

# QUANTIFYING OUR IMPACTS

We want to maximise the positive value our business generates for shareholders, clients, our people and for wider society.

To help us monitor our performance, we carry out research to quantify our impacts and understand their monetary cost or benefit to society. This allows us to compare the relative significance of different types of impacts and, over time, may help us to enhance our positive contribution.

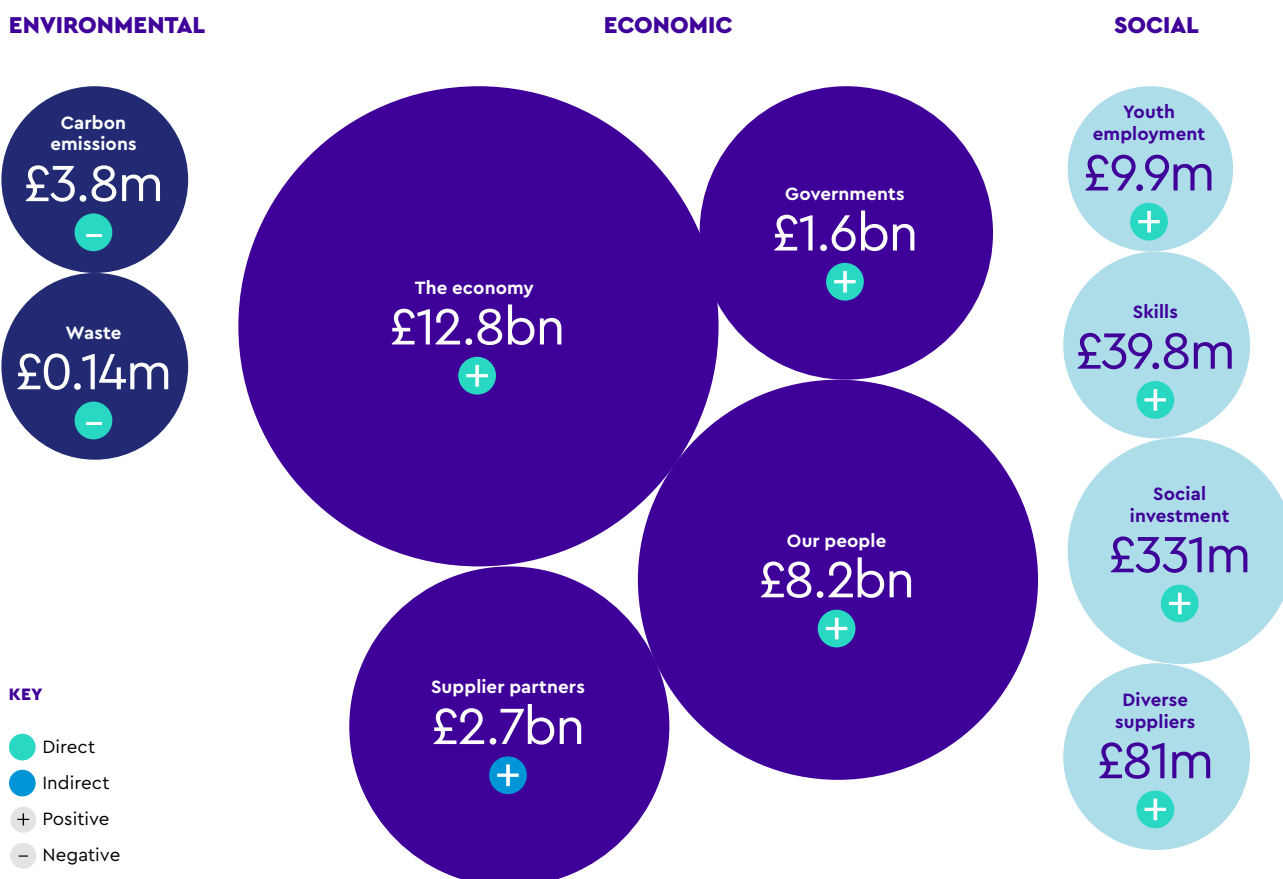
Our latest research findings are summarised in the diagram below. They show a significant positive economic impact through our work with governments, our people and supplier partners, as well as a positive social impact through our social investment and activities such as training and internships.

We assessed the impact of our spend with diverse suppliers in the US for the first time this year. However, further work is needed to quantify the potential additional social impact of spend with these types of suppliers.

Among the impacts we have valued, our main negative impact relates to the cost to society and future generations of greenhouse gas emissions associated with our business activities. Waste disposal is also a negative impact.

Many impacts are not included in our analysis because they are very difficult to identify and quantify. For example, if our communications services help clients to increase product sales, this could stimulate growth and help create jobs, but could also increase consumption of resources. These impacts may also vary significantly from project to project depending on the nature of the client's business and the particular assignment undertaken.

**The methodology used to evaluate our impacts is outlined on pages 58-60.**



## QUANTIFYING OUR IMPACTS: METHODOLOGY AND RESULTS

This section explains the results, principles, methods and data used in quantifying the economic, social and environmental impacts associated with our operations. See Quantifying our Impacts for a summary of the results. This analysis was carried out with Sustain Value and is based on established social and environmental accounting techniques.

This is the sixth year we have carried out this research to assess and quantify our impacts. We followed broadly the same approach as previous years. The findings should be viewed in light of the following considerations:

- **Impacts:** We have captured only a relatively limited selection of the important sustainability impacts associated with our business. There are opportunities to expand this further to enable more comprehensive reporting;
- **Methods:** To calculate our impacts we have used, wherever possible, recognized methodologies, models and academic research; and
- **Data:** We have used proxy data, from secondary sources and extrapolations, to address any data gaps. This means that findings in some areas are based on estimated figures.

Here we explain in more detail the results and our approach to calculating each measure.

### ECONOMIC IMPACT

We considered the benefits associated with our economic activities including salaries, payments to supplier partners, taxes to governments and dividends to shareholders.

As for previous years, our analysis shows a significant direct positive contribution to economies as well as a significant multiplier effect from the salaries and payments we make, which enable our people to buy goods and services and our supplier partners to create jobs and spend in the economy.

### GROSS VALUE ADDED: £12.8 BILLION ECONOMIC IMPACT

The direct contribution our activities make to the worldwide economy is measured as Gross Value Added (GVA). This is calculated as the financial value of the services we sell minus the cost of all inputs directly related to delivery of these services. The value of services we produce stands at £12.8 billion for 2018. This income is used to cover operating costs and taxes, and dividends.

### PAYROLL: £8.2 BILLION IN SALARIES AND BENEFITS

We are a major global employer, offering many thousands of well-remunerated positions. The £8.2 billion we spend on salaries and benefits (excluding social security costs) provides a cash injection into local economies in the 112 countries in which we operate. Our contribution through payroll is calculated based on the aforementioned items as disclosed in the Company's audited financial statements for 2018.

### TAXES: £1.6 BILLION PAID TO GOVERNMENTS

Payments of taxes to national and local governments, including corporation and overseas taxes (£384 million), employer and employee taxes including estimated social security (totalling £1.2 billion) and other taxes (primarily property taxes) (£64 million), enables them to invest in local socio-economic development. Our contribution through taxes is calculated based on tax payments as disclosed in the Company's audited financial statements for 2018.

### SUPPLY CHAIN: £2.7 BILLION INDIRECT ECONOMIC BENEFIT

Our companies procure a range of services worldwide. This spending provides indirect benefits to economies by supporting livelihoods and job creation.

In 2018, we spent an estimated £4.9 billion with our supplier partners. This figure was derived based on a GVA multiplier assessment undertaken last year using 2016-17 procurement spend. Data from our spend analytics system which tracks direct costs (advertising production and research operations) and indirect costs (facilities, IT, telecoms, travel and professional services). Our media spend on behalf of clients is excluded from these figures.

The impact of our supply chain, our indirect economic impact, was calculated using the same overall percentage GVA multiplier calculated for last year's Impact Valuation Report. That multiplier was established by analysing our expenditure on suppliers broken down by country, sector and type of spend. The 2016-17 spend for each sector was converted into an estimate of GVA using gross value added data from relevant sectors obtained from UNdata.

There are several limitations associated with this approach worth noting. Firstly, we are assuming the same broad pattern of expenditure as for the 2017 data which was used to obtain a weighted average overall % GVA that is applied to the total 2018 spend. Secondly, we only focused on those countries with the greatest spend (top 15 out of 62 countries, representing 96% of overall expenditure). Finally, around 10% of the spend was recorded as "uncategorisable" and assumed to have an average GVA spend multiplier.

### INDIRECT CLIENT IMPACT: NOT QUANTIFIED

The communications services we provide create a further indirect benefit by helping our clients to increase their revenues, which stimulates growth and helps create jobs. However, we also recognise that the associated increase in production and consumption will result in other indirect environmental and social costs. We are still considering ways of measuring these.

## SOCIAL IMPACT

Our companies support social and charitable activities through cash donations, by undertaking pro bono work (marketing advice and campaigns for little or no fee) and negotiating free media space for charity campaigns. This has an impact by helping charities to achieve campaign objectives, raise funds and recruit new members, and indirectly contributes to improving human health and community cohesion, and the protection of human rights and the environment.

Our companies provide internship and apprenticeship opportunities, which equip people with skills and experience that enhance their future life prospects. In addition, our companies train staff at all levels. This not only improves WPP's performance, but also enhances the human capital (eg skills base) within the Company.

### PRO BONO WORK: C.£91 MILLION SOCIAL BENEFIT

The direct value of our pro bono work was £11.3 million in 2018, based on the fees that organisations would have paid for our work. When the full potential societal benefit is taken into account, the overall benefit to society may be in the order of £91 million.

The benefits of pro bono work (primarily undertaken for the benefit of charities) are difficult to quantify. They include things such as helping to improve health and wellbeing in communities. Outcomes are often not measured and, if they are measured by the charity, results are not always shared with WPP. For the purposes of this assessment, we undertook a literature review of reports and papers (ie secondary data) two years ago to ascertain the average social return on investment (SROI) ratio generated by the same categories as those represented by the pro bono work undertaken. This includes arts, education, environment, health, human rights and local community.

The average ratio calculated for each category was then applied for each of these categories to the annual direct value of pro bono work, in line with the approach adopted over the previous years.

We believe this to be a conservative assumption, because pro bono work (costed on a time-sheet basis) is often worth more than the equivalent cash donation as WPP expertise is leveraged to create additional value above and beyond the time spent.

### CHARITABLE DONATIONS: C.£49 MILLION SOCIAL BENEFIT

In 2018, the Company's direct charitable donations were £6.2 million. These donations support important work in areas such as education, health, human rights, local community, environment and the arts. The overall value of social benefits resulting from these donations is estimated to be around £49 million.

The approach to determining the additional societal value is based on the literature review of SROI ratios mentioned above, covering the same six categories. The average SROI ratios found for each category were applied to the direct spend for each of those same categories. We recognise that individual projects can deliver very different returns. However, in the absence of project-by-project reporting, this method provides a useful order-of-magnitude indication of SROI.

### FREE MEDIA SPACE: C.£191 MILLION OF SOCIAL BENEFIT FACILITATED

WPP has also helped negotiate free media space for our pro bono clients worth £23.8 million in 2018. This represents the cost saving to our pro bono clients for them not to have to purchase media space for their environmental and social campaigns. For the purposes of this assessment, we have assumed that free media space has an impact similar to that of the pro bono work and charitable donations, calculated to be around £191 million. As there is no breakdown of spend by category for this, we have applied an overall weighted average SROI ratio based on the ratios and spend for pro bono work and charitable donations.

### INTERNSHIPS AND APPRENTICESHIPS: £9.9 MILLION SOCIAL BENEFIT

In 2018, we provided 9,852 paid internship and apprenticeship positions across the Group. We estimate these create benefits worth £9.9 million, because some interns will be offered a position in a WPP company at the end of their internship and others are likely to find jobs elsewhere more quickly.

The value is based on the same value multiplier as developed in 2014 but adjusted for inflation. This assumed that a certain proportion of interns find jobs at WPP or other companies and are therefore able to earn a monthly salary faster than they would have done without the internship. The approach takes into account the number of interns worldwide and the proportion likely to find a position at the end of their internship/apprenticeship placement and with the average additional income that the person would have earned as a result of the work placement. Further work is needed to calculate these benefits more accurately and to capture regional variation.

### TRAINING: £39.8 MILLION MINIMUM SOCIETAL BENEFIT

In 2018, WPP spent £39.8 million on training courses for staff at all levels, with additional travel, accommodation and subsistence costs of £5.7 million also being incurred. The £39.8 million represents a lower-end estimate of overall value as it only reflects course costs rather than the overall benefit that staff receiving the training will gain in terms of their enhanced human capital value. The latter will be manifested when they leave the company, along with the human capital gained through their on-the-job experience. It is also recognised that this training will generate additional value (ie SROI) for WPP from improved staff productivity and recruitment cost savings. These should effectively be captured through future enhanced gross value added (GVA) generated by WPP. We hope to include an estimate of additional added value to staff in subsequent reports.

## SUPPLIER DIVERSITY SPEND

In 2018, WPP collated data for the first time on supplier diversity in relation to its US supplier spend. In total, 2.1% was spent on diverse suppliers (the equivalent of £81 million out of £3.8 billion), of which 64% was on women owned business enterprises, 17% on minority and woman-owned business enterprises, 10% on Minority Business Enterprises and 10% on "other". Overall there was an equal split between spend on certified and classified diverse enterprises. Collation of equivalent WPP data spend for supplier diversity in other countries is currently under consideration.

Benefits associated with business supplier diversity spend are gained by the purchasing business itself, the suppliers, and the wider economy. A widely referenced survey of manufacturing and service companies found that companies focusing "heavily on supplier diversity" generated \$3.6 million in revenue for every \$1 million in procurement costs, a 133% greater return than realised by those who did not (Barreda et al. 2016). A range of benefits accrue to companies spending on diverse suppliers through cost-saving and greater innovation and flexibility. These benefits will ultimately manifest themselves in WPP's financial accounts through increased revenues, profits and cost savings.

Benefits to the suppliers themselves include potentially more rapid growth and a boost in morale and performance. However, perhaps the most significant benefit is the potential knock-on economic impacts within the local and national economy. For example, CVS Health (2017) spent \$2.3 billion on diverse suppliers, which had a knock-on (multiplier) effect of an additional \$1.6 billion indirect spend in the supply chain and a further \$1.9 billion induced spend in the community (giving an economic impact spend multiplier of 2.52). All supplier spend will have similar such associated economic impacts, but with supplier diversity the jobs and expenditures often reach the more vulnerable and more needy local economies. Further work is needed to quantify the impacts of our spend with diverse suppliers.

## ENVIRONMENTAL IMPACTS

Climate change remains our most significant environmental impact. We have also analysed impacts associated with waste disposal.

### GREENHOUSE GAS EMISSIONS: £3.8 MILLION NET COST TO SOCIETY

Currently, businesses such as ours do not bear the environmental costs of mitigating their greenhouse gas (GHG) emissions. This service is provided for free by nature or at the cost of future generations. The hidden cost of our emissions was £7.7 million in 2018. This calculation takes into account our GHG emissions from energy and business air travel (but excludes other estimated impacts such as leased cars, taxis and couriers) as well as the benefits resulting from our green electricity purchasing (zero emissions assumed). With our investments in renewable energy offsets included (see below), our net cost to society is £3.8 million.

In 2018, WPP invested in renewable energy projects to offset 85,459 tCO<sub>2</sub>e emissions associated with climate change impacts of business air travel. Based on the assumed social cost of carbon, this represents a positive societal impact of £3.3 million. In addition, WPP purchased renewable energy certificates (RECs) in the US, equivalent to saving 16,851 tCO<sub>2</sub>e, with an assumed societal value of £0.6 million.

The basis of the above GHG calculations is that each tonne of GHG released into the atmosphere damages society, the environment and the economy by impacting on, for example, climate, health, and the built environment. The economic cost of this damage is called the social cost of carbon. Many studies have identified a range of estimates for the social cost of carbon. The estimates span from 0 to over £400/tCO<sub>2</sub>e as they take into account uncertainties in climate and climate change impacts.

For consistency, we applied the same approach and value as 2014 (based on the Stern Report), but adjusted upwards to allow for inflation (ie £38.23 tCO<sub>2</sub>e). For transparency, we split the value into the negative impact of our gross emissions and the positive impact of our carbon offsets. In addition, we assume zero emissions for the purchase of renewable electricity. We have been recording our emissions in line with international standards since 2006 and as part of our reporting process we capture scope 1, scope 2 and a number of scope 3 emissions.

### WASTE DISPOSAL: £0.14 MILLION COST TO SOCIETY

While 54% of WPP's waste was recycled in 2018, the remainder was either sent to landfill or incinerated with or without energy recovery. The societal cost associated with the non-recycled waste is estimated to be around £143,000, which relates to GHG and other air emissions, leachate and other associated disamenity impacts (eg visual, noise and odour).

This value is based only on the non-recycled waste data, although it is acknowledged that the recycled waste will have an overall net negative impact too. Societal costs per tonne of incinerated (with and without energy recovery) and landfilled waste have been derived from Rabl, Spadaro and Zoughaib (2008), and updated using World Bank consumer price inflation data. This year the social cost of carbon component of the different waste disposal impacts (a significant component of the overall societal cost) has been updated to be in line with social cost of carbon used in the GHG calculations. More detailed country-specific costs could be estimated.

#### References

- Barreda, P., Gutstein, J., Garcia, S. (2016) [A Strong Supplier Diversity Programme Increases Corporate Revenues](#) Chicago Minority Supplier Development Council.
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- Rabl, A., Spadaro I.V., and Zoughaib A. (2008) Environmental impacts and costs of solid waste: a comparison of landfill and incineration. *Waste Management Research* 2008; 26: 147.
- Stern, N. (2007) *Stern Review: The Economics of Climate Change*. Cambridge University Press.
- [UNdata \(2018\)](#).