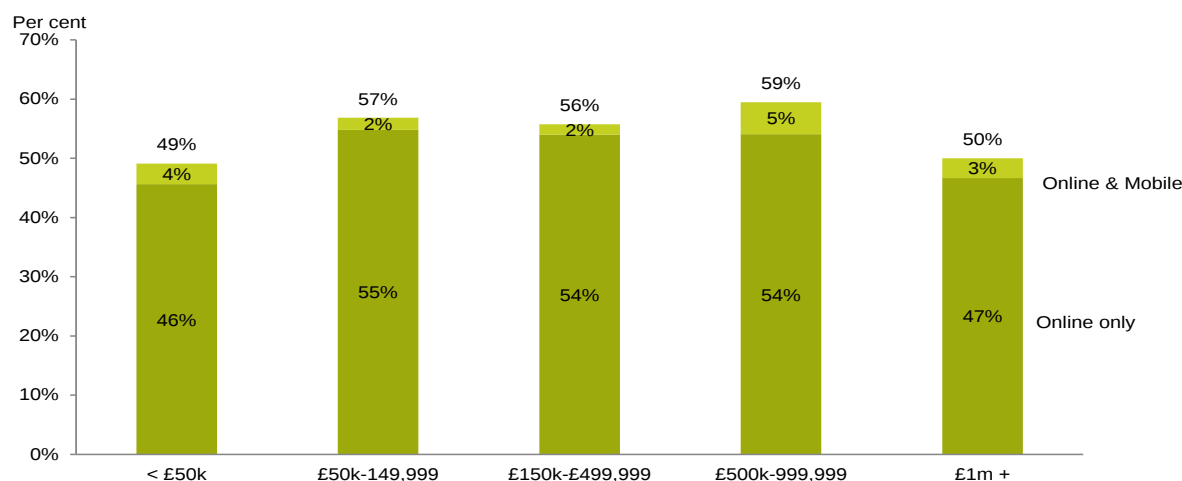


Note: Based on 1,053 respondents' answers to: 'How have you advertised over the last year?'

Source: Oliver & Ohlbaum survey & analysis

Uptake of online advertising was broadly equal across turnover groups. There is no clear relationship between reported mobile advertising uptake and turnover with the highest mobile advertising rate of 5 per cent recorded for businesses with a turnover of between £500k and £999,999, while the second highest uptake of mobile advertising (4 per cent) was recorded by businesses in the lowest turnover bracket of less than £50k.

Figure 30: Online and mobile advertising uptake by turnover group

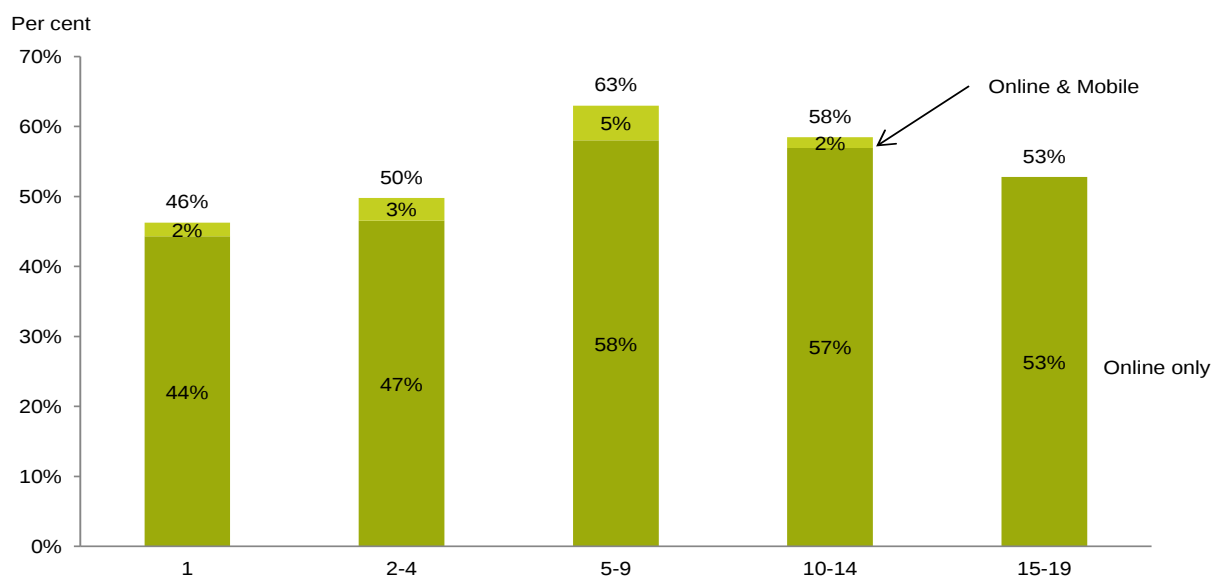


Note: Based on 440 respondents' answers to: 'How have you advertised over the last year?' and 'What was your company's approximate turnover for the last year?'

Source: Oliver & Ohlbaum survey and analysis

The uptake of online and mobile advertising was highest amongst businesses with 5-9 employees, with 63 per cent of respondents online and 5 per cent using both online and mobile advertising. In general, businesses with more employees are more likely to use online advertising, though our survey found that there is reduced uptake amongst the higher brackets. This could be due to the smaller number of respondents among these groups (36).

Figure 31: Online and mobile advertising uptake by number of employees

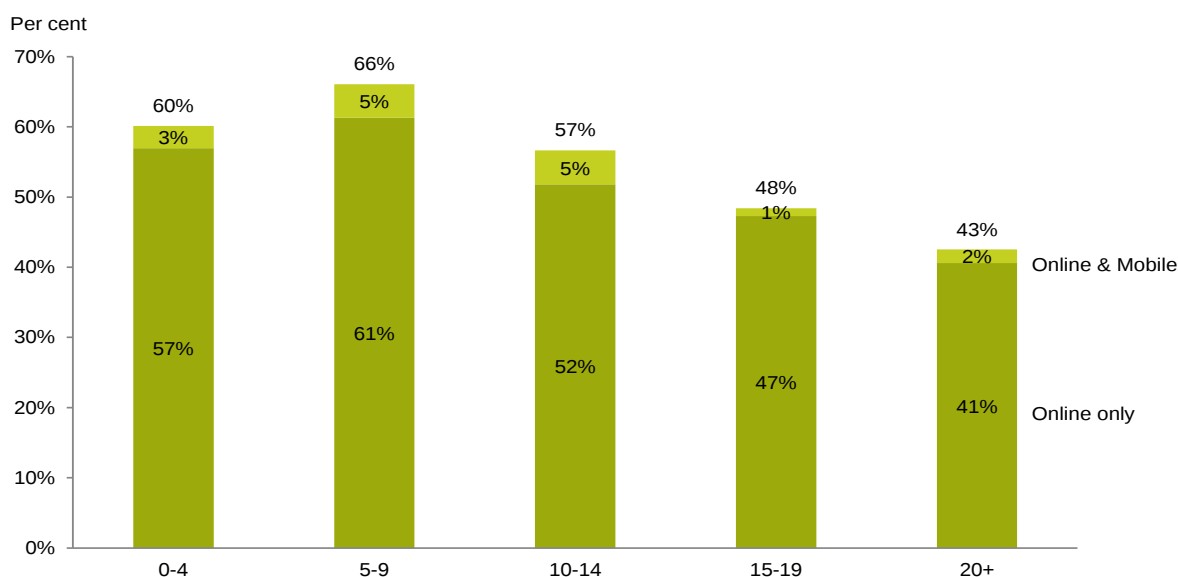


Note: Based on 1,053 respondents' answers to: 'How have you advertised over the last year?' and 'How many employees do you have?'

Source: Oliver & Ohlbaum survey and analysis

In general, older businesses are less likely to advertise online. The highest uptake of online advertising was reported by businesses less than ten years old, with 66 per cent of businesses aged 5-9 years online, and 60 per cent of businesses less than five years old online. In general, mobile advertising rates were also highest amongst younger businesses.

Figure 32: Online and mobile advertising uptake by age of business, years

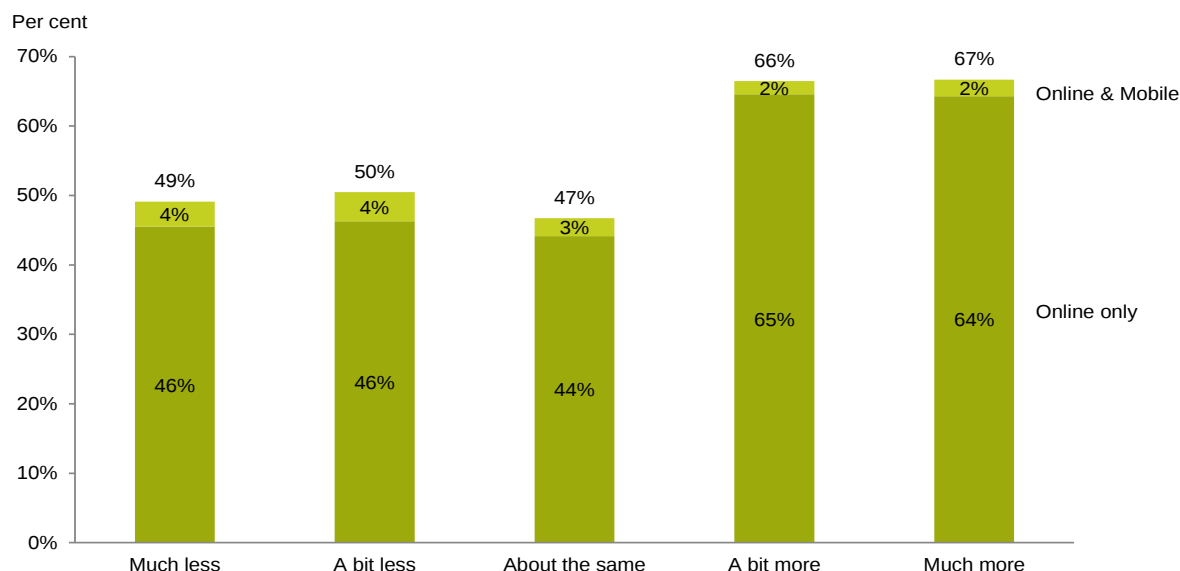


Note: Based on 1,053 respondents' answers to: 'How have you advertised over the last year?' and 'For how many years has your company been established?'

Source: Oliver & Ohlbaum survey and analysis

Uptake of online advertising was highest amongst business who reported a positive change in turnover since the prior year. Of the businesses reporting that turnover was much higher than the prior year, 67 per cent had an online presence while 66 per cent of those reporting that turnover had increased a bit, were online.

Figure 33: Average online and mobile advertising expenditure by reported change in turnover

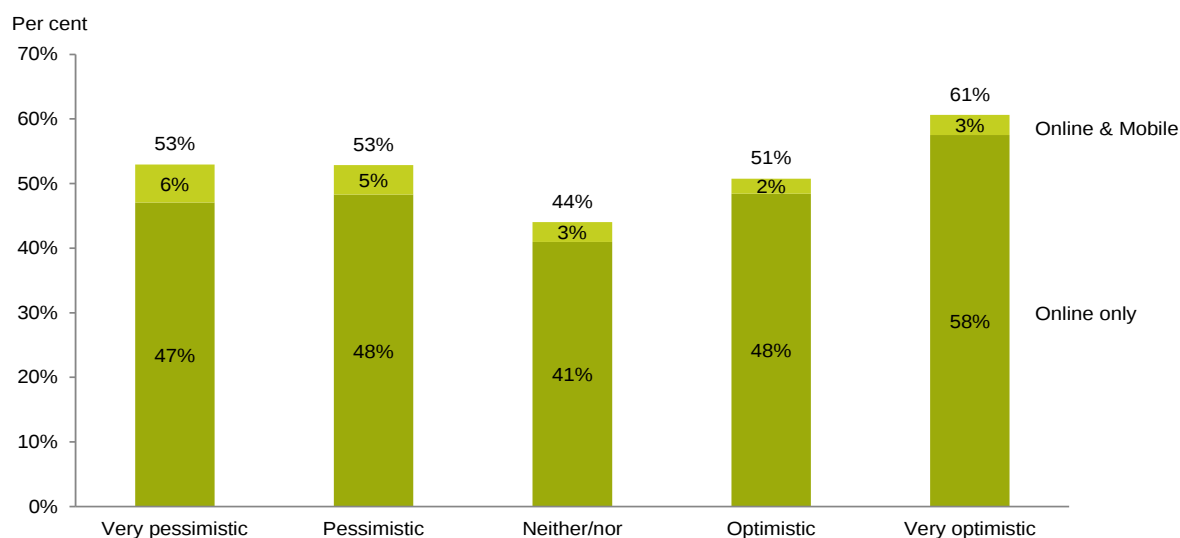


Note: Based on 496 respondents' answers to: 'How have you advertised over the last year?' and 'How has your turnover changed from the prior year?'

Source: Oliver & Ohlbaum survey and analysis

There was no clear link between the uptake of online and mobile advertising and reported optimism about business prospects. Those reporting that they were very optimistic had the largest uptake of online advertising at 61 per cent, while those reporting that they were pessimistic or very pessimistic had the joint second highest level of online advertising uptake at 53 per cent. Those reporting the highest level of mobile advertising uptake were those most pessimistic about their business prospects.

Figure 34: Online and mobile advertising uptake by reported optimism for business prospects

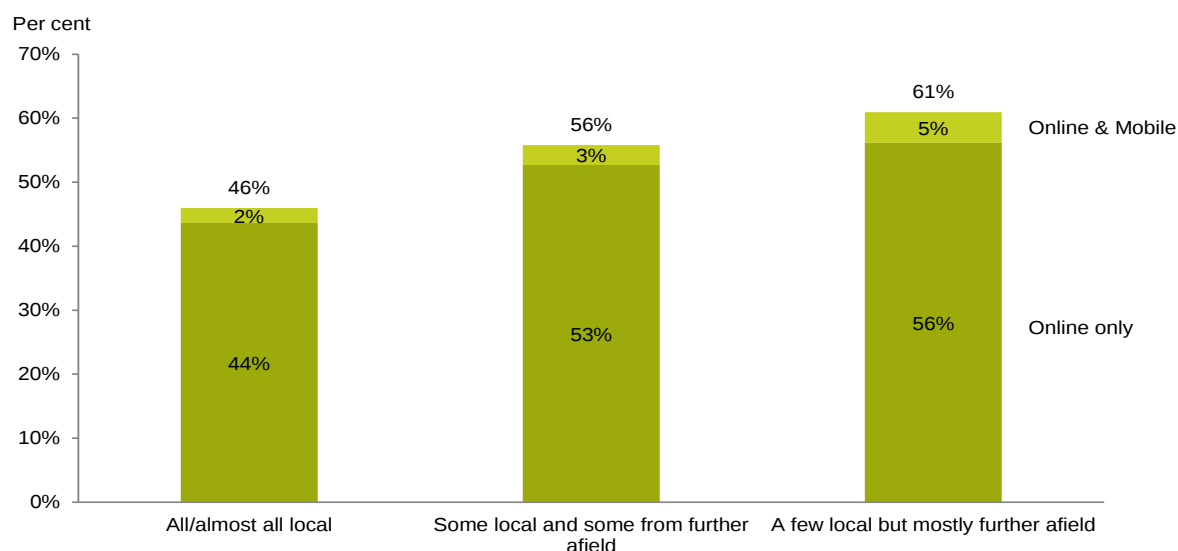


Note: Based on 1,053 respondents' answers to: 'How have you advertised over the last year?' and 'How optimistic are you about the prospects for your business over the next two years?'

Source: Oliver & Ohlbaum analysis

The uptake of both online and mobile advertising increases as a business's customer base becomes more distant. Of the businesses serving customers who were all or almost all based locally, 46 per cent advertised online. This compares to an uptake rate of 61 per cent amongst businesses who mostly serve customers further afield.

Figure 35: Online and Mobile advertising uptake by location of customers

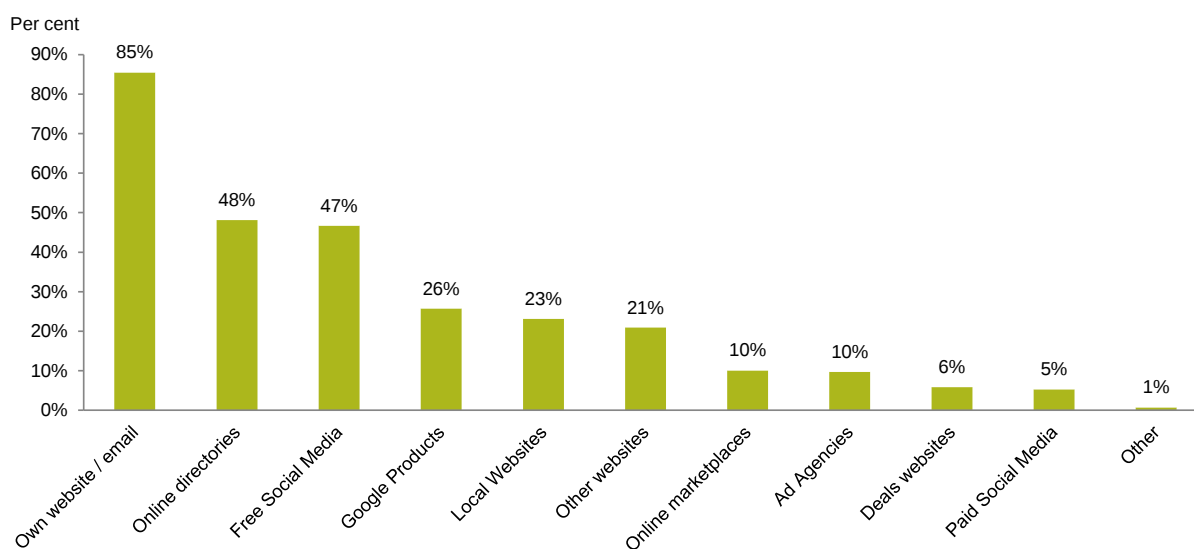


Note: Based on 1,053 respondents' answers to: 'How have you advertised over the last year?' and 'Where do your customers come from?'

Source: Oliver & Ohlbaum survey and analysis

Of the 544 respondents who reported that they advertise online, 85 per cent reported that they have their own website or use email to communicate with potential customers. Local websites were the fifth most used online advertising channel, used by 23 per cent of respondents who advertise online. The limited use of Advertising agencies (10 per cent) and Deals Websites (6 per cent) indicates that the small businesses we surveyed don't have a sophisticated online presence. The uptake of free self-service platforms such as Google Products, which were used by 26 per cent of respondents who advertise online, is also not as high as one might expect.

Figure 36: Use of online advertising channels



Note: Based on answers to: 'Which online channels does your business use?'
Based on all 544 online advertisers

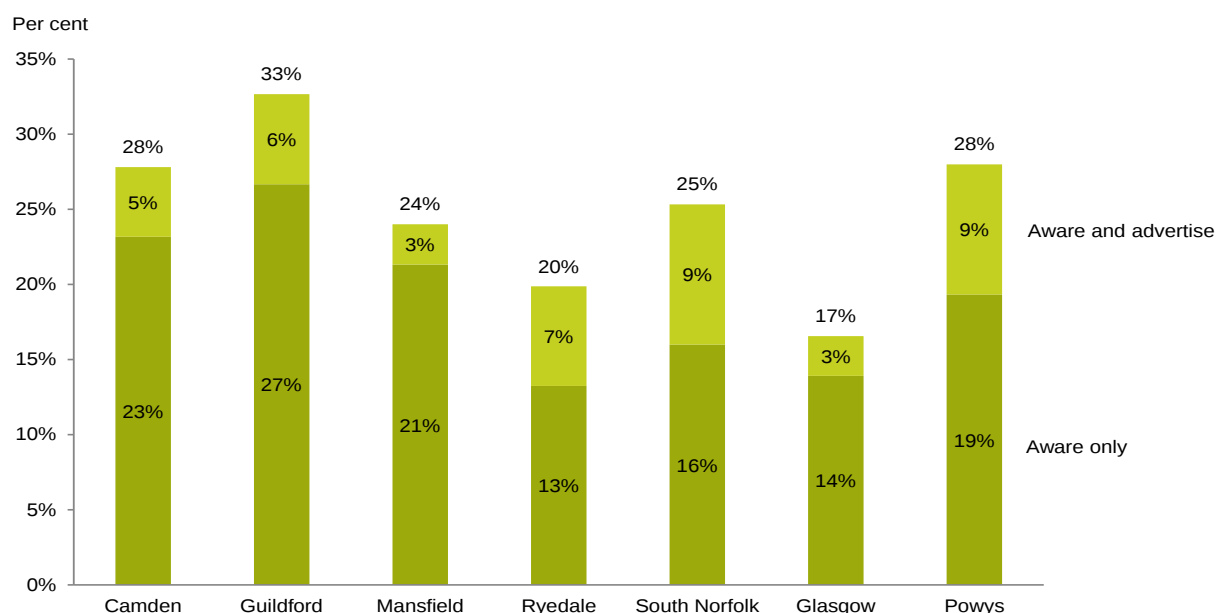
Source: Oliver & Ohlbaum survey and analysis

4.3.4 Hyperlocal advertising

The total advertising expenditure incurred by the businesses we surveyed is an indicator of the potential size of the hyperlocal advertising market. This is because our survey focused on businesses which tend to have a small catchment area, meaning that advertising via hyperlocal media is a sensible approach to reach their potential customers. However, only 211 of the 1,053 businesses we surveyed currently advertise through hyperlocal media (including both traditional and online). Of the seven case study areas, Guildford enjoyed the greatest level of expenditure on hyperlocal media.

We asked all respondents if they were aware of, or currently advertised on any hyperlocal websites – and provided examples of hyperlocal websites which serve their area. Of the seven areas included in our survey, respondents in Guildford were most likely to either be aware of, or advertise on, a hyperlocal website in their area. Respondents in South Norfolk and Powys were most likely to advertise on a hyperlocal website, with 9 per cent of respondents reporting that they advertise on a hyperlocal website. Note that this does not correspond with the hyperlocal website supply data reported by Openly Local (Figure 11), which shows that Ryedale has the most hyperlocal websites. This suggests that hyperlocal website provision doesn't correspond to use by advertisers, though not all websites recorded on Openly Local carry advertising.

Figure 37: Awareness and use of hyperlocal websites



Note: Based on 1,053 respondents

Source: Oliver & Ohlbaum survey and analysis

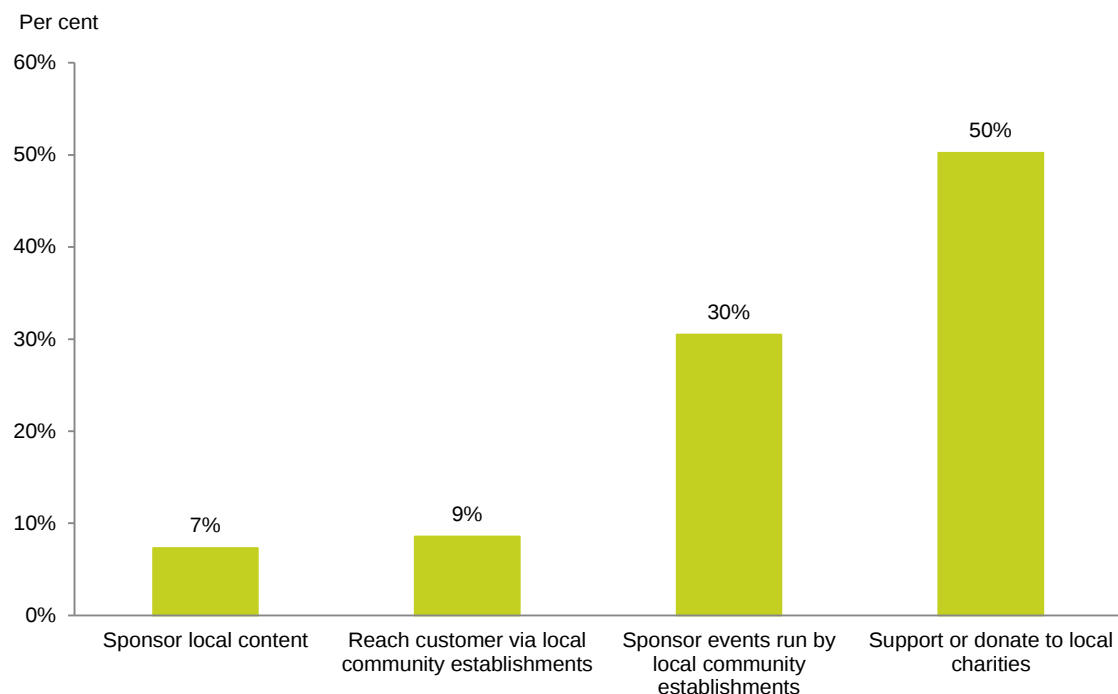
We were interested in the level of participation which businesses have with their communities. In order to establish a proxy for businesses' level of engagement with their communities we asked survey respondents if they do any of the following:

- Sponsor events run by a local school, hospital, nursing home, or community group, either in cash or in kind.
- Reach customers via local schools, hospitals, nursing homes, community groups etc. in return for a profit share.
- Sponsor any local content e.g. website or newsletter, either in cash or in kind.
- Support or donate to charities which operate in the locality, either in cash or in kind.

In total, 60 per cent of respondents reported that they do at least one of the above. The most used method of engaging with the community was to support or donate to charities which operate in the locality; 50 per cent of businesses we surveyed reported that they did so. The second most popular means of engaging with the community, used by 30 per cent of our survey respondents, was to sponsor

local events. Sponsoring local content and reaching customers through local community establishments were less popular; used by 7 and 9 per cent of respondents respectively.

Figure 38: Support to the local community, by type

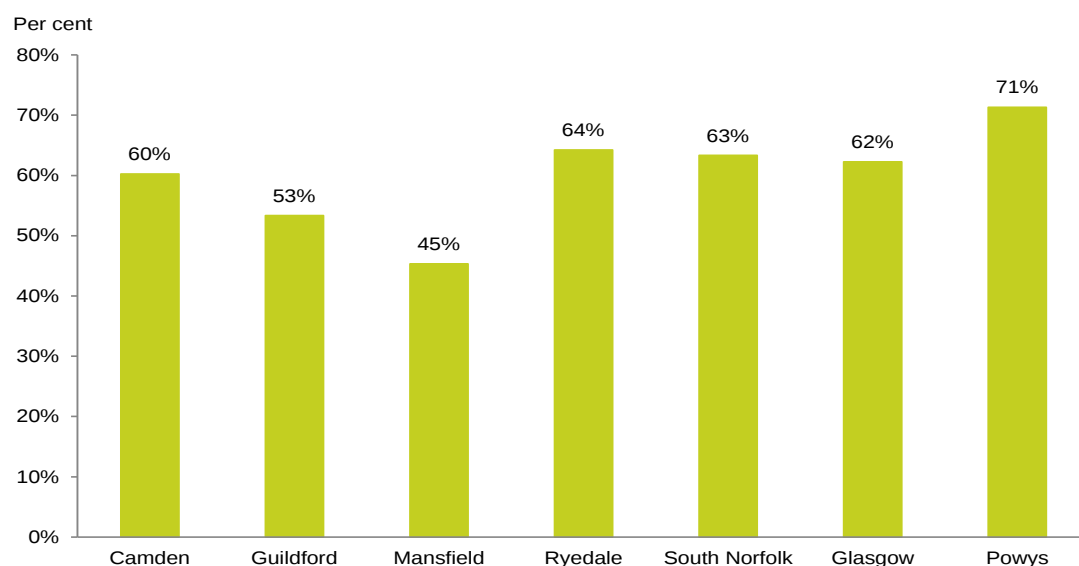


Note: Based on 1,053 respondents

Source: Oliver & Ohlbaum survey and analysis

The extent to which businesses engage with their local communities varied by case study area. Powys was the area with the greatest engagement from local businesses, with 71 per cent of respondents involved with the community in some way. Mansfield had the lowest level of engagement, with just 45 per cent of respondents engaging with their local community in one of the ways we identified.

Figure 39: Support to the local community, by case study area



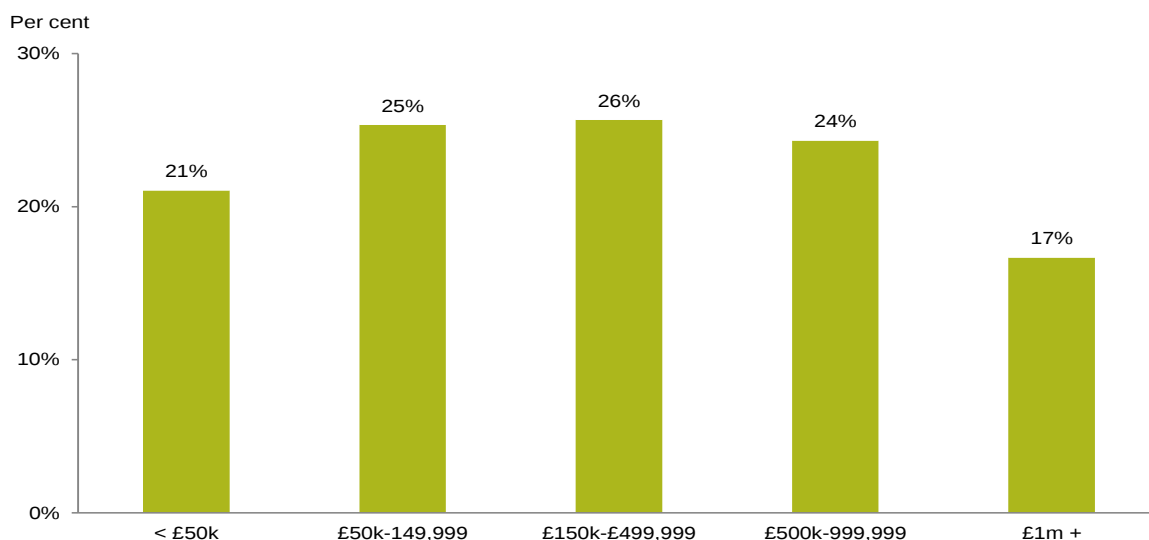
Note: Based on 1,053 respondents

Source: Oliver & Ohlbaum survey and analysis

In total, of our 1,053 respondents, 211 (20 per cent) reported that they used some form of hyperlocal advertising. This includes traditional channels such as print and radio, as well as online.

The uptake of hyperlocal advertising, varied with turnover, though there wasn't a great deal of differentiation. The greatest uptake was amongst the group reporting turnover of £150k to £499,999, where 26 per cent used hyperlocal advertising. In the £1m + turnover group 17 per cent reported that they advertised via hyperlocal media.

Figure 40: Hyperlocal advertising uptake by turnover group

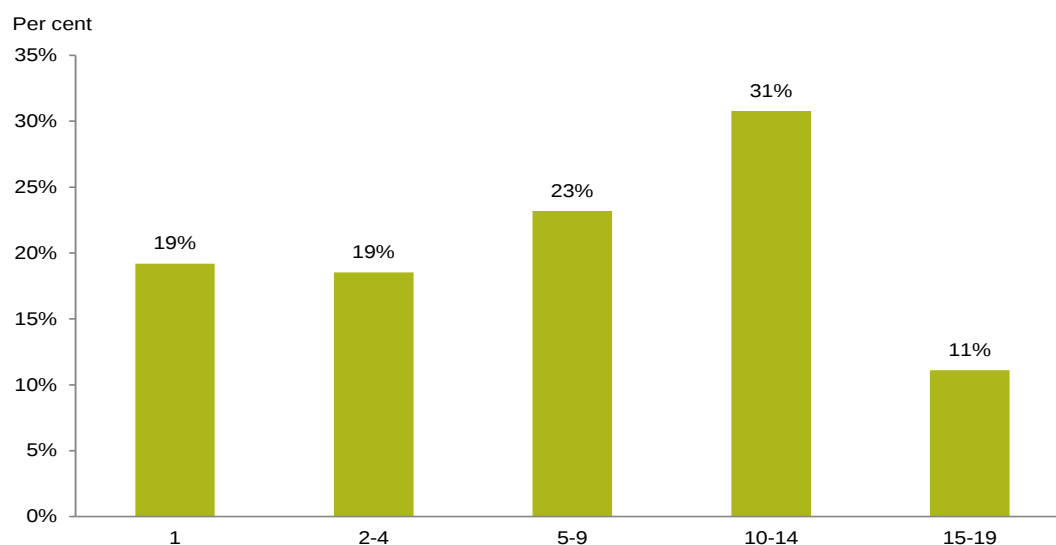


Note: Based on 440 respondents' answers to: 'How have you advertised over the last year?' and 'What was your company's approximate turnover for the last year?'

Source: Oliver & Ohlbaum survey and analysis

In general, the uptake of hyperlocal advertising increases with the number of employees. The 10-14 bracket had an uptake of 31 per cent compared to those businesses with fewer than ten employees, which had an uptake of around 20 per cent. The 15-19 bracket had the lowest uptake of hyperlocal media, though this could be due to the small number of businesses representing that bracket (36).

Figure 41: Hyperlocal advertising uptake by number of employees

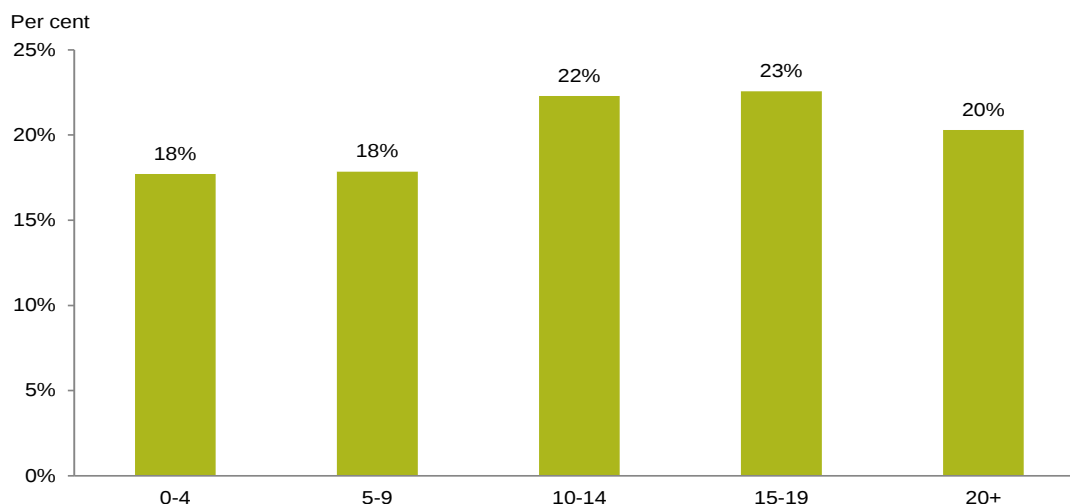


Note: Based on 1,053 respondents' answers to: 'How have you advertised over the last year?' and 'How many employees do you have?'

Source: Oliver & Ohlbaum survey and analysis

The uptake of hyperlocal advertising was fairly consistent regardless of the age of the business, and was close to the overall average of 20 per cent in all age brackets. The greatest uptake was in the 15-19 bracket where 23 per cent of businesses used hyperlocal advertising. The age bracket with the lowest uptake of hyperlocal advertising was businesses of 0-4 years, where 18 per cent used hyperlocal advertising.

Figure 42: Hyperlocal advertising uptake by age of business

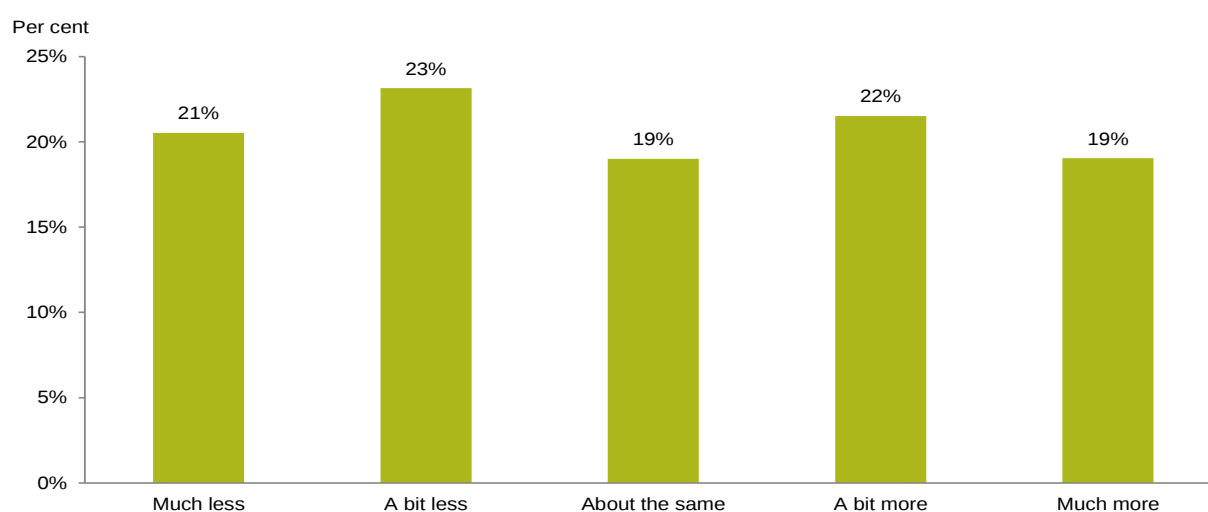


Note: Based on 1,053 respondents' answers to: 'How have you advertised over the last year?' and 'For how many years has your company been established?'

Source: Oliver & Ohlbaum survey and analysis

There was also no clear link between a business's uptake of hyperlocal advertising and its reported change in turnover. Regardless of reported change in turnover, uptake of hyperlocal advertising was close to the overall average of 20 per cent. The greatest uptake, at 23 per cent, was by businesses reporting that turnover was a bit less than the prior year. Businesses reporting turnover was about the same or much more than the prior year had the lowest uptake of hyperlocal advertising, at 19 per cent.

Figure 43: Hyperlocal advertising uptake by reported change in turnover



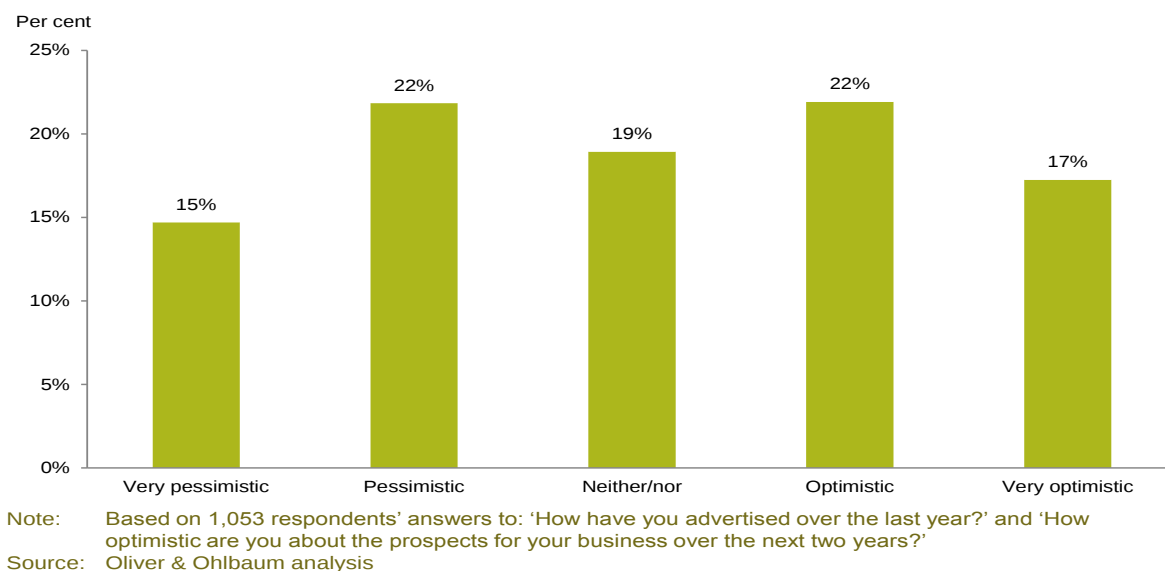
Note: Based on 196 respondents' answers to: 'How have you advertised over the last year?' and 'How has your turnover changed from the prior year?'

Source: Oliver & Ohlbaum survey and analysis

The uptake of hyperlocal advertising varied with reported optimism for business prospects. The groups with the highest uptake of hyperlocal advertising, at 22 per cent, were the businesses which were

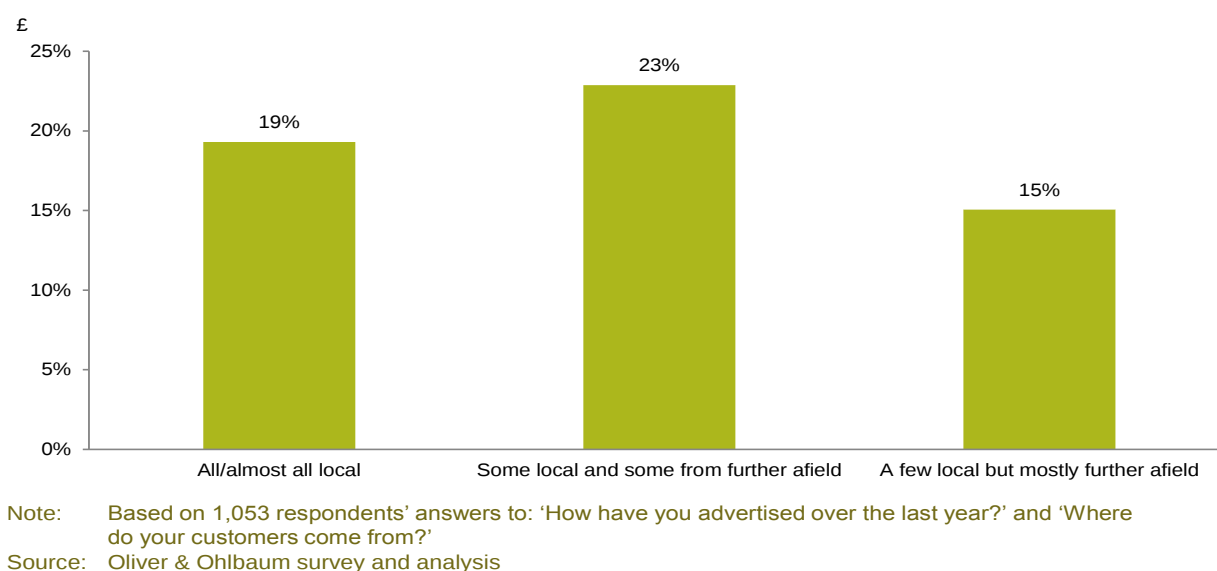
pessimistic or optimistic about the future. Those which were very pessimistic or very optimistic recorded the lowest uptakes of hyperlocal advertising at 15 per cent and 17 per cent respectively.

Figure 44: Hyperlocal advertising uptake by reported optimism for business prospects



Uptake of hyperlocal advertising was highest amongst the groups serving the most customers in the local area. Those businesses with only a few customers in the local area recorded a 15 per cent uptake of hyperlocal advertising. Businesses serving some customers in the local area and some further afield recorded the highest level of hyperlocal advertising uptake at 23 per cent, while those with most or all customers in the local area recorded a hyperlocal advertising uptake of 19 per cent.

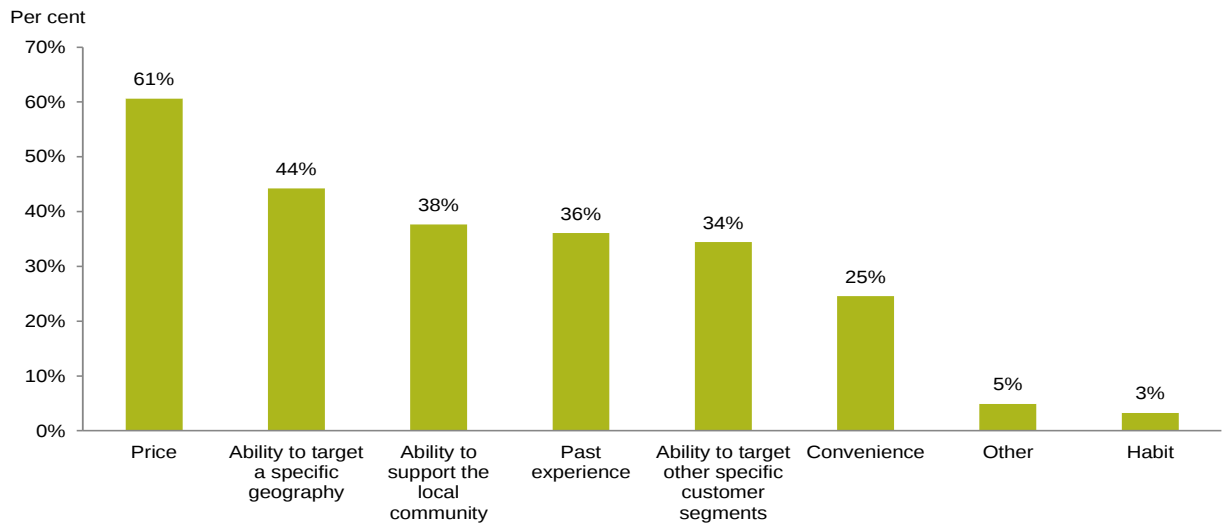
Figure 45: Hyperlocal advertising uptake by location of customers



We asked respondents advertising on hyperlocal websites what factors were important in their decision to advertise there. Respondents could select up to three factors. Price was considered the most important factor, receiving 25 per cent of the 61 votes cast. This is consistent with our findings in Figure 28, where price was also considered the most important factor (23 per cent) by those advertising hyperlocally via both websites and traditional channels. The ability to support the local community received 15 per cent of votes by hyperlocal websites advertisers, compared to 20 per cent of the votes for hyperlocal advertisers generally (Figure 28).

Of the 61 businesses which advertise on hyperlocal websites, 61 per cent selected price as an important factor in deciding to advertise there. The ability to target a specific geography was the next most important factor, selected by 44 per cent of respondents.

Figure 46: Factors affecting the decision to advertise on hyperlocal websites, proportion of hyperlocal advertisers

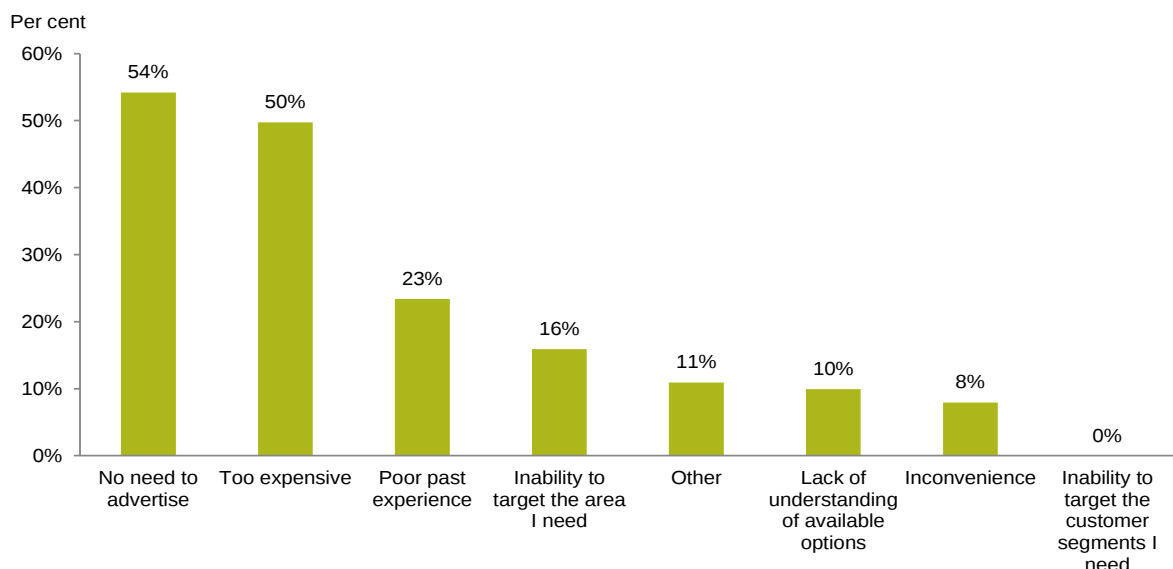


Note: Based on answers to: 'Which factors were important in your decision to advertise on a hyperlocal website?'
Based on votes by the 61 respondents

Source: Oliver & Ohlbaum survey and analysis

We asked respondents who were aware of hyperlocal websites, but didn't advertise on them, to identify factors affecting their decision to not advertise via hyperlocal websites. Of the 201 respondents, 54 per cent reported that they did not need to advertise. The second most important factor was price, with 50 per cent of respondents reporting that it was too expensive. Given that price was important to both those who do and those who don't advertise on hyperlocal websites, this indicates that local advertisers are very price sensitive.

Figure 47: Factors affecting the decision not to advertise on hyperlocal websites, proportion of respondents aware of but not advertising on hyperlocal websites



Note: Based on answers to: 'Which factors were important in your decision not to advertise on a hyperlocal website?'
Based on 201 respondents

Source: Oliver & Ohlbaum analysis

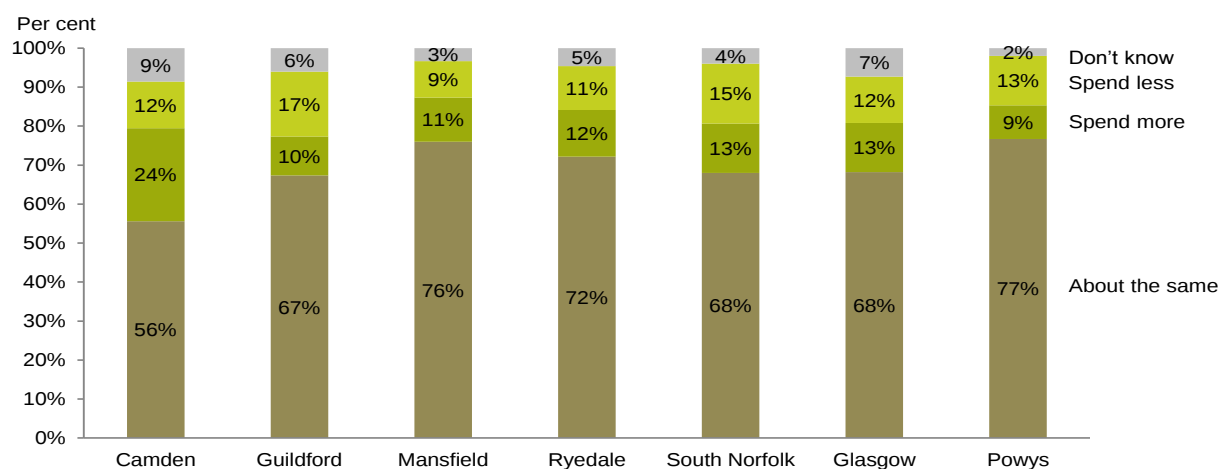
4.3.5 Future advertising

Our survey asked respondents how they intend to advertise in future, which platforms they intend to use most and how they are likely to spend any additional online advertising expenditure.

Across all respondents, 69 per cent reported that, over the next two years, they would spend about the same on advertising as they do currently. The proportions reporting that they would spend more and less were the same, each at 13 per cent, while 5 per cent of respondents didn't know how their advertising expenditure might change over the next two years.

Expectations around future advertising expenditure was broadly the same by case study area, with the exception of Camden where 24 per cent expect to spend more on advertising over the next two years.

Figure 48: Expected change in advertising expenditure by case study area

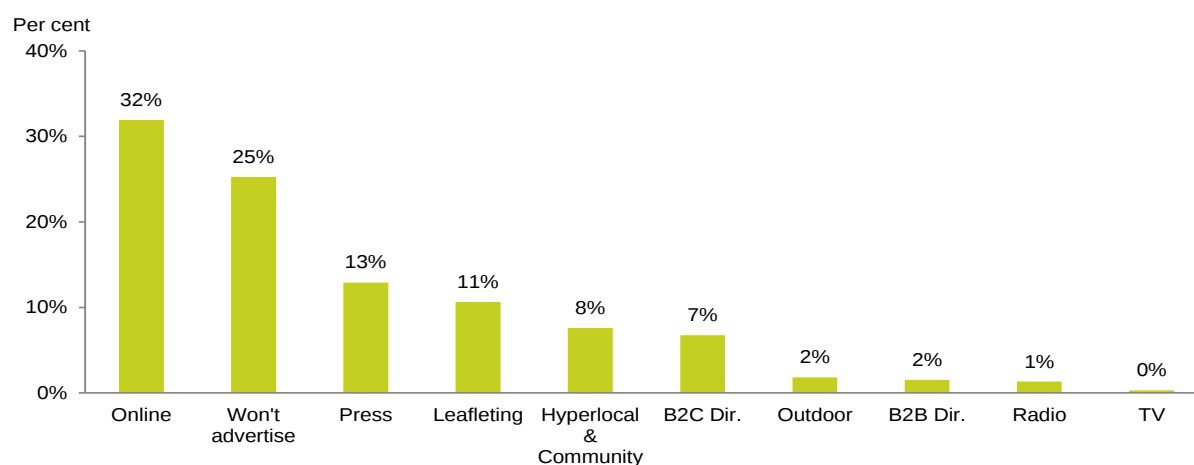


Note: Based on answers to: 'How is your advertising expenditure likely to change over the next two years?'
Based on 1,053 respondents

Source: Oliver & Ohlbaum survey and analysis

When asked which platform they expect to spend the most on in two years' time, 32 per cent of respondents reported that they expected to spend the most online. Not advertising was the second most popular choice, with 25 per cent of votes.

Figure 49: Expected dominant advertising platform



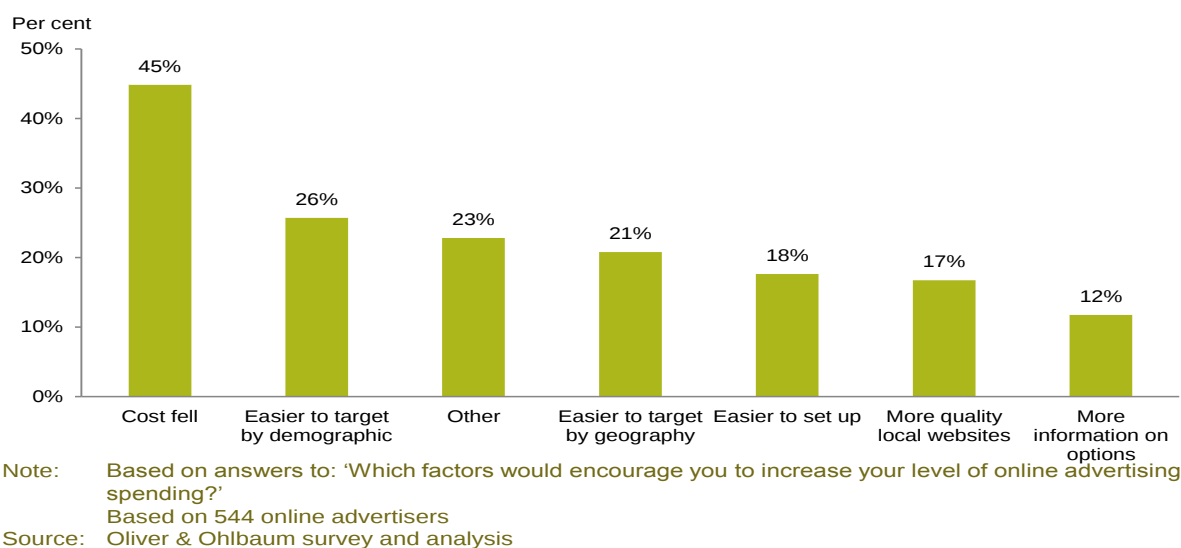
Note: Based on answers to: 'Which form of advertising do you expect to be spending the most on in two years time?'
Based on 1,053 respondents

Source: Oliver & Ohlbaum survey and analysis

To establish the drivers of future online advertising we asked those currently advertising online which factors would encourage them to spend more on online advertising; respondents could select up to three factors. Again, price was considered the most important factor, with 45 per cent of online advertisers identifying a fall in price as a factor which would encourage additional spending. This supports our assertion that any additional spending on hyperlocal advertising platforms is likely to be substitutional rather than additive.

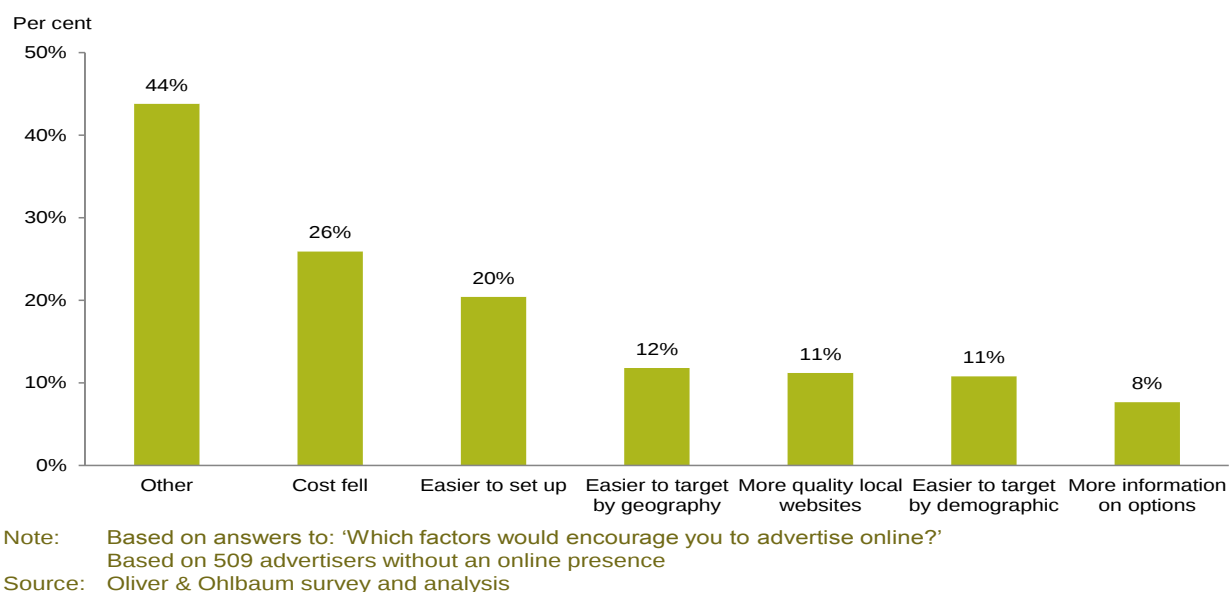
Notably, 'other' was selected by 23 per cent, or 124, of the 544 respondents who advertise online; 'nothing', 'don't know' or words to that effect, made up 20 per cent, or 110, of these responses.

Figure 50: Drivers of online advertising amongst those currently online



We also asked advertisers without an existing online presence to select up to three factors which would encourage them to advertise online. 'Other' was the most widely selected factor, chosen by 223 of the 511 respondents; of these 209 reported that that nothing would persuade them to advertise online. This indicates that the majority of businesses with an interest in online advertising are already doing so. Once again, price was an important factor, with 26 per cent of respondents reporting that they would consider online advertising if the cost fell.

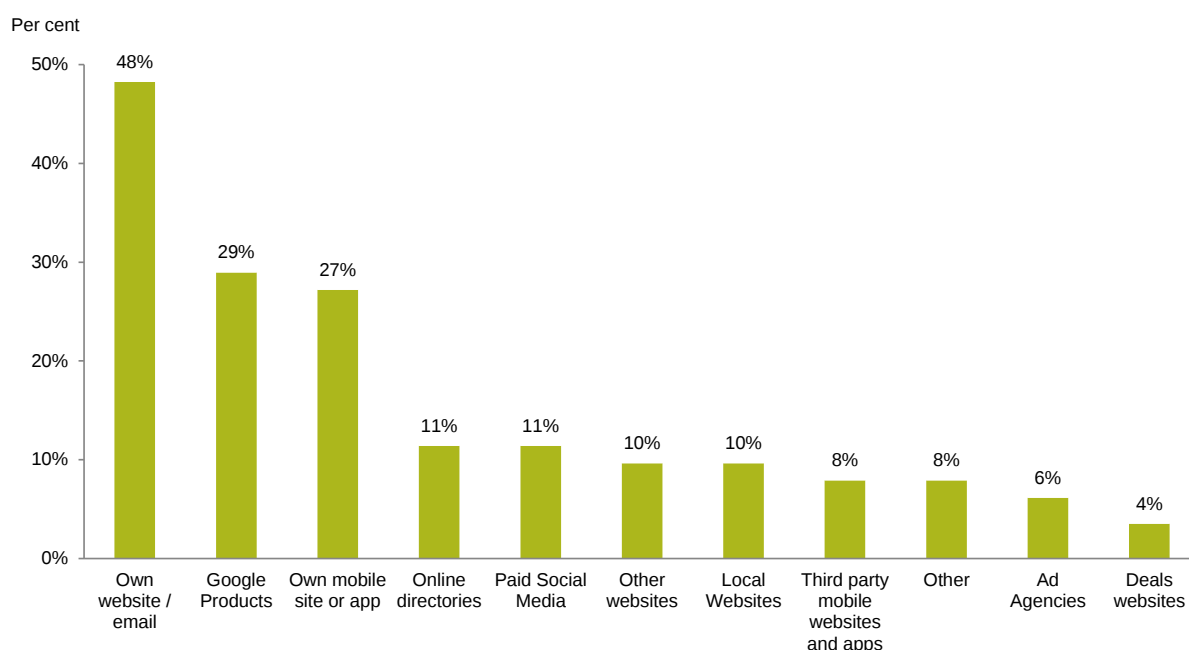
Figure 51: Drivers of online advertising amongst those without an online presence



In order to establish how online advertising might develop, we identified respondents who reported that they were likely to increase their spending on online advertising over the next two years and asked them to identify how this might be spent by selecting up to three online advertising channels. Own website and email was the most popular, selected by 48 per cent of respondents. Google Products and own mobile sites or apps were the next most popular options, selected by 29 and 27 per cent of respondents respectively.

Other online channels were selected by relatively few respondents, including third party and local websites, which were each selected by just 10 per cent of respondents. This suggests that local advertisers are more interested in developing their own online presence.

Figure 52: Choices of online media by those intending to increase online expenditure



Note: Based on answers to: 'How might additional online advertising budget be spent?'

Based on 114 respondents

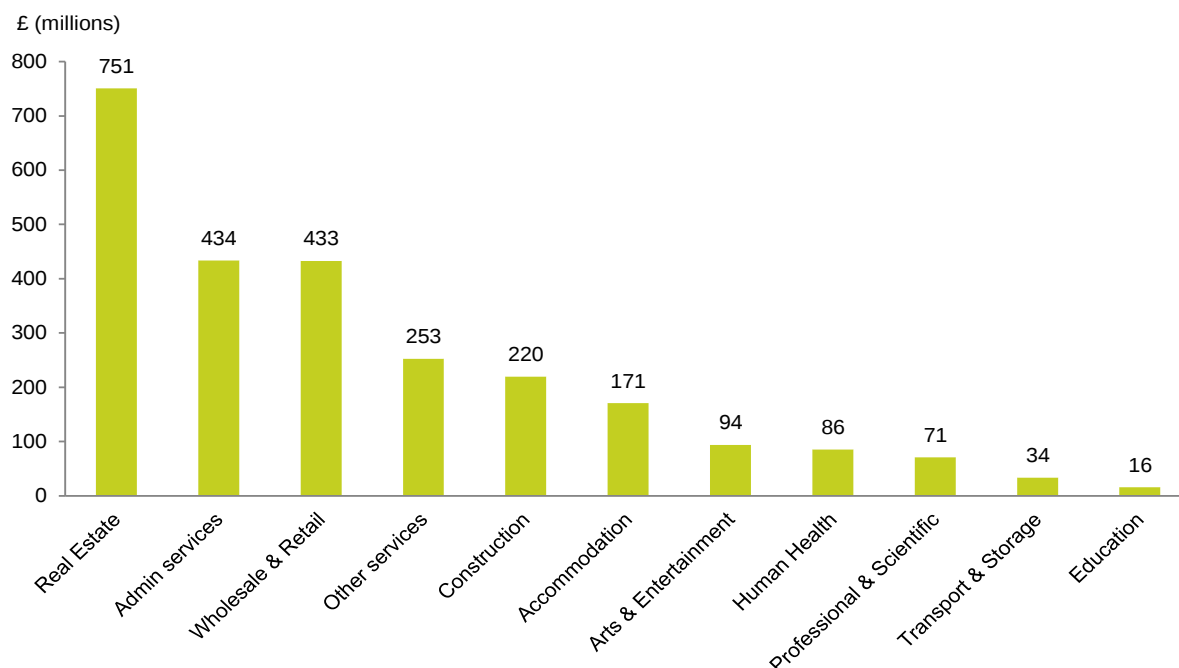
Source: Oliver & Ohlbaum analysis

4.3.6 The current size of the hyperlocal advertising market

To establish an estimate of the total size of the UK hyperlocal advertising market, we have grossed up the advertising expenditure data collected through our survey, for each SIC code. This is based on the number of businesses with fewer than 20 employees operating in our selected SIC codes, nationwide. While our survey was not conducted to be nationally representative, our seven case study areas were selected to exhibit a broad range of characteristics, and as such, the range of businesses which we have surveyed are broadly representative of those across the whole of the UK.

We focused our survey on businesses to which hyperlocal advertising appeals, and so respondents' total reported advertising expenditure represents total potential spending on hyperlocal advertising. Our estimate of the size of the hyperlocal advertising market is therefore based on current levels of advertising expenditure rather than current levels of *hyperlocal* advertising expenditure.

We estimate that the total size of the UK hyperlocal advertising market is £2.6 billion. Real Estate spends the most on advertising, with an estimated local advertising expenditure of £751 million a year.

Figure 53: Total UK advertising expenditure by businesses with fewer than 20 employees, by SIC code

Source: Oliver & Ohlbaum survey and analysis, Dun & Bradstreet

On a case study area basis, our survey found that the level of advertising expenditure for given SIC codes varied by area. However, this can be largely explained by variations in the areas' characteristics, or the low bases covered by the survey in certain SIC codes. Advertising expenditure in some sectors, such as retail and personal services (where we had the most respondents), on the other hand, was more comparable across each of the seven case study areas. This supports our assertion that our sample provides a good indication of the nationwide behaviour of businesses to whom hyperlocal advertising appeals, i.e. those with fewer than 20 employees, in the SIC codes we have selected. Due to the restricted size of our sample, it is not possible to produce useful estimates of advertising expenditure by SIC code on a case study area basis.

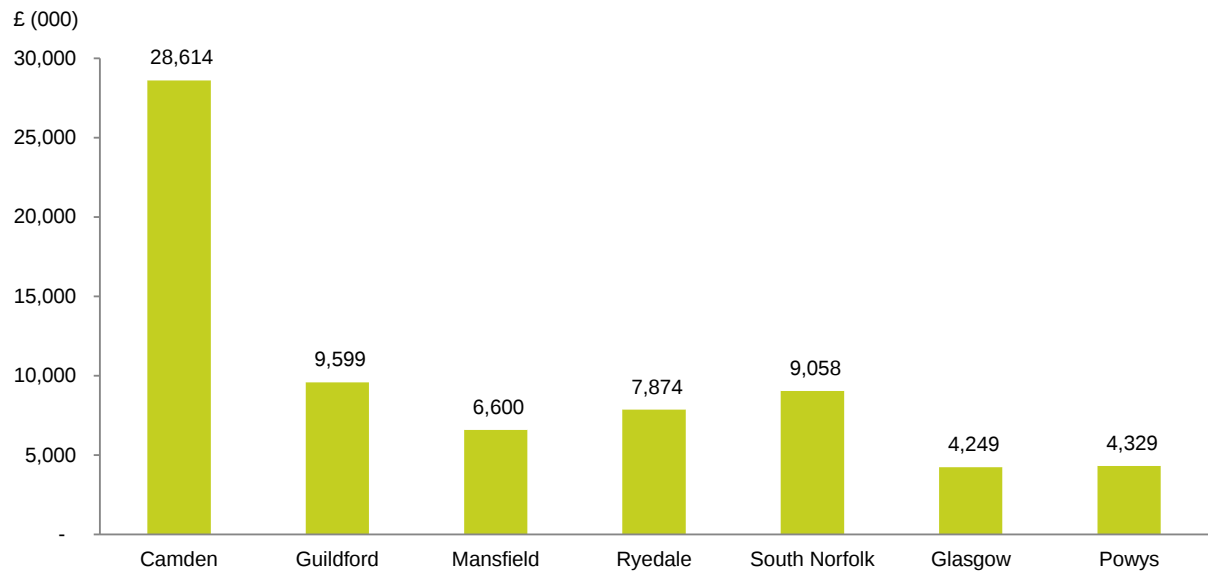
Based on the results of our survey, we estimate that total UK online advertising expenditure by businesses with fewer than 20 employees (in the SIC codes we surveyed) totals £731 million. This consists of £23 million of advertising expenditure on hyperlocal websites⁸ – including both independent hyperlocal websites and those linked to traditional local media including local press and broadcasters – and £708 million of online advertising expenditure via other channels. In total, hyperlocal advertising accounted for £136 million of UK wide expenditure; this includes traditional forms of hyperlocal media and community media, such as hyperlocal press and community radio, as well as advertising via hyperlocal websites.

While local news groups reported digital revenues may suggest a higher level of advertising expenditure on hyperlocal websites than our £23 million estimate, these digital revenues include more than advertising revenues from hyperlocal websites. Local news groups' digital revenues include income from digital editions of regional publications as well as revenues from other digital "verticals" such as job sites, which are not geography specific. As such, digital revenues from hyperlocally focused websites will make up a small proportion of local newspaper groups' reported digital revenues.

⁸ The number of respondents used in our estimate is based solely on the number of businesses which responded to the question: 'Are you aware of or do you advertise on any websites focused on your local area?' by confirming that they are both aware of and advertise on websites focused on their local area. This question was accompanied by examples of local websites relevant to each of the areas surveyed, including those of local newspaper groups, and therefore provides a clear assessment of the number of advertisers amongst our survey respondents.

Across the seven case study areas, we estimate an annual hyperlocal advertising market totalling £70.3 million. This is heavily skewed towards Camden and Guildford, both in the south of England, which contribute £28.6 million and £9.6 million respectively. We estimated the size of the hyperlocal advertising market in each case study area by grossing up our findings based on the total number of businesses in each SIC code we surveyed, with fewer than 20 employees, in each area.

Figure 54: Total advertising expenditure by businesses with fewer than 20 employees, by area



Source: Oliver & Ohlbaum survey and analysis, Dun & Bradstreet

We estimate the UK hyperlocal advertising market is worth up to £2.6 billion a year. £731 million is spent online, of which £23 million is on hyperlocal websites.

5 Forecast

Based on the results of our survey, we have established an estimate of the total potential size of the UK hyperlocal advertising market at £2.6 billion a year. This includes all advertising expenditure incurred by businesses with fewer than 20 employees, in the SIC codes we selected for our survey. While this is not the same as the current level of advertising expenditure on hyperlocal platforms, we believe that this represents the total potential size of the hyperlocal market, as this is the amount of money being spent by businesses whose advertising needs could be served by hyperlocal media.

Breaking our estimate down by platform allows us to consider how the current expenditure is being incurred. Our estimate is based on advertising expenditure reported, on a platform-by-platform basis, for the last twelve month period. When asking respondents about their level of advertising expenditure, our questionnaire specified expenditure 'over the last year' rather than for a specific time period. This was to keep things simple for the respondents and maximise our response rate. Our survey took place in early 2013, meaning that our estimate broadly corresponds to 2012.

5.1 Online expenditure

Online advertising is used by 52 per cent of our survey respondents. It was also identified by 32 per cent of our survey respondents as the platform they expected would dominate their advertising expenditure in two years' time. This is already the case for 21 per cent of the advertisers we surveyed and so the expected dominance of online in two years' time predicts some movement of advertising expenditure to the internet.

It is clear from our survey that advertisers are highly responsive to the price of online advertising; 45 per cent of those currently advertising online and 26 per cent of those not currently online said that they would spend more on online advertising if the cost fell. There is also a large group of advertisers who feel that they do not need the internet to reach and engage with their customers; 41 per cent of survey respondents who are not currently online reported that nothing could persuade them to advertise online. This suggests that many small businesses already have the online presence they desire.

The fact that small businesses spending money on online advertising tend to favour investment in their own website (Figure 51) indicates that their online presence remains relatively unsophisticated. As seen in Figure 35, those who currently advertise online focus predominantly on their own website (85 per cent uptake), online directories (48 per cent uptake) and free social media products (47 per cent). As we learnt from our discussions with industry stakeholders, small businesses are highly reluctant to immerse themselves in online advertising; they tend to be happy with their existing platforms and do not have large enough advertising budgets to risk getting it wrong. This is clearly demonstrated by the fact that just 140 businesses (13 per cent), out of the 1,053 we surveyed, use Google's free advertising products which are designed to appeal to small local businesses.

5.2 Hyperlocal expenditure

Hyperlocal advertising channels were used by 20 per cent of our survey respondents; this includes hyperlocal advertising via traditional means and advertising via hyperlocal websites. In total, 25 per cent of our survey respondents were aware of hyperlocal websites relevant to their area, yet only 6 per cent chose to advertise on them.

The merits of hyperlocal advertising and online hyperlocal advertising, in particular, are discussed in detail in 2.3, and are confirmed by our survey results which demonstrate that businesses are not in desperate need of a digital platform to target their advertising by geographic area. While 44 per cent of advertisers using hyperlocal websites state that the ability to target potential customers by geography was an important factor in their decision to advertise, 61 per cent cited price, suggesting that small businesses are highly price sensitive when it comes to advertising.

The declining reach of traditional local advertising platforms such as local newspapers and radio, which can also cater for hyperlocal advertisers may inspire some small businesses to consider other platforms and could generate some short term growth in the hyperlocal advertising sector, however, online

hyperlocal advertising does not offer a unique selling point to national advertisers and growth is therefore likely to be restricted to small businesses advertising expenditure which can be attracted from other platforms.

5.3 Online and hyperlocal online market forecast

Forecasting the potential size of such a fragmented market represents a significant challenge. Given Nesta's interest in online, in particular, we have assessed online and hyperlocal advertising in turn and considered the likely direction of travel for advertising expenditure by local businesses. This is based on discussion with key stakeholders, our survey results, industry trends, and our knowledge of the market.

While there is scope for continued growth in online advertising expenditure, we believe that growth rates amongst small businesses will fall short of the 15 per cent annual growth rate seen across total UK online expenditure over the last three years. This is largely because many of the small businesses which desire an online presence already have one and the majority of those planning further online investment intend to focus on developing their own websites. That said, online advertising expenditure amongst small businesses should continue to grow, driven by a continued decline in print.

Hyperlocal websites are competing for a share of expanding online advertising revenues. Given that hyperlocal advertising appeals to small local businesses, there's an opportunity for hyperlocal websites to capture revenues moving online from traditional local press advertising. As online becomes businesses' primary advertising platform and local news groups seek to take advantage of their existing sales networks, this could drive an increase in both the number of advertisers on hyperlocal websites and their average expenditure. However, hyperlocal websites are one of a large number of online advertising options for small businesses and the majority of growth in online advertising expenditure amongst small businesses is likely to come from other channels.

We estimate that the total potential online hyperlocal market is currently £731 million a year, of which £23 million is currently spent on hyperlocal websites. This is based on advertising expenditure by small businesses and hyperlocal online includes all hyperlocally focused websites (as per Nesta's definition) – both independent hyperlocal websites and those linked to traditional local media including local press and broadcasters. We believe that total online expenditure by small businesses could grow to between £927 million and £1,172 million over the next five years, with advertising via hyperlocal websites likely to contribute between £23 million and £32 million to this.

Figure 55: Five year forecast for the hyperlocal online market

	Current value	Five year value based on forecast compound annual growth rates		
		Low growth	Base case	High growth
Online	£708 million	+ 5 %	+ 7.5 %	+ 10 %
		£904 million	£1,016 million	£1,140 million
Hyperlocal online	£23 million	0 %	+ 3.5 %	+ 7 %
		£23 million	£27 million	£32 million
Total	£731 million	£927 million	£1,043 million	£1,172 million

Source: Oliver & Ohlbaum analysis

Online expenditure by small businesses could grow to around £1.04 billion over the next five years, with advertising via hyperlocal websites likely to contribute around £27 million to this.

6 Appendices

6.1 Appendix A: Interview respondents

We approached representatives of more than 35 organisations, and conducted interviews with individuals representing 20 of these. The organisations choosing to participate represent a broad range of stakeholders, thus providing a rounded view of the sector:

Type	Organisation
Media buyers	OMD OPera, GroupM, MEC
Content owners	Bauer Media, ITV, Channel 4, Time Out, Archant, Mustard TV
Digital marketing specialists	Agenda21
Trade associations	Advertising Association, Internet Advertising Bureau
Hyperlocal website owners	NeighbourNet, AboutMyArea, Mumsnet
Hyperlocal website service providers	Addiply, StreetFight
Local authorities	Camden Council, Ryedale District Council, Glasgow City Council

We approached a number of other high profile organisations who are active in the sector but they, unfortunately, declined to contribute to our research.

6.2 Appendix B: Survey methodology

The scope of the survey was limited to around 1,000 interviewees. While this was not enough to gain nationally representative coverage in statistical terms, we used a series of case study areas which collectively cover a broad range of characteristics and therefore provide insights which are relevant to the UK as a whole.

The survey was conducted by our data collection partner, ICM Direct. ICM Direct is a data collection agency experienced in data collection across telephone, online and face-to-face surveying. For more information, visit <http://www.icm-direct.com/>.

Our survey was in the field from 19 February 2013 to 12 March 2013.

6.2.1 Telephone surveying

Telephone surveying was used to target the businesses because it enabled us to minimise selection bias. Were we to run our survey by email, say, we would limit our population to respondents who are online and for whom we have an email address. Targeting businesses on the telephone means that we were able to target all businesses in our defined case study areas, subject to the availability of telephone numbers.

Telephone surveying presents its own challenges, particularly when targeting small businesses. ICM Direct's interviewers needed to reach the key decision maker in each of the small businesses they contacted. This meant taking time out of the working day to answer our questions and that in itself introduces an inevitable selection bias in that some businesses will not be willing to offer their time to take part in the survey.

Respondents can also be unwilling to provide information which they deem to be sensitive, including financial data such as turnover. As such, in order for to ensure that a telephone survey can be completed, questions must build in the option for respondents to refuse, or state that they don't know, where relevant.

6.2.2 Targeting the survey

Our stakeholder interviews clearly indicated that only small businesses serving predominantly local areas are interested in hyperlocal advertising. We therefore targeted our survey based on the size of the business, which we established using the number of employees. We included only businesses with fewer than 20 employees in order to provide a range of company sizes while maintaining a focus on the smallest operations. We also targeted by SIC code to ensure that only businesses in industries which are likely to advertise were included in our population (see 6.3).

In order to target our survey, we first needed to understand the number of businesses both in the UK and in our population, and establish a means of obtaining contact details for these businesses. We used data provided by Dun & Bradstreet, a leading provider of business information, to establish both the population of trading businesses in UK which met our criteria, and the number in each of the case study areas we identified (see 6.2.3). Dun & Bradstreet offers a range of business information, including contact details for key personnel. Dun & Bradstreet collects, aggregates and verifies UK business data from thousands of UK and global sources, including public records, banking information, company financials, media and its own call centres. This ensures that it maintains an up-to-date database. To identify trading UK businesses Dun & Bradstreet uses the following key channels:

- A daily feed from Companies House which contains updates and revisions to corporate business records, as well as details of any newly registered businesses.
- A number of call centres, which provide data on unincorporated businesses and start-ups, and add further insight to the incorporated business data – including the collection of key business decision maker details.
- D&B intelligence collected from trade and customer partnerships.

These feeds ensure that Dun & Bradstreet has as full an overview as possible of all businesses in the UK which are currently trading, both incorporated and unincorporated. Since the legal status and definition of sole-traders is open to some interpretation, our analysis used Dun & Bradstreet's employee count as an indicator of company size, and we have not analysed our survey results by legal status.

In total, Dun & Bradstreet's database identified 1,351,260 trading businesses in the UK with fewer than 20 employees in the SIC codes we identified. Across the seven case study areas, there was a total of 34,243 trading businesses in the UK with fewer than 20 employees in the SIC codes we identified. The nature of our survey meant that we could only contact businesses for which Dun & Bradstreet holds a validated telephone record. This guided the decision making process around how the case study areas were defined, since ICM Direct anticipated a response ratio of 15:1, meaning that they expected only one business in every 15 they contact would be willing to take part in the survey. This meant that to achieve 150 respondents in each of our seven case study areas, each area needed to contain 2,250 businesses with telephone records (15,750 in total), meeting our criteria of fewer than 20 employees, in the SIC codes we identified as likely to advertise.

While our case study areas were each based around local authority areas, they were defined based on three digit postcodes. The local authority areas alone did not contain sufficient trading businesses with available phone number records, so using postcodes allowed us to build up our population of businesses by adding postcodes in the areas surrounding our selected local authorities. In doing so we were careful to select postcodes exhibiting similar characteristics to the local authority areas themselves, such as by avoiding postcodes which would add towns of a scale not in keeping with the area as a whole.

In total, the case study areas we defined contained 16,534 businesses for which a phone number and details of a senior contact were available; this was our survey population. Note that the population includes businesses with phone numbers on the Telephone Preference Service (TPS) opt-out register since calls from ICM Direct do not relate to sales or marketing.

6.2.3 The seven case study areas

We focused the survey on seven case study areas and aimed to complete 150 interviews in each. The areas were selected to provide a broad coverage of characteristics including: type (urban/town/rural), population, average income, ethnicity, location (north of England, south of England, and the Nations), and

existing hyperlocal media penetration (based on the number of hyperlocal websites reported by www.openlylocal.com).

While it was not practical to consider the diversity of the selected areas across all possible characteristics, the spectrum covered by these identified characteristics is a good indicator that the areas are sufficiently diverse to be broadly representative of the UK. The postcodes which make up each of the seven case study areas are set out below.

Camden	Guildford	Glasgow	Powys
NW 1 - London NW1	GU 1 - Guildford	G 5 - Glasgow	HR 5 - Kington
NW 3 - London NW3	GU 2 - Guildford	G 11 - Glasgow	LD 1 - Llandrindod Wells
NW 5 - London NW5	GU 3 - Guildford	G 14 - Glasgow	LD 2 - Builth Wells
NW 6 - London NW6	GU 4 - Guildford	G 40 - Glasgow	LD 3 - Brecon
South Norfolk	GU 5 - Guildford	G 41 - Glasgow	LD 4 - Llangammarch Wells
IP19 - Halesworth	GU 7 - Godalming	G 42 - Glasgow	LD 5 - Llanwrtyd Wells
IP20 - Harleston	GU12 - Aldershot	G 43 - Glasgow	LD 6 - Rhayader
IP21 - Diss/Eye	GU23 - Woking	G 44 - Glasgow	LD 7 - Knighton
IP22 - Diss	GU24 - Woking	G 51 - Glasgow	LD 8 - Presteigne
IP23 - Eye	KT24 - Leatherhead	G 52 - Glasgow	NP 8 - Crickhowell
IP31 - Bury St. Edmunds	Ryedale	G 53 - Glasgow	SA 9 - Swansea
NR 9 - Norwich	TS 9 - Middlesbrough	Mansfield	SY10 - Oswestry
NR14 - Norwich	TS15 - Yarm	NG15 - Nottingham	SY15 - Montgomery
NR15 - Norwich	YO 7 - Thirsk	NG16 - Nottingham	SY16 - Newtown
NR16 - Norwich	YO13 - Scarborough	NG17 - Sutton-in-Ashfield/Nottingham	SY17 - Llandinam/Caersws
NR18 - Wymondham	YO17 - Malton	NG18 - Mansfield	SY18 - Llanidloes
NR34 - Beccles	YO18 - Pickering	NG19 - Mansfield	SY19 - Llanbrynmair
NR35 - Bungay	YO25 - Driffield	NG20 - Mansfield	SY20 - Machynlleth
	YO41 - York	NG21 - Mansfield	SY21 - Welshpool
	YO60 - York		SY22 - Llanfyllin/Llansantffraid/Meifod
	YO61 - York		
	YO62 - York		

Note: Postcodes which lie entirely outside of the associated administrative area are shown in *italics*
 'Glasgow' refers to the four wards of Craigton, Govan, Pollokshields and Southside Central

Source: Oliver & Ohlbaum analysis

6.2.4 Setting the quotas

In each of the selected areas ICM Direct aimed to conduct 150 interviews (in the end ICM Direct completed 151 in three cases) with local advertisers. Respondents were selected from the sample of businesses in the area, provided by Dun & Bradstreet. This contained all businesses with phone numbers and key contact details, which met our size and industry criteria in each of the seven areas. Given that the boundaries of our case study areas were defined in order to ensure a total population of 2,250 businesses (see 6.2.2) the sample covered the vast majority of available businesses in most case study areas; the actual businesses included in our sample were selected at random from the population of each SIC code in order to meet our quota for each SIC code – i.e. a quota based sample.

We defined the sample for each area by SIC code, assigning a quota to each SIC code, in proportion to the total population of trading businesses in the area. This was so that our sample of respondents was representative of the population of trading businesses in the area, based on their SIC codes. Note that we up-scaled our sample for SIC codes G47 and S96 by a factor of 1.5 because these divisions cover a particularly broad range of activities and are likely to include businesses with varied advertising behaviours.

In each defined area, as well as nationally, we know the total number of businesses which meet our criteria, this allowed us to gross up our findings so that they are representative of the seven areas we

surveyed. On the assumption that the seven areas are collectively representative of the UK, we also grossed up our findings to national level.

6.2.5 Conducting the survey

ICM Direct included a screening question to ensure that respondents were operating in the sector stated in Dun & Bradstreet's database.

The sample of businesses was randomised when the computer system is set up so that the order of calls follows no set pattern and is not dictated by those working on the project.

6.2.6 Our analysis

The number of relevant respondents is stated in the note to each Figure. Where Figures contain data relating to advertising expenditure we excluded one respondent on the grounds that it reported advertising expenditure in excess of revenues – we deemed this to be incorrect. This is why some Figures are based on 1,052 respondents rather than 1,053.

For all questions, where respondents incorrectly chose 'other' and specified one of the available options, we reclassified responses so that they are correctly reported.

6.3 Appendix C: SIC codes included in the survey

A full explanation of SIC codes are available from the Office of National Statistics. The sections and divisions we included in our survey are set out below.

F - CONSTRUCTION	
41	Construction of buildings
43	Specialised construction activities
G - WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	
45	Wholesale and retail trade and repair of motor vehicles and motorcycles
47	Retail trade, except of motor vehicles and motorcycles
H - TRANSPORTATION AND STORAGE	
49	Land transport and transport via pipelines
53	Postal and courier activities
I - ACCOMMODATION AND FOOD SERVICE ACTIVITIES	
55	Accommodation
56	Food and beverage service activities
L - REAL ESTATE ACTIVITIES	
68	Real estate activities
M - PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	
69	Legal and accounting activities
74	Other professional, scientific and technical activities
75	Veterinary activities
N - ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	
77	Rental and leasing activities
78	Employment activities
79	Travel agency, tour operator and other reservation service and related activities
80	Security and investigation activities
81	Services to buildings and landscape activities
82	Office administrative, office support and other business support activities
P - EDUCATION	
85	Education
Q - HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	
86	Human health activities
87	Residential care activities
88	Social work activities without accommodation
R - ARTS, ENTERTAINMENT AND RECREATION	
90	Creative, arts and entertainment activities
91	Libraries, archives, museums and other cultural activities
92	Gambling and betting activities
93	Sports activities and amusement and recreation activities
S - OTHER SERVICE ACTIVITIES	
95	Repair of computers and personal and household goods
96	Other personal service activities

6.4 Appendix D: The survey instrument

See separate document.