

# CAP Consultation: food and soft drink advertising to children

## Annex 7

### Regulatory and economic impact assessment



# Regulatory and economic impact assessment

## 1. Introduction

This chapter includes CAP's assessment of the immediate and longer-term regulatory and economic impacts of the new restrictions on the advertising of products high in fat, salt or sugar (HFSS) proposed in sections 43-49 of the [main consultation document](#).

## 2. Identifying impacts

CAP has identified two primary impacts for assessment:

- the reduction in children's exposure to HFSS product advertising; and
- the economic impact on commercial behaviour of advertisers and media owners.

CAP has also assessed how these immediate impacts will have a longer-term effect and how, in turn, they are likely to influence the wider dynamics of the diet and obesity issue.

## 3. CAP's approach

CAP has sought to draw together the best available data and information from a variety of sources, including through its members, to model the effect of the proposed changes on the various groups and stakeholder constituencies involved. However, in line with the view expressed in section 34 of the [main consultation document](#) on the availability of data on children's exposure to HFSS advertising, CAP acknowledges that the available data is limited. Any conclusions must therefore be treated with appropriate caution. The following sections provide more information on the specific limitations of the data relevant to each.

CAP invites respondents to the consultation to provide data or other relevant information that might assist in better understanding the likely impact of regulatory change.

## 4. Children's exposure to HFSS advertising

Sources, such as studies analysing the content of advertising or asking children to recall their exposure to HFSS product advertising, suggest that exposure is likely to occur at a reasonable level of significance. New rules restricting the placement of such advertising are almost certain to reduce exposure. However, estimating the level of any reduction is highly challenging due to limitations in the available data.

## 5. Limitations to the available data

The central problem is that differentiation of HFSS product advertising is not presently required in non-broadcast media. Without a dedicated HFSS category for advertisers and advertising measurement data providers to track, the distribution of advertising across media and the dynamics of its audience cannot be determined with a reasonable level of accuracy.

There are other indicative approaches, however, the most effective of which is to use product categories or brand information to identify advertising that is likely to be for HFSS products. This was used by the Advertising Association (AA), in the data provided to CAP for this consultation, and Public Health England (PHE), in its recent sugar reduction review to estimate levels of HFSS advertising spend. Such approaches, however, do not provide an insight on exposure as no audience data is considered. Furthermore, they are limited by the difficulties in distinguishing between advertising for HFSS products and advertising for wider product ranges or brands that may include HFSS and non-HFSS products.

As a general rule, methods of audience measurement vary significantly, depending on how audiences interact with the media platform. Where audience members can be identified, for instance on direct mailing lists or through social network accounts, there is a high degree of accuracy. However, exposure to less targeted media, such as outdoor and other ambient display media, can only be estimated on a very general basis, for instance by compiling data on the types of people likely to pass by the site.

While it is safe to assume that strongly child-oriented media have proportionately high child audiences, estimating audience numbers is very difficult. In the online space, for instance, data for certain age groups' behaviour and exposure to advertising is not collected. For example, [UKOM](#), the industry-based audience measurement body, relies on data collected from those over the age of 18. General data on child online audiences is available from publishers through individual website owners' audience analytics. This data, supplied by [ComScore](#), was used as part of the Online Food Advertising Survey 2015, carried out by CAP, and published in Annex 8. However, this can only indicate audiences for websites in general and not specific advertising content that that audience has been exposed to.

Ultimately, there is no broad source of data that would allow detailed and consistent modelling of how new restrictions would reduce exposure. This stands in contrast with audience measurement for TV, which is facilitated through the [Broadcast Advertising Research Bureau](#) (BARB). The BARB system is based on a representative panel of TV viewers who record their viewing behaviour, allowing reasonably accurate and highly granular analysis of the viewing patterns of different groups.

CAP notes the BARB system allowed Ofcom to consider the impact of exposure restrictions on TV with a greater degree of certainty. It has nevertheless made its best endeavours to draw what conclusions it can from the available data and information. Although exposure is unquantifiable with any reasonable degree of accuracy, it is possible to identify the type of non-broadcast media environments that are child-oriented and other environments where significant levels of exposure are most likely to occur.

## 6. Prevalence of food and drink advertising

[WARC](#) data, provided by the AA, (WARC/AA data) is an accepted industry measure of advertising spend and volumes across different sectors and media. Although it cannot provide insight on who sees such advertising, the data does provide an indication of scale and relative importance of different sectors and media. As noted in the data included in section 34 of the [main consultation document](#), non-broadcast food and drink advertising and other categories, like restaurants and fast food outlets, accounted for £483m in 2015.

The AA provided data to CAP estimating non-broadcast HFSS spend at £178m in 2015 and PHE recently estimated the yearly spend on HFSS advertising at around £250m, including broadcast advertising (PHE, 2015: 17). However, these estimates are based on spend data related to categories of product most likely to include individual HFSS products. This approach is likely to capture non-HFSS products and brand or product range advertising where HFSS products are not promoted.

It is therefore reasonable to conclude that there is a considerable amount of non-broadcast food advertising – WARC/AA data is likely to underestimate totals, especially in relation to online marketing platforms – across advertising media and that a significant proportion of that is likely to be for HFSS products. It is less clear, however, to what extent the advertising of these products is targeted at or likely to appeal particularly to children, either by the selection of media in which it appears or its content.

## 7. Children as an audience

In the absence of dedicated audience measurement data for HFSS product advertising, CAP considers that it is useful to categorise advertising media by their likely relationship to child audiences. This allows the identification of environments where targeting and/or significant levels of exposure could occur:

- Media that are targeted directly either through their content or by being delivered to a child audience using targeting mechanisms. Examples include:
  - children's interest magazines or other publications;
  - websites with strongly child-oriented content like games sites or sites associated with children's entertainment;
  - targeted advertising on social networking sites; and
  - cinema advertising appearing around children's films.
- Generally targeted media could also have significant child audiences. Examples include:
  - poster sites near schools;
  - advertising in video games or online games with a youth appeal; and
  - sponsored postings on the social media accounts of celebrities popular with children.
- Media intended for adult audiences with no particular appeal to children, either through the product or content of the advertisement.

## 8. Other methods of estimating exposure

Although they do not provide the broad, consistent perspective of market-level data, content analyses and studies of children's recalled exposure provide some indication of the prevalence of HFSS product advertising directed at children and levels of exposure.

The scoping review carried out for CAP, Clarke and Svanaes (2014: 43-44), identified several content analyses that suggested that content of online food and soft drink

marketing likely to appeal to children, for instance, child-friendly imagery or games, was reasonably prevalent. Cairns (2015) found significant levels of recalled exposure among 2,285 11-18 year olds in Scotland. Over 60% of respondents reported having seen an advertisement or other promotional material for an HFSS product in the previous seven days, 27% reported 2-3 exposures and 13% of respondents, 4-8 exposures.

The findings of such studies are difficult to generalise or extrapolate from. Content analyses provide only a snapshot of content at a particular point in time, which has limited use in rapidly changing environments such as the online media. Recalled exposure studies suffer in particular from uncertainties around how children recall exposure and they do not capture more detailed context in terms of the media and the type of advertising content involved. However, they provide a strong indication that exposure is occurring at a reasonable level of significance.

## 9. Mitigating factors

At the same time, there are also factors that are likely to mitigate exposure. Almost half of the top 30 food advertisers, by spend, are signatories to the EU Pledge, either directly or through their parent companies. This means that they do not advertise HFSS products to under-12s or use media in which children comprise 35% or more of the total audience. The most recent EU Pledge [compliance report](#) found very high levels of compliance. Furthermore, specific sectors and media platforms also have policies that seek to limit likely levels of exposure. For example, social network platforms originating in the US tend to be only available to those aged 13 or over, in order to comply with US data protection legislation. Where they apply, such policies are likely to moderate exposure among younger children.

## 10. Conclusions

Children are exposed to advertising for HFSS products in non-broadcast media, probably to a significant extent; there is a lot of food and drink advertising in general, of which HFSS accounts for a significant proportion, and children consistently recall seeing it. Some academic literature and statements from the public health community assert that there is a high level of exposure but without robust media-specific data, it is very difficult to test these assertions.

Nevertheless, the exposure of older children (12-15 years) is likely to be greater than that of younger children (0-11 years). The older group are more independent and have greater access to different types of media, especially online platforms. Ofcom's media research summarised in section 35 of the [main consultation document](#) demonstrates a significant step change in older children's media exposure in terms of time spent and the diversity of their engagement with different online environments and platforms. Another important factor is the likely impact of voluntary marketing codes, specifically the EU Pledge in limiting HFSS product advertising to the younger group.

Exposure is likely to occur across most, if not all, media. It is reasonable to assume that it is significantly more likely in media of particular appeal to children. A complicating factor is exposure to general advertising of HFSS products that is not of appeal to children. Notwithstanding the fact that children are more likely to recall advertising that

is targeted at them through its content or selection of media, it is also likely that exposure studies based on recall capture some exposure to this type of advertising.

Ultimately, new restrictions will almost certainly reduce exposure to HFSS product advertising. In certain circumstances, the reduction is likely to be reasonably significant. However, it is not possible to quantify an overall impact or figures for specific media.

## 11. Impact on advertisers and media owners

CAP has identified the following primary impacts on businesses:

- reduced opportunities for advertisers to market their products;
- revenue losses to media owners due to changes in advertising spend; and
- compliance costs for both advertisers and media owners.

## 12. Limitations to the available data

The limitations in measuring levels of children's exposure to HFSS advertising also render estimating the economic impact of change on businesses difficult. However, data on food advertising spends and volumes for different media channels and individual advertisers, set against the proposed requirements of new restrictions, provides some basis for modeling impacts.

## 13. Impact on advertisers

Restrictions on the placement of advertising will inevitably reduce commercial opportunities for food and soft drinks advertisers. However, the general economic impact of such change is unlikely to be significant for most businesses.

Firstly, advertising restrictions on the targeting of particular age groups with HFSS product advertising – under-12s (0-11) or under-16s (12-15) – focus the intervention on particular products and defined media environments limiting economic impacts. Consequently, food and drinks businesses that do not advertise HFSS products or do not target children will be largely unaffected. For those businesses that do market HFSS products to children, for the most part, the broad nature of food markets provides significant potential for adaptation, for instance by:

- switching advertising to non-HFSS products within their range;
- diverting advertising spend to other target audiences; and/or
- focusing on brand rather than HFSS product advertising<sup>1</sup>.

In terms of quantifying impact, the data noted in section 34 of the [main consultation document](#) suggests that non-broadcast HFSS advertising accounted for £178m in 2015. It is not possible to calculate the exact amount, but CAP acknowledges the possibility

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<sup>1</sup> Subject to CAPs proposal in section 44 of the [main consultation document](#) to apply restrictions to brand advertising that has the effect of promoting an HFSS product adopting the approach of the existing BCAP guidance on the subject.

that new restrictions might have an effect on a reasonably significant proportion of HFSS food and soft drink advertising spend.

One key mitigating factor is that the vast majority of advertising spend in the sectors affected relates to a relatively small number of advertisers. The top 50 food, drink and entertainment and leisure category advertisers account for nearly 80% of total spend across all media in those categories (Nielsen Addynamix/AA). The top 50 advertisers include a significant proportion of businesses that are part of large multi-national groups, many of which have voluntary commitments not to advertise to under-12s, along with businesses with very broad product ranges and diverse customer bases, principally supermarkets. These advertisers are likely to have significant resources for adaptation to a new advertising regime.

CAP acknowledges that the placement restrictions could have a more significant impact for smaller businesses, especially where they have:

- narrow product ranges oriented towards children, reducing the business's options for adaptation; and/or
- limited advertising resources that would enable switching advertising away from media targeting children.

The balance of spend data suggests that the negative economic impact is likely to be low in real terms, although CAP acknowledges that the general adaptation costs and the loss of commercial freedom could have a significant proportionate impact on smaller firms with the above characteristics. For example, a producer of children's sweets that advertises only through its website and has limited recourse to marketing non-HFSS products or resources to use other marketing channels could experience significant detriment in having to change the focus of its marketing away from its target market.

#### 14. Impact on media owners

Loss of advertising revenues to media owners is the most direct economic impact of new restrictions. On a broad level, non-broadcast food advertising makes up a small but significant proportion of total advertising spend. The following table of AA/WARC data shows the distribution between different non-broadcast media:

(£)	Totals	Cinema	Direct Mail	Door Drops	Internet	Outdoor	Press
<b>Grand Total</b>	<b>483,139,591</b>	<b>49,209,052</b>	<b>11,975,459</b>	<b>24,511,091</b>	<b>1,769,432</b>	<b>181,204,200</b>	<b>214,470,357</b>
Food	261,397,258	19,548,729	7,512,847	13,725,029	1,033,283	67,663,067	151,914,303
Drink	148,272,415	24,824,683	3,842,859	133,679	222,923	72,644,007	46,604,264
Entertainment & Leisure	73,469,918	4,835,640	619,753	10,652,383	513,226	40,897,126	15,951,790

Media owners that target children or have significant child audiences are inherently more exposed to the impact of regulatory change:

- children's interest magazines and other publications;
- cinemas showing children's films;
- child-oriented websites, such activity or entertainment site and games platforms; and
- account-based sites where advertising can be targeted at particular demographics, for instance, social network sites.

It is, however, highly unlikely that the new restrictions will result in the present HFSS advertising spend being lost to media owners in its entirety. The potential adaptability routes for food and drink businesses that produce products for children mean advertising spend is likely to some extent to shift away from HFSS products, for instance to non-HFSS ranges or general brand advertising. Where revenue is lost there are close substitutes for HFSS product advertising in the form of other advertising that targets children, for instance toys and films and entertainment.

CAP nevertheless acknowledges that there will be an impact on revenues in certain circumstances and that having a smaller pool of potential advertising could have an impact on the price of advertising space and thereby reduce revenues even if volumes remain unaffected. Given the proportion of total advertising that food accounts for, however, the impact on revenues is likely in most circumstances to be marginal.

## 15. Compliance costs

In line with the policy recommendation in section 45 of the [main consultation document](#), advertisers will be required by the CAP Code to assess their product against the nutrient profiling model to determine whether it should be categorised as HFSS. This will invariably result in additional costs, but these will be mitigated to an extent by the fact that composition testing and nutrient profiling are already required by law, for instance, to comply with labelling requirements. As noted above, advertisers most likely to be affected by new restrictions are larger food and drink businesses with greater compliance resources.

The present use of the Department of Health (DH) nutrient profiling model, for TV advertising, will mean many advertisers already have the necessary nutrient profiling information for their products. However, if a different nutrient profiling model is adopted there is likely to be a marginally higher cost associated as advertisers have to adapt to using two models.

The impact on media owners will be more significant, as some will have to devise new processes to identify advertising space or other environments and platforms that are directed at or likely to appeal particularly to the two age categories of children being considered in this consultation (see section 47 of the main consultation document). In some instances, as suggested by one of the respondents to the pre-consultation, this might necessitate creation of new audience measurement approaches, for instance, in having to identify particular segments of a wider audience. In media where there are

difficulties with audience measurement, this could lead to uncertainty over compliance requirements.

## 16. Conclusions

Notwithstanding the difficulty in identifying HFSS advertising and measuring its audience, it is likely that there will be a low-to-moderate general impact on advertisers and media owners. Generally, and through its pre-consultation process, CAP has not seen data or information to suggest that there will be a highly significant and disproportionate detrimental impact on any particular group of advertisers or media owners.

## 17. Longer-term regulatory impacts

The two primary longer-term impacts of CAP's policy recommendations are the effects on children's diet and advertisers' behaviour. Having regard to CAP's rationale for regulatory change, there are also wider socio-economic impacts to be considered.

Children's food preferences are a significant factor in determining their diet, but clearly not the only one: parental influence, in particular, is crucial for younger children who have less independence. Although advertising has some impact on children's food preferences, relative to other factors it is likely to be small. It is therefore reasonably likely that the longer-term impact of any new restrictions on advertising will, in isolation, be limited.

CAP notes, however, the wider work of government, industry and public health bodies to create a multi-faceted package of interventions targeting a variety of factors that influence children's diet and, ultimately, rates of obesity. As part of a wider effort, advertising restrictions have the potential to be more impactful, for instance, by changing the environment of information and influences that currently contribute to children's food preferences; what is often termed the "obesogenic environment". CAP notes the consensus that a package of measures has the most realistic prospect of success in reversing obesity rates. As well as the potential for positive contribution to this effort, further advertising restrictions could also ensure that advertising does not undermine the wider effort.

The reduction in opportunities to market HFSS products to children could have a longer-term impact on advertiser behaviour. As noted above, advertisers have several potential routes of adaptation, which could lead to more advertising of healthy food products or even reformulation of products to meet nutrient profiling requirements. It is likely that this will occur to some extent but more accurate modeling is precluded by the absence of data.

CAP has launched this consultation in part to respond to wider concerns about how advertising influences food preferences and diet in the context of the UK's childhood obesity problem. As noted in sections 23-25 of the [main consultation document](#), the costs involved to individuals, health and social care and the economy more generally are estimated to be in the tens of billions of pounds.

The relatively small role that advertising plays in the wider issue and its complex relationship to long-term outcomes makes it exceedingly difficult to estimate the role advertising restrictions could play in wider efforts to tackle obesity at population level; McKinsey Global Institute (2014) classified advertising restrictions as having potentially a limited impact. Nevertheless, CAP is especially mindful of the potential for advertising restrictions to play some part in wider measures that might result in significant cost savings and benefits to individuals, along with potential benefits in the wider socio-economic context of health inequalities.

## Contact us

Committee of Advertising Practice  
Mid City Place, 71 High Holborn  
London WC1V 6QT

Telephone: 020 7492 2200

Textphone: 020 7242 8159

Email: [enquiries@cap.org.uk](mailto:enquiries@cap.org.uk)

[www.cap.org.uk](http://www.cap.org.uk)

 Follow us: @CAP\_UK