



# 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

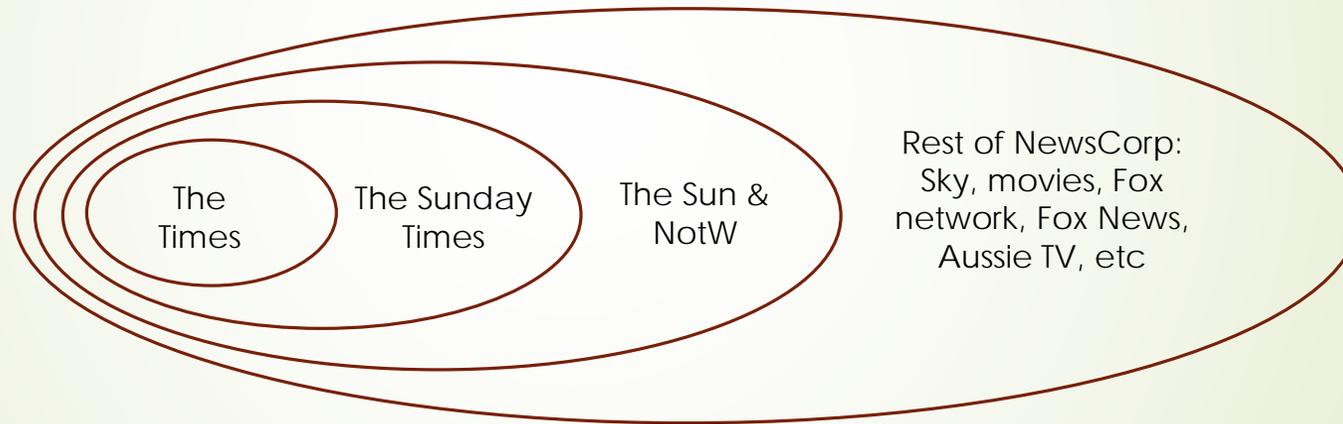
- Richard Desmond's strategy for Daily Express and Daily Star
- Costs slashed, no investment in the future
- Works for a while, some people remarkably slow to react
- But decline is inexorable
- So final crucial element of the strategy is to sell before anyone notices, but everyone has noticed

# 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