



Mike Darcey

Looking for a business model to sustain professional journalism in a digital future

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Am I qualified to take an hour of your time?

- ▶ c25 years media experience
- ▶ CEO of News UK (formerly News International) for last 3 years
- ▶ Vice Chair of the UK's News Media Association
- ▶ Board Director at Press Association
- ▶ Signatory of IPSO: new, unapproved self-regulatory body
- ▶ Two caveats:
 - ▶ no longer in post at News UK
 - ▶ not a journalist myself

Overview of what I will cover today

- ▶ My background, how I came to newspapers, the journalism I saw
- ▶ The British market, how it works, my sense of the challenge
- ▶ The objective we pursued at News UK, the strategy adopted, the results
- ▶ Other strategies I saw operating in the UK market
- ▶ My view on some of the key questions for the future of print journalism:
 - ▶ newspapers do have a future, and the paid-for model looks best
 - ▶ the prognosis for print is better than many claim
 - ▶ paid-for editions can continue to play their traditional journalistic role
 - ▶ there is a role for free distribution, but it is limited
- ▶ Threats to this future, from within the industry and from the outside
- ▶ Time for questions

Observations and opinions reflect my background and experience

- From NZ; mathematics at VUW; economics at Massey, KPMG
- To London; economics at LSE; c10 years of consulting
- To Sky and pay TV for 15 years; strategy then COO:
 - selling a pay offering against a strong free option (BBC et al)
 - distinctive content, subscription model, strong digital products
- Then to newspapers, with some trepidation:
 - industry facing serious business challenges
 - calls for increased regulation
 - specific legal matters ongoing at News International
 - severe morale issues
 - and personally responsible for Sun's p3

Many things of which I am proud

- Established processes and rules
- Inside the building: restored pride, confidence, optimism
- Outside the building: rehabilitated the brand
- Moved the building: to London Bridge, with corporate cousins
- Established News Academy
- End of p3

But more proud of the things I saw the journalists do

- ▶ Sunday Times FIFA Files; and now IAAF
- ▶ Times' Andrew Norfolk re Rotherham
- ▶ Sun's role: tax credits, Scotland independence referendum
- ▶ Lance Armstrong
- ▶ Sometimes scary:
 - ▶ gangster David Hunt
 - ▶ Anthony Loyd & Jack Hill in Syria

The British (English) newspaper market



- Competition between bias, choose the bias you want reinforced
- It works, because of plurality

The old model that funded this journalism increasingly challenged

- ▶ Business model worked well for many years
- ▶ Now disrupted by changes in technology and behaviour
- ▶ In part a problem of “free news”, but perhaps more complex:
 - ▶ radio and TV offered free news for 80+ years
 - ▶ convenience also a challenge
 - ▶ other elements in the bundle more widely available
 - ▶ greater pressure on time
 - ▶ new solutions for moments of boredom
- ▶ Result: those with least demand for newspaper shaken out
- ▶ And huge impact on advertising; first classified, then display

Much disagreement about what to do

- Diagnosis not agreed
- Nature of problem not clear all at once
- Confusion, or different views, about objective function
- Prophetic comments from Bert Hardy (DMGT), from c1993
- One of my first questions: "what is the objective function?"
- Important: can't have strategy in a vacuum, a strategy to deliver what?

At News International, found an answer from a deep sense of purpose

- ▶ Strong sense of purpose, seen before, but very strong here
- ▶ Asked the Exec team “what must be preserved?”
- ▶ Formed an explicit story, repeated over and over:
 - ▶ journalism important
 - ▶ business model disrupted, serious existential risk, alternative not attractive
 - ▶ so our job to fix it, make it fit for future
 - ▶ so have to get to position of sustainable profit
 - ▶ if not, position is too vulnerable

Set a strategy to secure sustainable profitability in the modern digital world

- ▶ Paid, distinctive content at the centre
- ▶ Invest in the journalism and set a fair price with confidence
- ▶ Maintain the bundle, strengthen where possible
- ▶ Increased focus on subscriptions
- ▶ Format neutral, relaxed about customer choice, price right
- ▶ Brand extensions as the third leg
- ▶ Relentless focus on costs, to fund a focus on journalism and the customer

How did it fare? Pretty well for Times and Sunday Times

- ▶ Record profitability, when things are meant to be tougher
- ▶ Subscription well established:
 - ▶ print and digital
 - ▶ supported by Times+ membership benefits
- ▶ Advertising model in reasonable shape:
 - ▶ hard to reach audiences
 - ▶ data from subscription model
- ▶ Best tablet edition in market:
 - ▶ priced at same level as print subscription
 - ▶ reading time similar to print edition (c43 minutes)
- ▶ Once radical, now well trodden path

Tougher for Sun and tabloids generally

- ▶ Unacknowledged reality: many readers were buying for celebrity gossip alone, they have better options
- ▶ Subscription economics harder
- ▶ Advertising tougher too:
 - ▶ tabloid readers heavy consumers of TV
 - ▶ over-index for commercial websites
- ▶ But some good progress:
 - ▶ paid digital subscription products established
 - ▶ credible balance between free content and paid edition
- ▶ But certainly more to do

Alternative Strategy One: Have £700m in the Bank

- Guardian strategy
- Objective function more of a global crusade than profit based
- Prioritise reach, so free online, accept print is run down
- Consistently loses £30m pa
- Perfectly rational for them, but don't try this at home

Note: the £700m comes from selling a 50% stake in Autotrader, a classified motoring publication that very successfully made the transition to digital

Alternative Strategy Two: Be Owned by a Russian Oligarch

- ▶ Independent strategy – but how sustainable?
- ▶ Not clear what happens if owner loses interest
- ▶ See also various football clubs in the English Premier League

Alternative Strategy Three: Hollow Out, Hope No-one Notices

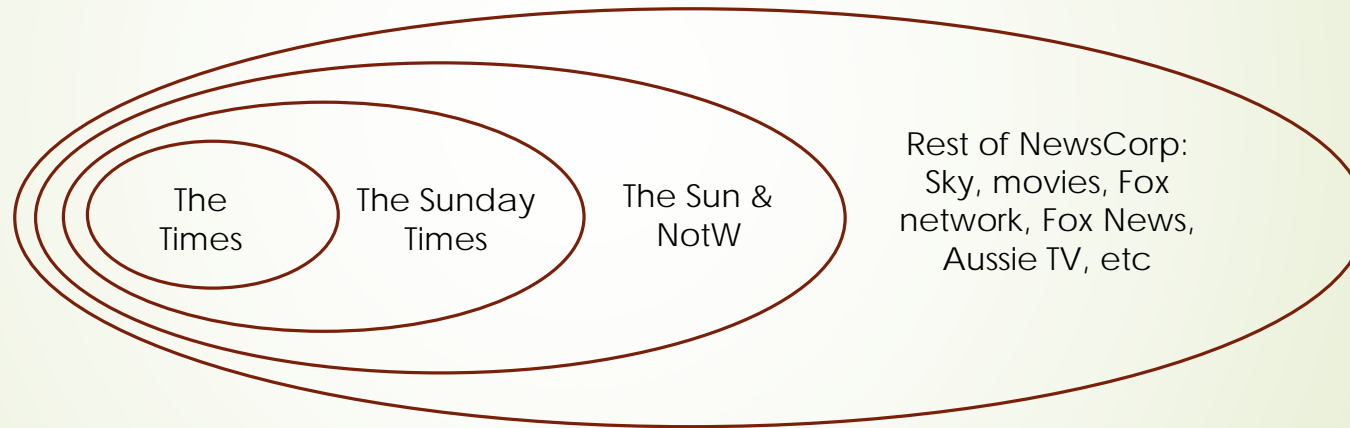
- Richard Desmond's strategy for Daily Express and Daily Star
- Costs slashed, no investment in the future
- Works for a while, some people remarkably slow to react
- But decline is inexorable
- So final crucial element of the strategy is to sell before anyone notices, but everyone has noticed

Alternative Strategy Four: Put Head in Sand, Try to Stop World Turning

- ▶ Telegraph approach
- ▶ Approach to business correlated with editorial line:
 - ▶ “we like the world the way it used to be, want to go back please”
- ▶ Journalism maintained, but limited investment in the future
- ▶ Revenues held up by doing anything an advertiser wants
- ▶ But extremely loyal readers

Alternative Strategy Five: Embedded (cross-subsidised by other assets)

- ▶ Historical approach with The Times



- ▶ Problem: can unravel if shareholders tire – see News Corp split in 2013
- ▶ Looks a little more fragile now, hence my focus on profits

Question One: does the newspaper as we know it have a long term future?

- ▶ Was asked this in 2008, still happy with my answer
- ▶ Enduring demand for the bundle we think of as a newspaper
 - ▶ edition product available in multiple formats
- ▶ Accept that demand for this bundle is less than in the past:
 - ▶ Times already reached equilibrium
 - ▶ Sunday Times bit further to go, fewer people with time to read a big Sunday paper
 - ▶ further to go on the Sun, print still declining 10% pa, but will find a base level
- ▶ Should be paid for:
 - ▶ nonsense to say free news on the web means you can't charge
 - ▶ Apple *et al* have retrained us all to pay for stuff
- ▶ Paid-for edition by far the most effective revenue generator
- ▶ And advertising is a fickle friend on which to bet the whole business

Question Two: OK, but what about the printed edition?

- ▶ Will still be printing in 20 years:
 - ▶ Times print circulation now stable year on year
- ▶ General history of new media is co-existence, not elimination:
 - ▶ TV did not replace radio
 - ▶ E-readers not replacing books
- ▶ Might apply in UK more than elsewhere:
 - ▶ UK economics of print and distribution pretty good
 - ▶ sensible co-operation between deadly rivals

Question Three: but can this solution deliver the journalistic role we want?

- ▶ Scale available to a paid-for edition product of the future is “sufficient”
- ▶ Evidence is that stories that matter do get picked up:
 - ▶ other papers copy
 - ▶ other free outlets circulate the stories that matter
 - ▶ television and radio news still take their lead from newspapers
 - ▶ 1.2 billion people knew of the Sunday Times FIFA story
- ▶ Granted, journalists and editors prefer greater circulation:
 - ▶ but don't confuse personal ego with the underlying objective

Question Four: so, is there no role for the free model in sustaining professional journalism?

- ▶ Digital ad opportunity looks limited:
 - ▶ will always lose the scale game
 - ▶ legitimacy of ad impacts
 - ▶ sensitivity around data
 - ▶ ad blockers
 - ▶ have to wonder at Sir Martin Sorrell's 45% margins
- ▶ Even MailOnline yet to demonstrate profitability:
 - ▶ not profitable, even with 170m UUs
 - ▶ as fast as audience grows, ad rates decline and cost base rises
 - ▶ anyway, we can't all be MailOnline
- ▶ Free model not suited to sustaining "real" journalism

Question Five: must the paywall be absolute?

- ▶ Even I allowed some free Sun content, but complex trade-off
- ▶ Old model never really worked, better prospects now for “shareable” content
- ▶ Little to be lost from putting “shareable” content out for free:
 - ▶ people who bought your paper mainly for this sort of content left years ago
 - ▶ if you don't put it out, others will anyway
 - ▶ so there are some upsides, and risks are modest
- ▶ But all that other content in your newspaper, news, comment, etc?
 - ▶ balance of risk is exactly the opposite
 - ▶ not shareable, won't generate scale traffic
 - ▶ greatest risk of undermining the paid edition
 - ▶ so don't do it

Internal Threat: Financial Illiteracy

“Richard Desmond’s decision to slash the cover price of the Star titles has paid off, with both papers recording significant gains in circulation in October.

“The Daily Star added almost 30,000 copies a day to increase its circulation by more than 7%, while the Daily Star Sunday sold an extra 20,000 copies to register an increase of more than 8%, according to the ABC figures for October published on Friday.

“Express Newspapers cut the cost of the weekday Daily Star from 40p to 20p, the Saturday edition from 60p to 30p and the Sunday edition from £1 to 50p.

Tabloid rivals the Mirror and the Sun decided not to follow Desmond into a price war, but the Mirror appears to have borne the brunt, losing 14,000 copies while the Sun managed to increase circulation slightly by 0.29%.”

External Threat: Attacks from the Haters of Free Speech

- ▶ Initial excuse provided by phone hacking scandal, but became more broadly based
- ▶ Operation Elveden (paying public officials for stories):
 - ▶ 3 year exercise, 80 detectives, £30m total cost
 - ▶ 29 journalists charged, 28 acquitted on all counts
 - ▶ many stories with strong public interest credentials
 - ▶ politically motivated?
- ▶ Calls for tightened industry regulation; Leveson Inquiry:
 - ▶ new voluntary regulator, established by Royal Charter, but ignored by all
 - ▶ sting in tail; EDs and provisions of Crime & Courts Act

...continued

- ▶ Increase in well-funded attacks on press in courts:
 - ▶ Andrew Mitchell, Peter Cruddas, Tim Yeo
- ▶ RIPA (Regulation of Investigatory Powers Act)
- ▶ Other miscellaneous, subtle causes for concern:
 - ▶ attacks on Freedom of Information Act
 - ▶ Twitter-based hate mobs
 - ▶ worrying evolution of culture on university campuses

Conclusion

- ▶ Believe that branded, bundled, curated journalism has a future:
 - ▶ some of it will be printed on dead trees
- ▶ Plenty of challenges, but the consumer/citizen still seems to want the press to operate as they have done:
 - ▶ see the Elveden outcomes for proof
- ▶ Not guaranteed, plenty of potential for industry players to grasp defeat from the jaws of opportunity
- ▶ Success more likely if we are clear about precisely what it is we want to preserve, and build an approach that is specific to securing that objective