



A Report for Ofcom (Annex 6 to Ofcom's advice to the Secretary of State for Culture, Olympics, Media and Sport)

The provision of news in the UK

June 2012

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1. Executive summary

2. News provision in the UK today

3. The future for news in the UK

4. Conclusions

- Mediatique has been asked by Ofcom to consider the market for the provision of news in the UK, with specific attention to the dynamics that characterise the three main routes to market – broadcast (TV and radio), print and online/convergent media (the latter including delivery to connected devices such as smartphones and tablets)
- Ofcom is intending to use our analysis to inform a report that will be delivered to the Secretary of State and Lord Justice Leveson
- We are specifically addressing provision of news and key dynamics within each of the markets identified, and are specifically not seeking to measure news delivery across the whole of the market on an equivalent or comparative basis; nor are we considering how news influences or conditions public opinion, and how this may vary depending on the source (e.g., broadcast versus newspapers); for the avoidance of doubt, no policy recommendations are being made or should be inferred
- We have categorised the UK news provision industry according to the logical groupings around the type of service that is produced (see bottom right)
- **Note on methodology:** we are focusing on news, as opposed to current affairs; print excludes magazines; we are not comparing levels of engagement between services; and we focus on the costs of service creation, allocating distribution costs only for a service that is 'pure news' (e.g., Sky News or a newspaper) not a TV channel that carries news (e.g., BBC1); we have excluded non-UK news channels (low audience/low contribution to UK news provision)
- Sources include publicly available data (e.g., RAJAR, ABC), data sourced via Ofcom by arrangement with, e.g., BARB and NRS, plus a range of primary research interviews undertaken on a confidential basis

Key questions analysed in this report

How does the market for news provision operate in the UK?

- Providers of news
- Scale of news provision
- Business models
- Distribution dynamics

How might the market for news provision change over time?

Categorisation used – where the service is *designed* to be consumed

TV

- TV bulletins, news channels – delivered on broadcast networks or IPTV

Radio

- Radio bulletins and news-oriented channels (BBC Radio Five Live, LBC)

Print

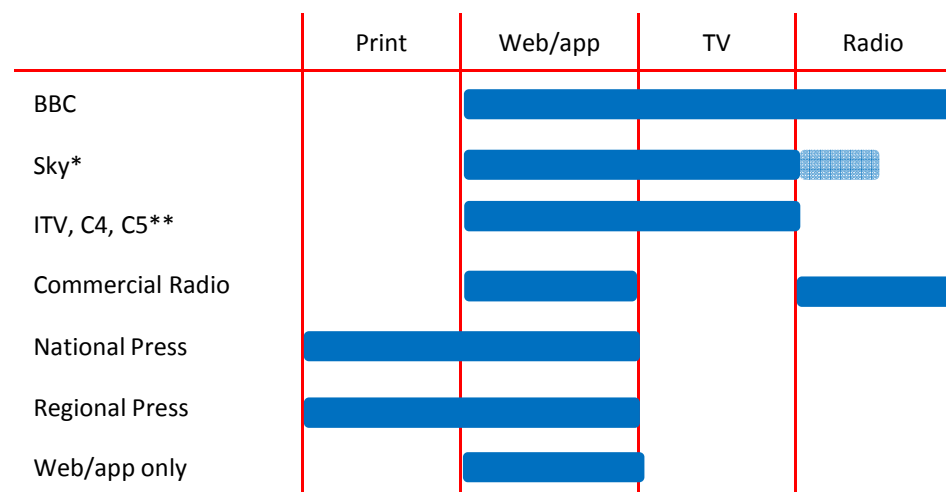
- National and regional newspapers

Web/apps

- News applications or websites – provided by TV, print or dedicated web/app players

- The news market in the UK is varied and extensive, involving scores of private-sector companies, both domestic and international, and the public broadcaster the BBC
- TV broadcast news is delivered principally by the BBC (including network, regional services and the 24-hour news channel), ITN (supplying ITV, Channel 4 and, since February 2012, Channel 5), ITV licensees (for regional news) and BSkyB (the latter via its 24-hour rolling news channel); there are a number of other news channels distributed on satellite and cable (attracting low viewing)
- News on radio is principally delivered via services of the BBC, both nationally and in the regions and nations, with commercial radio stations supplying relatively little news outside short bulletins and traffic, weather, local sport
- Print news is made up of national, regional and local press, with c20 titles nationally and 1,100 regionally
- Web/app news is delivered by services created and delivered by broadcasters and print media companies, along with key portals owned by search engine companies and a number of news aggregators; these are increasingly available on connected TVs, tablets and smartphones
- Other sources of news include blog sites, Twitter and social media (user-generated and links to other sources), alongside news magazines (the latter excluded from our analysis); we have not attempted to categorise social media feeds
- In terms of the volume of news available, the UK is well served, particular in relation to the amount of 'free' (at the point of consumption) news via IP networks and free-to-view TV

Involvement in news provision by player type

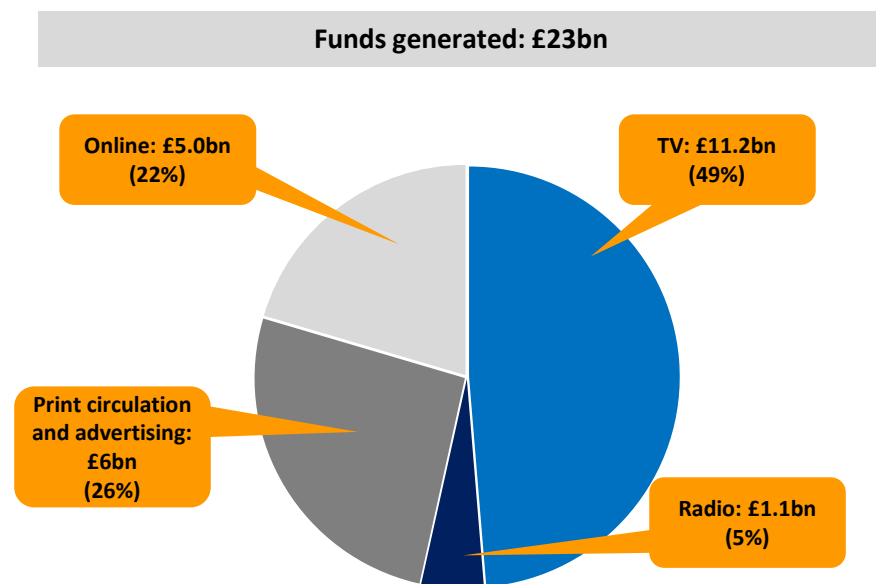


*Sky supplies international and national news feeds to IRN, the sole supplier of wholesale news to commercial radio

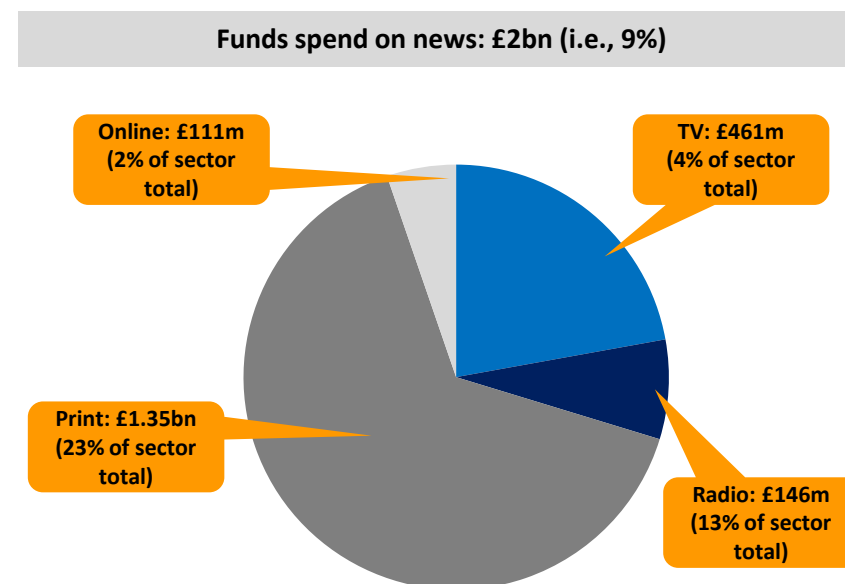
**Non-regional news and London Tonight supplied by ITN

News is funded by a range of business models in the UK; we estimate that 9% of the total core revenues generated in these business models is spent on news provision

Key sources of revenue linked to news provision in the UK, 2011



Total funds spent on news by news providers in the UK (2011)



- The chief revenues from which the budgets for news provision are met currently include those generated by TV, radio and press operators
- The business models of these players include subscription, advertising, circulation and the TV licence fee
- New models have emerged in the convergent media space, including online advertising, online subscription/paid-for apps
- These revenue streams total £23bn; figures in table add up to more than 100% due to rounding

- News providers in the UK spend approximately 9% of these relevant revenues on news – totalling £2bn in 2011
- This include all costs of providing news services, including distribution for news-only services (e.g., BBC News Channel, newspapers)
- Note that the editorial budgets of newspapers include all editorial costs, including for ‘non-news’ content such as crosswords, listings, etc.

Source: AA/Warc, Internet Advertising Bureau, Ofcom, Mediatique analysis, interviews
 We have allocated the BBC licence fee across TV (£2.7bn), radio (£680m) and online (£200m) and discounted BBC Worldwide; we have also excluded non-retail pay TV revenues generated by Virgin, Sky, BT, etc. (e.g., broadband, telephony, commercial premises, home shopping, betting) and non-core press revenues, including B2B

- The majority (65%) of spending on news in the UK is accounted for by the print sector, with the national press spending c£875m and the regional press c£470m
- Keeping in mind the differences in the way we calculate figures across the sectors, expenditure on TV news is the next biggest category, £461m or 22% of the total, of which the BBC contributes c65%; radio news constitutes just 7% of spending and online 5% (the BBC represents more than 80% of radio news expenditure)
- In terms of market share in each category, the BBC leads in TV, radio and online, with News Corporation generating the highest share of both revenues and readership across the print media; on its own, the BBC represents 21% of all expenditure on news provision
- Under the Delivering Quality First restructuring programme, the total BBC budget is forecast to be reduced by c15% to c£360m, with a further 500 jobs cut (140 of which were announced in March 2012); note that in this report, all BBC figures are pre-DQF

Notes (specific data references are provided in the main report):

**National Readership Survey: includes News of the World 2010 data as a proxy for launch of Sun on Sunday; regional readership data unreliable - using revenues, Johnston Press and Newsquest have a c14% share each and Trinity Mirror has a c13% share*

***UKOM/Nielsen*

****Based on BARB categories*

*****RAJAR does not categorise by news; these are total listening shares and by definition the BBC share of news will be underweighted*

Spend on news provision by player type (2011)

	Print	Web/app	TV	Radio	Total
BBC		21	293	119	433
Sky		4	51		55
ITV, C4, C5		1	117		118
Commercial Radio				27	27
National Press	875	45			920
Regional Press	470	20			490
Web/app only		20			20
Total	1,345	111	461	146	2,063
Front-line editorial posts	19,000	600	3,400	1,700	23,800


Market share by key player (2011)

Print* (% readership)	Web/app** (% minutes)	TV*** (% viewing)	Radio**** (% listening)
News 37%	BBC 42%	BBC 73%	BBC 55%
DMGT 18%	DMGT 20%	ITV 17%	Global 16%
TM 14%	News 7.5%	Sky 6%	Bauer 11%

Market description

- TV news – the leading media for the delivery of news by hours of consumption – is provided by five main broadcasters in the UK (BBC, ITV*, C4, C5 and Sky) plus international news channels that include the UK within their target market (Al Jazeera English, Euronews, CNN International)
- The news services broadcast on ITV, Channel 4 and Channel 5 (except ITV regional news programmes other than London Tonight) are all produced by ITN (owned 40% by ITV); each is produced by dedicated teams with a high level of editorial independence (prior to 2012, Sky was the wholesale provider of TV news for Channel 5)
- This analysis focuses on the UK-focused news providers; the international news channels have a very low aggregate share and do not appreciably contribute to the creation of editorial in the UK
- Collectively, UK's TV news providers spend £460m (or 3% of their total revenues) providing their news services (we do not count the general costs of network delivery such as spectrum charges in this number, except where the relevant service is wholly news oriented – for instance Sky News, BBC News Channel, but not ITV1 or BBC1)
- The BBC is the largest single investor in TV news production, representing c65% of the total; Sky and the BBC operate centralised newsgathering operations that are leveraged for all news services they produce (websites and apps, TV and radio broadcast)
- Sky's share of TV news consumption has increased with the growth in multichannel homes, while the commercial PSBs' share has declined – but again in line with multi-channel penetration
- TV news services in the UK employ approximately 3,400 skilled staff

Television market dynamics

- The high cost of TV newsgathering means TV news providers increasingly share newsgathering operations where possible (e.g., the BBC with TV, radio and 'online' and regional/national co-operation and ITN both domestically with a common hub available to C4, ITV and C5 teams and through international joint venturing)
 - As news consumers become more sophisticated, TV news providers are increasingly focusing on specialisation and on providing services beyond traditional TV – such as via apps on smartphones or tablets; these extensions rely crucially on the core investments in broadcast news
 - As TV news providers increase their convergent media presence, they are evolving their services to incorporate more in-depth, text-based data and analysis, bringing them into greater competition with stand-alone online news aggregators and providers and with newspaper online extensions (whose core text-based services are increasingly being augmented with video, including raw footage and UGC)
- 
- A decorative graphic consisting of a horizontal line with a downward-pointing arrowhead shape below it.
- *Revenue generation underpinning current provision of TV news under pressure*
 - *Regulatory compact prescribing commitment to news by commercial PSBs may come under scrutiny in next licensing round*
 - *Audiences – particularly younger demographics – moving to web/app environment, requiring business model reform and creating new competitive pressures*

*ITV' in this report relates to the licences owned by ITV plc, STV and UTV

Market description

- Radio news (other than on the BBC) is largely driven by bulletins and headline services, and tends to be of short duration and dependent for national/international coverage on agency supply
- The market leaders in UK radio are the BBC and two commercial groups – Bauer and Global; Global’s LBC is a news and speech format station carried in London and on DAB and on TV platforms
- The BBC spends c£680m a year on its radio services, of which the bulk goes to the national network services; the total revenues of the commercial radio sector were c£435m in 2011
- Commercial radio is dominated by music formats around which news plays only a minor role – largely headlines and short bulletins; while local news is produced to incorporate into these bulletins, the volumes are light
- There are approximately 1,700 journalists working in the radio sector in the UK – the majority of whom are employed by the BBC
- The BBC spends approximately £120m on radio news across the UK, including significant budgets for individual shows broadcast on its flagship national stations
- The commercial sector spends only c£27m on radio news – incorporating both national and local stations; national and international news is provided by IRN, which in turn is supplied by Sky News
- News accounts for 13% of total radio revenues in the UK – the majority of which is accounted for by the BBC

Radio market dynamics

- There is little reason to believe that the provision of news on commercial and public radio will change dramatically in the coming years; the BBC’s commitments are likely to remain as they are now, and commercial radio is unlikely to move beyond headlines (outside TalkSport and LBC) – note that TalkSport announced in March 2012 that it would concentrate its entire schedule on sport
- Indeed the commercial sector’s commitment to news could be further reduced in the event that the analogue signals are switched off via radio digital switchover, and current local provision undertakings – secured by analogue licences – are abandoned



- *Status quo likely to continue – with commercial commitment to news likely to remain limited (and even reduced from current levels)*
- *The significant role played by the BBC in local/regional radio news is never likely to be challenged by any commercial service*

Market description

- Despite undergoing a period of dramatic change, the print news sector remains primarily wedded to physical distribution of newspapers via established wholesale and retail delivery, and remains dependent on advertising and circulation revenues
- The sector is split into national and regional segments – there are four pure national newspaper groups, three straddling national and regional markets, and around 20 regional press groups
- Circulation has fallen dramatically in recent years, with advertising declining by even more; In 2011, newspaper groups generated c£6bn in aggregate from circulation and advertising, for a decline in nominal terms of c£2bn over the past five years
- As a result of these changes, print media operators have sought to extend their revenue models across both B2B and B2C propositions
- They have sought to reduce editorial costs, which are significant in this sector, particularly for national broadsheet operators which spend a greater proportion of their revenues on editorial than other players
- High printing costs have been addressed through consolidation, pagination and format changes, new investment to increase efficiency and out-sourcing/contract printing
- Despite the structural challenges, the print sector is still profitable in the aggregate, although this masks a range of market positions

Print market dynamics

- The rate of decline in newspapers appears steep, but viability for the industry depends most on evolving consumer behaviour and whether consumers will retain sufficient demand for the physical product – particularly younger demographics for whom newspaper readership is less habitual
- Print groups have sought to establish new customer bases – ‘following eyeballs’ – through web and application-based services, but revenues generated here have not so far been commensurate with lost print revenues




- *Print may continue its decline, posing a threat to the high level of investment in journalism made by newspaper publishers*
- *Consolidation may ameliorate the situation but it is likely that the base of salaried print journalists will decline in coming years*

Market description

- Consumption of news on websites and via apps has grown dramatically in recent years, driven by faster networks and proliferation of consumption devices such as smartphones and tablets
- News provision on websites and via applications is effectively tri-partite in structure – broadcaster services, newspaper services and services provided by 'stand-alone' players, including the leading search and aggregation companies
- Online consumption of news is nevertheless still delivered principally by traditional news providers such as broadcasters and newspapers – even if search engines drive some of the traffic to these extensions
- The majority of news sites are accessed on a free basis, and advertising has become the primary commercial model for general news
- But the funding model for online news is challenging, as 'online' advertising revenues – a large and growing category – largely accrue elsewhere
- Operators have experimented with pay models, but evidence suggests that these models can only gain real traction in the case of specialist news; charging for apps (conferring mobility and inter-operability advantages) is being widely trialled but results are inconclusive
- The provision of online news is largely funded by legacy players, even though business models remain subject to pressure from new entry

News websites and applications – market dynamics

- Many in the news provision industry believe that the future consumption of news will be largely via websites and applications on multiple devices. This is based on the personal nature of how news is consumed: within an application or website, the user can skim or engage in a chosen level of detail and analysis, and do so when and where desired
- As the printed newspaper declines in popularity, and news consumption online grows, the revenues are not necessarily finding their way to those funding content, thus posing a serious question about how the granular journalism found in the print sector will be funded if all or substantially all news provision activity ends up via websites and applications

- 
- *Major questions remain over whether a viable financial model will develop for web- and application-based news services – essential for print legacy groups looking for migration to a new model, but not for TV players that do not necessarily expect profit*
 - *Web-only sites that 'harvest' news from other sources are likely to remain, but the question of whether these attract more revenues, disproportionately, than the 'source' sites will determine whether they have an impact on the viability of those players that invest in newsgathering and journalism*

Drivers of change in the UK news provision ecology

- Our analysis of the UK news market gives rise to the identification of four main driver areas for how the market will develop in the coming years (these are described on the right)
- A combination of outcomes for each of these drivers determine the scenarios that may prevail in the UK in the next few years
- We have developed three resulting scenarios that capture a range of possible outcomes for news provision in the UK:
 - 'Evolution', effectively a natural, slow development from today's status quo
 - 'TV triumphs', in which the print model fails and web/apps do not deliver a viable business model
 - 'Convergent media triumphs', in which a viable business model is found
- Overleaf, we summarise each in turn
- In all scenarios, we assume that the BBC model and services continue roughly as now

Network capability

- Speed and capacity of delivery networks – mobile or fixed – and the extent to which barriers to entry associated with networks are reduced
- *Outcomes: either networks deliver audio-visual content seamlessly or hold back development due to insufficient capacity*

Consumer adoption

- Adoption of new technologies, modes of consumption, perhaps driven by coming of age of the digital cohort
- *Outcomes: consumers change news consumption habits rapidly, or remain wedded to current paradigms*

Consumer payment

- Propensity to pay for consumption of news
- *Outcomes: either consumers adapt to payment for web/app-delivered news content (sufficient to represent viable standalone model) or online=free paradigm remains*

Cohort strategies

- Strategies by players that hasten or hold back development – bundling, mergers, cost-cutting etc.
- *Outcomes: either players adapt and develop, or remain wedded to existing strategies*

The three scenarios for market development capture the key dynamics of sustainability of the print revenue model, the emergence of a viable web/apps model for news and the continued prominence of TV players



Future scenarios for the provision of news in the UK

'Evolution'

- Print revenues decline as consumers/ad revs shift to web/apps, but cost cutting allows print model to survive
- TV benefits from falling costs of news provision; more hubbing, shared costs; ITV secures lower but still decent level of news investment; Sky remains a key player
- Web/apps continue to provide an ad-funded model (with some payment models); advertising metrics and pay for premium content improve; online/convergent space becomes more video rich but still recognisably similar to current characteristics

- Print continues to decline but is still a force in news provision and a contributor to plurality (although business failures and further radical restructuring likely); TV news sustainable if still under threat of technological/consumer behavioural and revenue model shifts

'TV triumphs'

- Print reaches tipping point at which print model no longer sustainable. Guardian's model of 'Digital First' wins, but maybe not with the text-bound legacy products intact
- TV attracts specialist journalists formerly in print, with the best communicators providing depth to TV and TV-linked convergent coverage; network improvements vastly reduce the costs of A/V distribution, both in the supply chain of ENG and to the end user on his or her chosen device; the mainstay bulletin remains a key appointment to view, and rolling news flourishes on multiple platforms
- Online favours A/V skills set, and strong links to broadcast brands create barriers to new entrants and editorial challenges to match A/V-rooted journalism with cheap aggregation on the previous model; brand strengths and relentless cross-promotion favour key TV brands on multiple devices

- Plurality may be challenged but broadcast model of news (with impartiality, fairness standards) protected

'Convergent media triumphs'

- Print model dies; physical distribution of paper product untenable – and diaspora of skilled journalists migrates online
- TV news on the broadcast model becomes redundant as immediacy of convergent delivery provides *anytime anywhere* news on demand (Sky ceases quality broadcast news service, ITV reduces news to a bare minimum and BBC is only remaining legacy full-service player in TV news)
- Web/apps dominate distribution model; advertising moves online and premia develop around one-to-one marketing and consumer purchases; the BBC aggressively targets convergent media, trumpeting standards, credibility and internal plurality – but cannot abandon its TV heartland

- Commercial news provision moves into largely unregulated online arena; cacophony of views but awkward challenges on impartiality, the lines between commerce and news

Current news is extensive, varied and accessible

- The news market in the UK is varied and extensive, involving scores of private-sector companies, both domestic and international, and the public broadcaster the BBC
- News provision currently spans a wide range of distribution media, including TV, radio, print and nascent online media (incorporating websites and mobile/tablet apps)

Revenue models are under pressure

- TV and radio advertising revenues remain under structural pressure and core print revenues are sharply down. Only online advertising and pay TV are growing and their contribution to creating news is small. The precarious nature of TV and newspaper models places sustainability of current levels of news provision at risk

Digital has yet to provide a solution

- Digital has yet to provide a solution: audiences are promiscuous and resist pay models, notably as online aggregators and TV news providers further condition consumers to a free model

Newspaper economics are under the greatest pressure

- Newspaper publishers have been cutting operating costs, but they will struggle to regain/maintain profitability without further cost cutting and restructuring – with clear impact on the extent and granularity of print journalism, which is so crucial to the ecology
- Newspapers' ability to charge for content online and via apps is constrained by consumer resistance, availability of substitutable content, and the commitment of broadcasters (including the BBC) to provide re-purposed content without seeking incremental profit
- Further changes in dynamics are likely with network improvements and as tablet/smartphone use rises; traditional print journalism, if dependent in the future on high costs of distribution, will be further threatened

Regional press and TV particularly at risk

- The regional press is particularly at risk, although TV news may be more resistant, owing to the BBC role, and the appeal of A/V material in a convergent media space that places greater emphasis on video-rich services where broadcasters have skill advantages
- However, only by regulation are local and regional broadcast news likely to be sustained at current levels

There are implications for plurality

- The trends toward fewer newspapers, fewer print journalists, greater reliance on freelancers and agency feeds and a growing role for online/mobile apps to deliver news content could have potentially serious implications for plurality

The immediate future is significant disruption...and heavier reliance on the BBC

- Over time, skilled journalists are likely to transition away from print and demand for news is likely to lead to the creation of new business models to fill any vacuum created by the failure of legacy models
- But until these new models become clear the immediate future is likely to be one of disruption, and a news ecology even more heavily reliant on the BBC; it will be a crucial source of balance in any transition, making its own commitments to quality journalism more important in the context of operating with a frozen licence fee and additional, new claims on its resources

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- ***For the avoidance of doubt, no policy recommendations are being made in the course of this report, nor should any be inferred***

Key questions analysed in this report

How does the market for news provision operate in the UK?

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- Scale of news provision
- Business models
- Distribution dynamics

How might the market for news provision change over time?

We have focused on news, as opposed to current affairs, and have relied on a range of primary and secondary sources to identify the key players and dynamics



A note on methodology and definitions

- We are focussing exclusively on 'news' as opposed to 'current affairs' and we have defined 'print' as excluding news magazines (e.g., Time, the Economist) or political titles (the Spectator, Private Eye). This reflects two principal reasons: magazines represent a small share of the total 'news' output in the print segment; and consumer surveys suggest few use such magazines as a main means of accessing news
- While we have identified the market shares of key players (via usage/listening/viewing statistics and via revenues generated, where appropriate), there is no attempt to compare levels of engagement between and among media (for example, minutes spent with online sites compared to minutes watched of broadcast news)
- We have sought to isolate expenditure on journalism (content creation and production) as distinct from distribution, sales, marketing and overheads, and in cases where news is delivered as part of a broader service (a bulletin on a TV channel, for example), we do not attempt to allocate a share of underlying distribution and overhead costs to the news element
- The editorial budgets of newspapers cover the provision of a range of content not strictly in the category of 'news' – including lifestyle coverage (e.g., health, beauty, travel), listings, crosswords, etc. While it is possible to assign a proportion of editorial expenditure to these content categories, such an exercise is either very granular (and beyond our scope) or relatively arbitrary. We have elected throughout to consider all the costs of producing a newspaper's content as being 'news provision' consistent with our observation that the purchase of a newspaper – like tuning to an all-news channel – is to gain access to the news aggregated there (even if some of the content is not strictly 'news')
- This caveat should be kept in mind throughout the sections where we compare overall news budgets across different routes to market
- We have largely disregarded international revenues for the purposes of establishing key revenues underpinning news provision – except in cases where those revenues make a material contribution to the funding of news provision in the UK (e.g., the FT's US and other international revenues)

A note on sources

- In the course of our work, we have made extensive use of publicly available information (e.g., Audit Bureau of Circulation, RAJAR, AA/Warc, Companies House, annual reports of various stakeholder companies), supplemented by data supplied via Ofcom (through arrangements with, e.g., BARB, National Readership Survey, UKCOM/Nielsen)
- We have also been informed by submissions made by various companies and individuals to Ofcom's public consultation on media plurality, and on previous work done (or commissioned) by Ofcom, the Parliamentary Select Committee, the House of Lords, and other relevant official sources
- We have also conducted a range of confidential interviews with market participants across each of the relevant media; where company-specific data is provided, this is either from published sources or used by permission of the companies involved (this includes detailed information from the BBC)

News service categorisation rationale

- We have categorised the UK news provision industry according to the logical groupings around the type of service that is produced
- This is clear for print: the publishers of the UK's newspapers are engaged in a unique set of journalistic and production activities involved in creating newspapers and we describe and analyse these as a group in the 'print' section of this report
- Likewise, we have defined both TV and radio news services by their core news provision activity and their chief means of distribution (broadcast)
 - It is important to note that TV and radio services are of course available on other media – streamed or downloaded to PCs, smartphones and tablets via wireless or fixed networks
- Many traditional players are also engaged in providing news services designed *for* consumption on PCs, connected TVs, smartphones and tablets, and – alongside standalone providers of news services for these devices – these news provision activities are discussed in the 'Web/apps' section of our document

Categorisation used – where the service is *designed* to be consumed

TV

- This includes those services made primarily for consumption on the television – news bulletins plus rolling news channels
- These services may also be delivered on other devices, such as PCs, smartphones and tablets, and are transmitted via a variety of networks – mobile, WiFi and fixed broadband, DTT, satellite, cable etc.

Radio

- All news services made for use within radio broadcast
- Clearly, again, these services can be delivered to other devices and via other networks

Print

- The creation of newspapers
- Newspaper publishers have extensive web/app services

Web/apps

- Services that are designed specifically for consumption on IP-enabled devices – PCs, connected TVs, smartphones, tablets
- These services are made either by print news providers, TV news providers or by dedicated providers (generally aggregators, e.g. Google News) who make news services specifically (and only) for these devices

2. News provision in the UK

Overview

TV

Radio

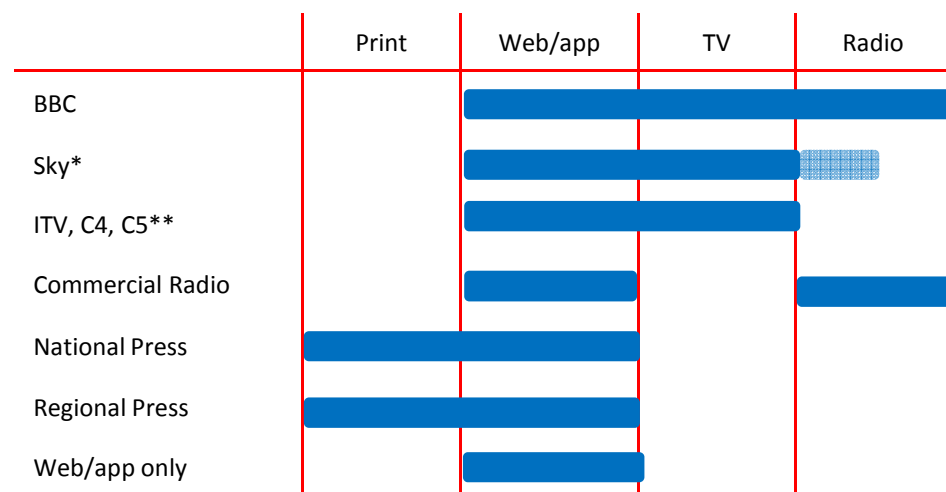
Print

Web/apps

The provision of news in the UK spans multiple media, and involves a significant number of players

- The news market in the UK is varied and extensive, involving scores of private-sector companies, both domestic and international, and the public broadcaster the BBC
- TV broadcast news is delivered principally by the BBC (including network, regional services and the 24-hour news channel), ITN (supplying ITV, Channel 4 and, since February 2012, Channel 5), ITV licensees (for regional news) and BSkyB (the latter via its 24-hour rolling news channel); there are a number of other news channels distributed on satellite and cable (attracting low viewing)
- News on radio is principally delivered via services of the BBC, both nationally and in the regions and nations, with commercial radio stations supplying relatively little news outside short bulletins and traffic, weather, local sport
- Print news is made up of national, regional and local press, with c20 titles nationally and 1,100 regionally
- Web/app news is delivered by services created and delivered by broadcasters and print media companies, along with key portals owned by search engine companies and a number of news aggregators; these are increasingly available on connected TVs, tablets and smartphones
- Other sources of news include blog sites, Twitter and social media (user-generated and links to other sources), alongside news magazines (the latter excluded from our analysis); we have not attempted to categorise social media feeds
- In terms of the volume of news available, the UK is well served, particular in relation to the amount of 'free' (at the point of consumption) news via IP networks and free-to-view TV

Involvement in news provision by player type

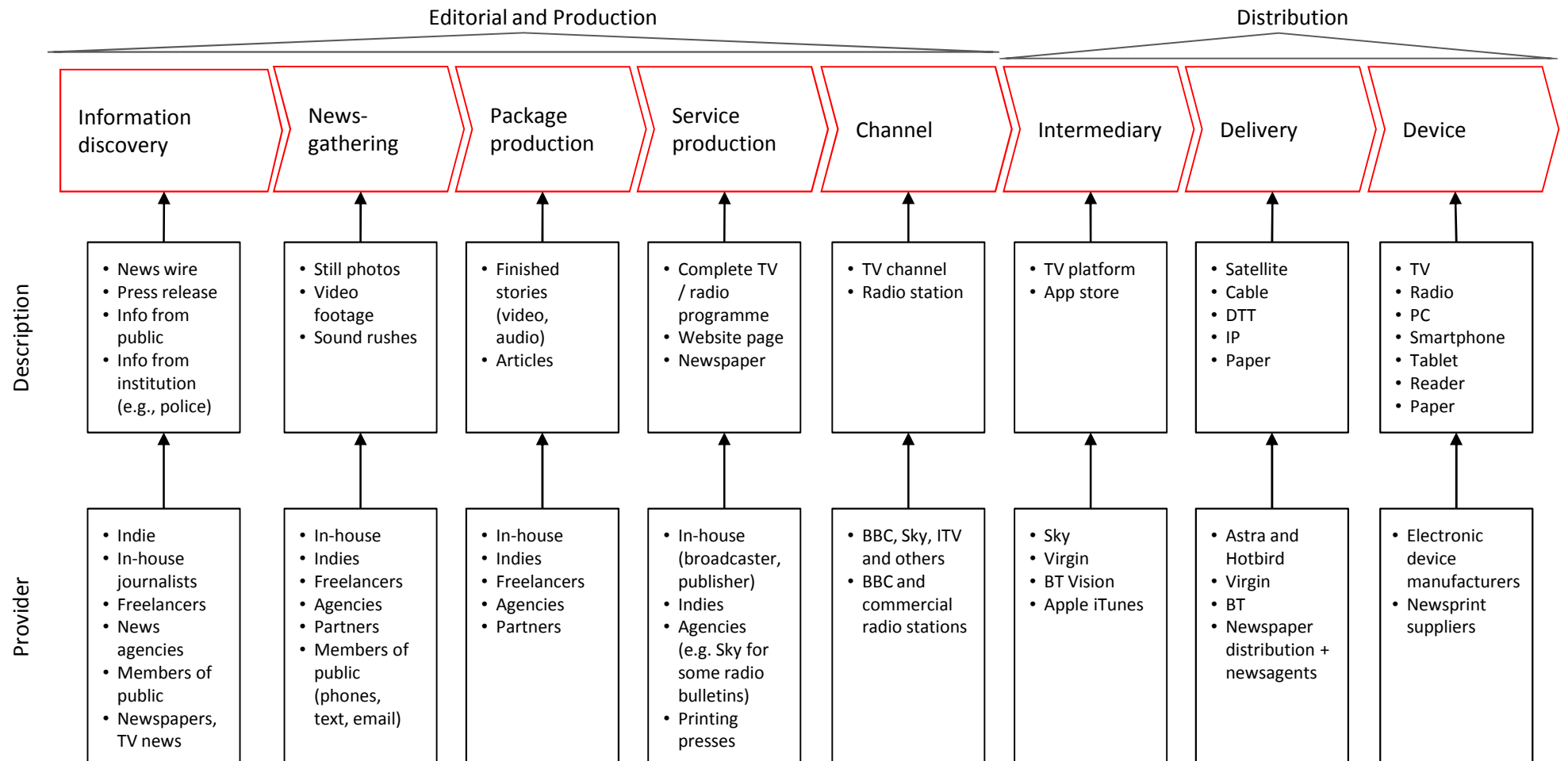


*Sky supplies international and national news feeds to IRN, the sole supplier of wholesale news to commercial radio

**Non-regional news and London Tonight supplied by ITN

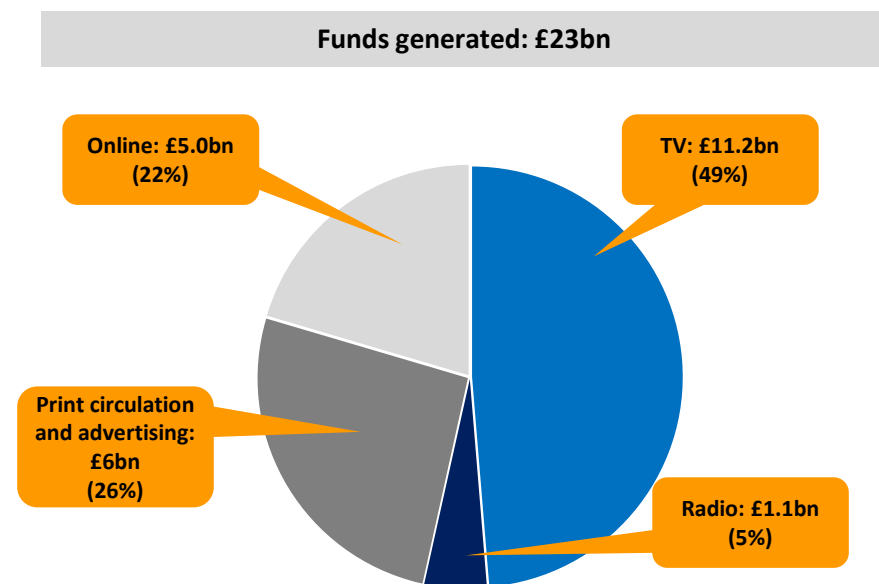
The news market is structured around the two core activities – editorial/production and distribution; this is true across all media

News provision industry structure

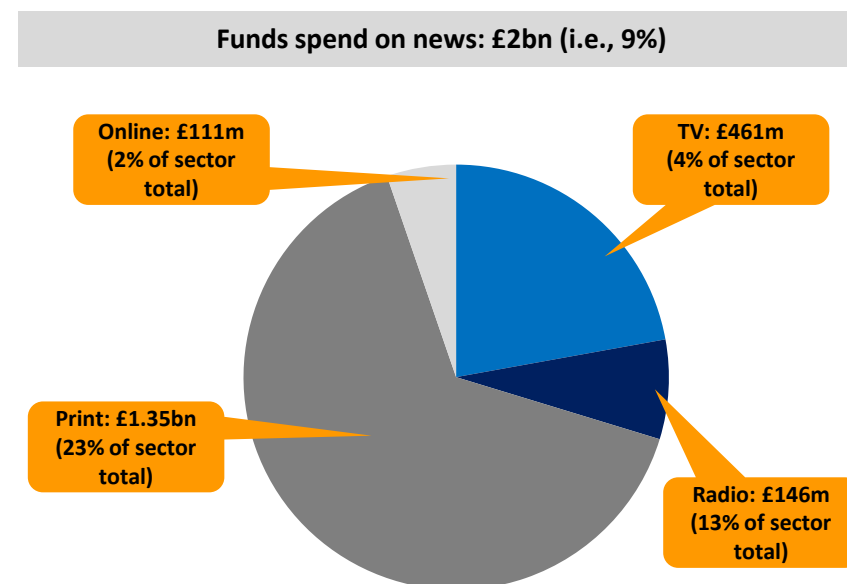


News is funded by a range of business models in the UK; we estimate that 9% of the total core revenues generated in these business models is spent on news provision

Key sources of revenue linked to news provision in the UK, 2011



Total funds spent on news by news providers in the UK (2011)



- The chief revenues from which the budgets for news provision are met currently include those generated by TV, radio and press operators
- The business models of these players include subscription, advertising, circulation and the TV licence fee
- New models have emerged in the convergent media space, including online advertising, online subscription/paid-for apps
- These revenue streams total £23bn; figures in table add up to more than 100% due to rounding

- News providers in the UK spend approximately 9% of these relevant revenues on news – totalling £2bn in 2011
- This include all costs of providing news services, including distribution for news-only services (e.g., BBC News Channel, newspapers)
- Note that the editorial budgets of newspapers include all editorial costs, including for ‘non-news’ content such as crosswords, listings, etc.

Source: AA/Warc, Internet Advertising Bureau, Ofcom, Mediatique analysis, interviews
 We have allocated the BBC licence fee across TV (£2.7bn), radio (£680m) and online (£200m) and discounted BBC Worldwide; we have also excluded non-retail pay TV revenues generated by Virgin, Sky, BT, etc. (e.g., broadband, telephony, commercial premises, home shopping, betting) and non-core press revenues, including B2B

- The majority (65%) of spending on news in the UK is accounted for by the print sector, with the national press spending c£875m and the regional press c£470m
- Keeping in mind the differences in the way we calculate figures across the sectors, expenditure on TV news is the next biggest category, £461m or 22% of the total, of which the BBC contributes c65%; radio news constitutes just 7% of spending and online 5% (the BBC represents more than 80% of radio news expenditure)
- In terms of market share in each category, the BBC leads in TV, radio and online, with News Corporation generating the highest share of both revenues and readership across the print media; on its own, the BBC represents 21% of all expenditure on news provision
- Under the Delivering Quality First restructuring programme, the total BBC budget is forecast to be reduced by c15% to c£360m, with a further 500 jobs cut (140 of which were announced in March 2012); note that in this report, all BBC figures are pre-DQF

Notes (specific data references are provided in the main report):

**National Readership Survey: includes News of the World 2010 data as a proxy for launch of Sun on Sunday; regional readership data unreliable - using revenues, Johnston Press and Newsquest have a c14% share each and Trinity Mirror has a c13% share*

***UKOM/Nielsen*

****Based on BARB categories; ITN share is 8% if ITV national, C4 and C5 are aggregated*

*****RAJAR does not categorise by news; these are total listening shares and by definition the BBC share of news will be underweighted*

Spend on news provision by player type (2011)

	Print	Web/app	TV	Radio	Total
BBC		21	293	119	433
Sky		4	51		55
ITV, C4, C5		1	117		118
Commercial Radio				27	27
National Press	875	45			920
Regional Press	470	20			490
Web/app only		20			20
Total	1,345	111	461	146	2,063
Front-line editorial posts	19,000	600	3,400	1,700	23,800

Market share by key player (2011)

Print* (% readership)	Web/app** (% minutes)	TV*** (% viewing)	Radio**** (% listening)
News 37%	BBC 42%	BBC 73%	BBC 55%
DMGT 18%	DMGT 20%	ITV 17%	Global 16%
TM 14%	News 7.5%	Sky 6%	Bauer 11%

News provision activity in Scotland, Wales and Northern Ireland

Scotland

Television: the BBC produces a flagship news programme as part of its news opt outs on BBC1 (Reporting Scotland) and a Scottish edition of Newsnight on BBC2 (these are included in the totals provided for BBC News later in this report); BBC Alba broadcasts news in Gaelic, An Là; STV produces three regional formats for its regional news, STV at 6 – from Glasgow, Edinburgh and Aberdeen, with a further sub opt-out for Dundee/Tayside – as well as a discussion programme, Scotland Tonight, after the national News at 10 (during which there are regional opt-outs for news); also morning, lunchtime and weekend editions; STV also operates more than 20 ‘ultra local’ websites

Radio: The BBC has two Scottish services – BBC Radio Scotland and Radio Nan Gàidheal (spending c£5m on bespoke news output); the commercial radio leader is Bauer Media, which owns Radio Clyde and Radio Forth, while Global operates the Capital brand and GMG operates Real Radio Scotland

Newspapers: Major national titles editionalise in Scotland (e.g., Scottish Sun, Scottish Express, Scottish Mail), competing with titles such as the Dundee Courier, Aberdeen P&J (both DC Thomson), the Scotsman (owned by Johnston Press) and the Herald and the Evening News (owned by Newsquest); there are c100 regional and local titles in Scotland (where Johnston Press is the market leader)

Wales

Television: BBC Wales/BBC Cymru and ITV Wales provide regional TV services during the opt-out periods (ITV’s regional investment in news, covered later in this report, covers the budget in Wales)

S4C broadcasts the Newyddion news programme produced by the BBC and funded through the licence fee (from 2013, S4C public funding will be via the licence fee and a £7m grant from central Government)

Radio: BBC Radio Wales and Radio Cymru together have a news budget of c£5m; commercial radio includes all the major brands with a particular presence of Capital (the re-branded Red Dragon) and Real Wales (part of Guardian Media Group); locally owned Town and Country Broadcasting has 7 licences

Newspapers: there are c50 newspapers with significant Welsh circulation (including titles based in border regions serving English towns as well) Key titles include Daily Post (North Wales), Western Mail, South Wales Echo and the nine titles under the Celtic group (all owned by Trinity Mirror); South Wales Argus (Newsquest), Wrexham Leader (North Wales Newspapers)

Northern Ireland

Television: BBC supplies regional news services via BBC1 while UTV, the Channel 3 licensee, broadcasts UTV Live during the regional news slot at 6pm weekdays and at 10:30pm following News at 10

Radio: the BBC operates two services in Northern Ireland – Radio Ulster and Radio Foyle (news budget c£2.5m); commercial radio includes Cool FM and Downtown Radio (both Bauer Media) and U105 (owned by UTV)

Newspapers: Three key Belfast-based newspapers, the News Letter (Johnston Press), the Belfast Telegraph (Independent News and Media) and the Irish News (independently owned); in addition, there are c20 regional/local titles (e.g. The Derry Journal and the Portadown Times, both owned by market leader Johnston Press)

- Throughout this report, we have described the dynamics of news provision across the whole of the UK, depending on discrete routes to market (TV, radio, print and web/apps); as a result, the key services in the regions and nations are treated at the aggregate level
- Similarly, given the role of large players in the regional press and commercial radio, which have significant positions in Wales, Scotland, Northern Ireland and England, their respective business in the nations and regions are captured in our sectoral analyses

Key characteristics of news

Scope and scale of the news agenda

- News is not constrained by national boundaries, and the scope of investigative journalism and the remit of news editors are wide. Furthermore, the perception of what constitutes 'news' is a personal one for each user, and can therefore extend to global, international, national, regional and local stories – further sustaining an ecology of multiple suppliers and competing providers

Public good characteristics

- News, by definition, cannot be copyrighted and the release of a news story by one provider immediately becomes source material for competing news providers. Several news providers rely on third-party content – including legacy news players (e.g., Channel 4 News sourcing content from ITN News) and new entrants (e.g., Huffington Post sourcing content from professional news providers online)
- In an era of digitised access, news provision has also become increasingly immediate, constant and viral – evidenced by the launch of 24-hour news channels, online news aggregators (that rely on presenting third-party news headlines) and mobile apps operated by legacy print media, blog sites, etc.

Integration among/within news providers

- Newsgathering, production and distribution are complicated by the degree of integration of resources at key news providers and the inter-action between and among different news providers leading to a degree of mutual influence. For example, the BBC has a common news-gathering function across TV, radio and online, and this 'hub' creates significant flows of information and sharing that inform news output on consumer-facing programmes and online/convergent media services
- Moreover, there is increasing resource sharing internationally in broadcast news, involving partnerships with non-broadcasters and access to footage and packages created by agencies such as Reuters and AP
- The media interact, too, in subtler ways – for instance, editorial selection at broadcast news is influenced by the news agendas set by newspapers. This is particularly the case in relation to stories sourced by investigative journalism where print media retains a primary role

Credibility

- Distinctions between 'news' and 'opinion' are heavily regulated in TV, and less so in other sectors (e.g., self-regulation in press and online newspaper sites through the successor to the Press Complaints Commission and through the ATVOD for broadcaster sites). A converging news landscape may therefore poses challenges for sustaining reliability and trust in the provision of news over time, depending on the evolution of regulation

Consumer dynamics in the provision of news

Plurality of demand

- Survey data consistently confirms that consumers source news from a variety of players, both within and among different media – Ofcom consumer data confirms, for example, that users will on average source World, UK and regional news from a combination of TV, print, radio and internet, often reading the same stories across multiple media to gain an alternative perspective or deeper coverage

Promiscuity

- While traditional media distinctions persist, consumption of different media by end users evinces increasing promiscuity and consumption of multiple sources – with typical consumers using TV, newspapers and online news in different ways and for different objectives. Notably in the online space, users increasingly access content from multiple sites where browsing for eye-catching content (such as headlines or video/photos) is easier and cheaper
- Equally, however, consumer loyalty to particular news brands/providers remains an important driver of demand – particularly, for example, where consumers transfer their preferred print/TV news allegiance to online/mobile media

Citizens as journalists

- Citizens themselves increasingly play a role in the provision of news – primarily by amplifying coverage (such as supplying footage or photographs taken with smartphones). This is true of mainstream international news (e.g., footage from the Arab Spring) or ultra-local news (e.g., provision of latest traffic information). In our view, such a role is unlikely ever to replace the position of professional newsgathering or investigative journalism, however
- The citizen-journalist role also extends to broadening debates around news coverage through blogging, phone-ins or commentary pages at the end of articles

Demographic and activity trends

- Various demographic changes continue to have an impact on the provision and consumption of news, including differential uptake of disintermediating technology among younger cohorts, or the relatively greater decline in print media consumption within this cohort
- In addition, lifestyle changes have also changed the role of certain media – with, for example, a decline in the role of Sunday newspapers in line with changes to Sunday trading laws

- The underlying business models for news provision in fact remain relatively traditional, with standard subscription (or paid-for circulation) and advertising being the main revenue sources outside the licence fee
- In key ways, these revenue models are under pressure, even threat
- Developments in technology and distribution – characterised by new entry – have led to a number of business models operating in the news provision sector. This includes experimentation by newspaper publishers with pay walls, attempts to generate significant revenue from advertising in digital media and the creation of paid-for/subscription applications in regard to tablet and smartphone news services – all of these aimed at following consumers as they move online and to multiple means of reception
- It remains to be seen, however, if these 'new' revenue sources will develop to sufficient size to fund news provision at current levels of investment

Shifting business models in news provision

Traditional funding under threat

- The licence fee has been frozen, TV advertising has been roughly flat over the past 10 years, radio advertising has in fact declined and newspaper revenues have dropped significantly (core sector revenues at the national and regional level are down c25% since 2006)
- The advertising weakness in press has been exacerbated by a decline in circulation and readership (as readers migrate online and to convergent media) only partly offset by the ability of newspapers to maintain cover prices or indeed to increase them and/or to follow their readers online, albeit generating less revenues per user than in the print distribution model

New models are developing

- Among the sources of revenue that feed into news provision, only online advertising and pay TV have shown firm growth in the past five years, and these are the sources that generate among the smallest current contributions to core, granular journalism

2. News provision in the UK

Overview

TV

Radio


Print

Web/apps

Market description

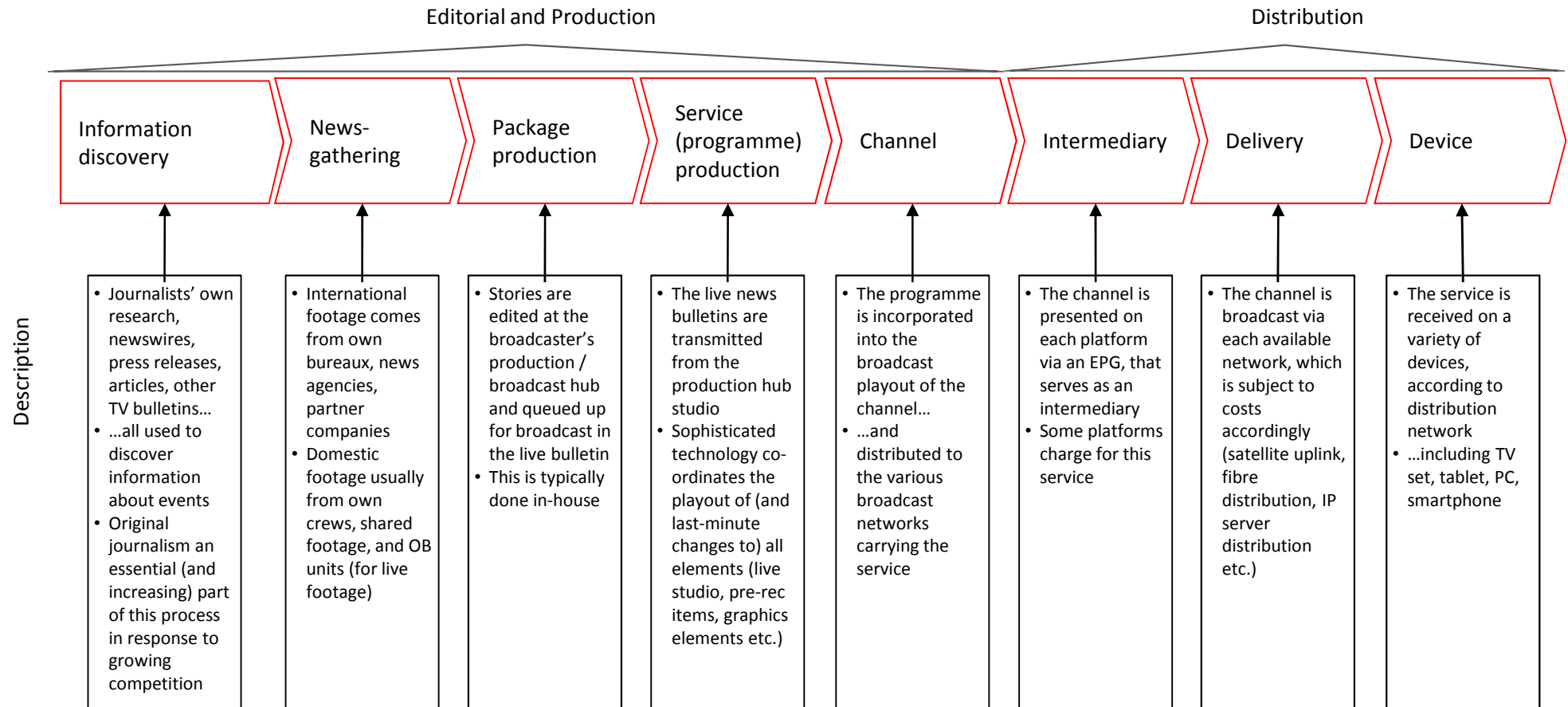
- TV news – the leading media for the delivery of news by hours of consumption – is provided by five main broadcasters in the UK (BBC, ITV*, C4, C5 and Sky) plus international news channels that include the UK within their target market (Al Jazeera English, Euronews, CNN International)
- The news services broadcast on ITV, Channel 4 and Channel 5 (except ITV regional news programmes other than London Tonight) are all produced by ITN (owned 40% by ITV); each is produced by dedicated teams with a high level of editorial independence (prior to 2012, Sky was the wholesale provider of TV news for Channel 5)
- This analysis focuses on the UK-focused news providers; the international news channels have a very low aggregate share and do not appreciably contribute to the creation of editorial in the UK
- Collectively, UK's TV news providers spend £460m (or 3% of their total revenues) providing their news services (we do not count the general costs of network delivery such as spectrum charges in this number, except where the relevant service is wholly news oriented – for instance Sky News, BBC News Channel, but not ITV1 or BBC1)
- The BBC is the largest single investor in TV news production, representing c65% of the total; Sky and the BBC operate centralised newsgathering operations that are leveraged for all news services they produce (websites and apps, TV and radio broadcast)
- Sky's share of TV news consumption has increased with the growth in multichannel homes, while the commercial PSBs' share has declined – but again in line with multi-channel penetration
- TV news services in the UK employ approximately 3,400 skilled staff

Television market dynamics

- The high cost of TV newsgathering means TV news providers increasingly share newsgathering operations where possible (e.g., the BBC with TV, radio and 'online' and regional/national co-operation and ITN both domestically with a common hub available to C4, ITV and C5 teams and through international joint venturing)
 - As news consumers become more sophisticated, TV news providers are increasingly focusing on specialisation and on providing services beyond traditional TV – such as via apps on smartphones or tablets; these extensions rely crucially on the core investments in broadcast news
 - As TV news providers increase their convergent media presence, they are evolving their services to incorporate more in-depth, text-based data and analysis, bringing them into greater competition with stand-alone online news aggregators and providers and with newspaper online extensions (whose core text-based services are increasingly being augmented with video, including raw footage and UGC)
- 
- *Revenue generation underpinning current provision of TV news under pressure*
 - *Regulatory compact prescribing commitment to news by commercial PSBs may come under scrutiny in next licensing round*
 - *Audiences – particularly younger demographics – moving to web/app environment, requiring business model reform and creating new competitive pressures*

*ITV' in this report relates to the licences owned by ITV plc, STV and UTV

News provision industry structure



The TV news product is traditionally focused around bulletins containing a limited number of engaging, carefully prepared news 'packages'

- TV news is characterised by the engaging use of video within a simple narrative structure to convey key information in a short space of time
- As a result, TV news is heavily 'produced', with consideration of available images, on screen graphics, variety in interviewees, voice tones, quality filming, typically in multiple locations
- This is in marked contrast to newspapers and website/applications, where news can be more specialised and information deeper

Characteristics of TV news

- The degree of specialism in TV news is less than in print media (fewer 'beat' specialisms outside general areas such as politics and business)
- However, TV creates 'name' journalists arguably more efficiently – e.g., Robert Peston has higher prominence on multiple platforms owing to business coverage he fronts on BBC News
- TV journalism is also heavily influenced by agendas set by newspapers, access to newspaper journalists for commentary and wire services to inform editorial judgements
- Another key aspect of TV news is the regulatory framework (around impartiality and fairness); this distinguishes TV further from print and online (short of statutory reforms in relation to press journalism post-Leveson)

There are five broadcasters in the UK that produce or commission TV news targeted exclusively at UK audiences, plus the news channels that target international audiences

- In the UK, all the public service broadcasters (PSBs) plus Sky broadcast TV news services targeted at the UK market
- Sky and the BBC produce their own news, whereas ITV, Channel 4 and Channel 5 commission ITN to provide their national news bulletins on a wholesale basis
- BBC, ITN and Sky have sizeable newsgathering and production operations in the UK, commensurate with their focus on the UK market
- The BBC and ITV have regional news operations, and the BBC has a unique local news focus; STV and UTV produce regional/national news for Scotland and Northern Ireland
- In addition to Sky and the PSBs, there are several other TV news channels that are broadcast in the UK. The target of these channels includes the UK but it is not their exclusive focus. These include: CNN, Al Jazeera (English) and Euronews
- The international news channels have sizeable operations in the UK but these are hubs to service international target markets, e.g.:
 - CNN International houses its main production hub in London
 - Al-Jazeera operates news studios in London
 - NBC shares European headquarters with ITN
- Due to the low viewing shares achieved by these channels in the UK, and their international focus, we are not including them in our analysis

Summary of extent of activity in TV news provision

News provider	Bulletins	Channels	Focus
BBC	<ul style="list-style-type: none"> • BBC1 • BBC2 • BBC3 • BBC4 	<ul style="list-style-type: none"> • BBC News Channel 	<ul style="list-style-type: none"> • Local • Regional • National • International
ITN – ITV	<ul style="list-style-type: none"> • ITV1 • STV • UTV 		<ul style="list-style-type: none"> • Regional • National • International
ITN - C4	<ul style="list-style-type: none"> • C4 		<ul style="list-style-type: none"> • National • International
ITN – C5	<ul style="list-style-type: none"> • C5 		<ul style="list-style-type: none"> • National • International
Sky		<ul style="list-style-type: none"> • Sky News 	<ul style="list-style-type: none"> • National • International
Others		<ul style="list-style-type: none"> • CNN • Euronews • Al Jazeera English • Fox News 	<ul style="list-style-type: none"> • International

- Within TV news, regional coverage is provided only by ITV (Channel 3) companies and the BBC (although ITN makes London Tonight for ITV)
- The BBC's regional TV news services are the most extensive (see right); its total TV news spend of £240m (covering all the national news on BBC1 and BBC2) also covers the opt-outs for regional programmes (nations and regions), including the news programme the BBC produces for S4C in Wales
- ITV plc spends c£40m producing regional news programming for the nations and regions except in Northern Ireland (produced by UTV) and central and north Scotland (produced by STV)
- STV spends c£6m on TV news in Scotland (outside Borders), and employs 115 on news provision; this funds the lunchtime, early evening and late peak news programmes
- UTV and London Tonight represent c£4m in additional spending on news (Mediatique estimate)
- Note that in this section, we have grouped under 'ITV' revenues, expenditure and viewing shares those contributed by ITV plc, STV and UTV

TV news provision by nation

Region	News provision
England*	BBC: 14 regional news programmes (incorporating sub-regional services), including bulletins and programmes that follow lunchtime and evening national news bulletins ITV: 7 regional news services (plus 6 sub-regional opt-outs) provided by ITV (with ITN supplying London Tonight), following agreed reductions in licence requirements with Ofcom
Wales	BBC Wales produces local news programming for Wales ITV produces regional news bulletins for broadcast on ITV Wales during Daybreak, after the lunchtime news, and a full programme following the evening national bulletins S4C broadcasts a daily Welsh-language news programme, produced by BBC Wales
Scotland	BBC produces news programming broadcast on BBC Scotland ITV1 Border follows the ITV1 schedule, with opt-outs for news after national bulletins STV (central and northern) broadcasts up to 4 regional news opt outs on STV (channel 3), depending on the time of day
Northern Ireland	BBC produces news bulletins and the main evening news programme BBC Newsline UTV broadcasts local news programming in addition to the network news programmes

*Both ITV and the BBC also produce a Channel Islands news service

Source: Corporate websites, Mediatique interviews

Characteristics of TV news providers

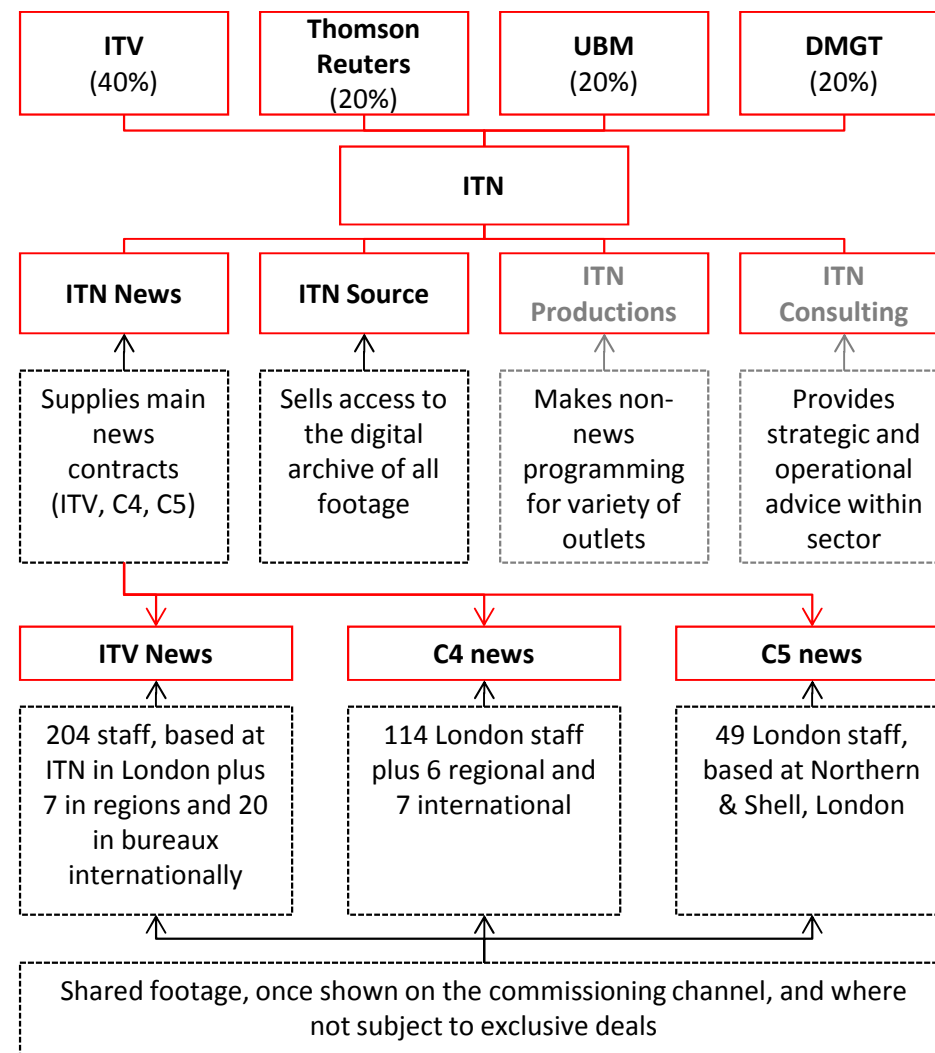
The BBC	<ul style="list-style-type: none">▪ Flagship news programmes on BBC1 tend to be similar to ITV's versions of national news, with lighter touch in mornings, lunchtime▪ BBC2 flagship <i>Newsnight</i> by definition features longer, more detailed analysis, reporting and greater emphasis on in-studio guests/panel discussions▪ Bulletins on BBC3 are targeted at younger demographics (including entertainment news) ; BBC4 news is more international in focus
ITV/Channel 3	<ul style="list-style-type: none">▪ News on ITV is lighter touch, with more lifestyle and entertainment features▪ Key focuses are domestic and national news▪ Regional commitment (owing to licence regime) remains strong despite reductions in budgets in recent years
Channel 4	<ul style="list-style-type: none">▪ Channel 4's flagship 7pm show contains fewer, longer stories▪ Greater focus on international; more campaigning pieces, integrated with C4 documentary strands and supported by online blogs/commentary such as Fact Check
Channel 5	<ul style="list-style-type: none">▪ News is more streamlined, headline focussed and dependent on entertainment/lifestyle▪ The channel's smaller budget befits shorter bulletins
Rolling news channels	<ul style="list-style-type: none">▪ Similar styles of rolling news, use of direct feeds from press conferences▪ Heavy on 'talking heads' interviews; on-screen use of graphics, rolling information

- *These characteristics largely reflect the editorial policies and perspectives of the various broadcasters, rather than reflecting specific licence terms or PSB obligations. An analysis of the editorial processes of these providers is outside the scope of this report*

ITN – which provides the news for ITV, C4 and C5 – is owned by its biggest customer, plus three other news media players

- ITN is an independent news production company that supplies the TV news services for ITV, C4 and C5 – it was set up in 1954 as the independent news provider for the regional ITV companies. In 1982 it won the contract to supply the new C4; in 1997 ITN won the Channel 5 news contract, which it supplied until this was taken by Sky News in 2005; in 2011 ITN re-gained the C5 news contract, which commenced transmission in February 2012
- The business model depends on ITN’s ownership of all rights to footage created for its news clients, thus enabling it to create an archive business (ITN Source). ITN Productions and ITN Consulting also both leverage in-house expertise in broadcasting and production
- ITN manages each news contract on the principle of editorial independence between teams. The different services share certain footage that is non-exclusive and non-distinctive, observing transmission priorities that are given to the channel team that produced the footage
- There is otherwise no collaboration between the teams that deliver the separate news services and this is aimed at ensuring they are formally independent of one other
- Indeed, the three services are distinct in terms of editorial approach, ‘voice’ and look and feel:
 - ITV news delivers serious mainstream bulletins of mass appeal, targeted at competing with the BBC1 peak-time bulletins (head to head at 10pm)
 - C4 news is an hour-long bulletin that provides deeper analysis, with a focus on international coverage, consistent with the channel’s remit
 - C5 news is more populist in tone with an emphasis on human interest and lifestyle stories not found on the other services

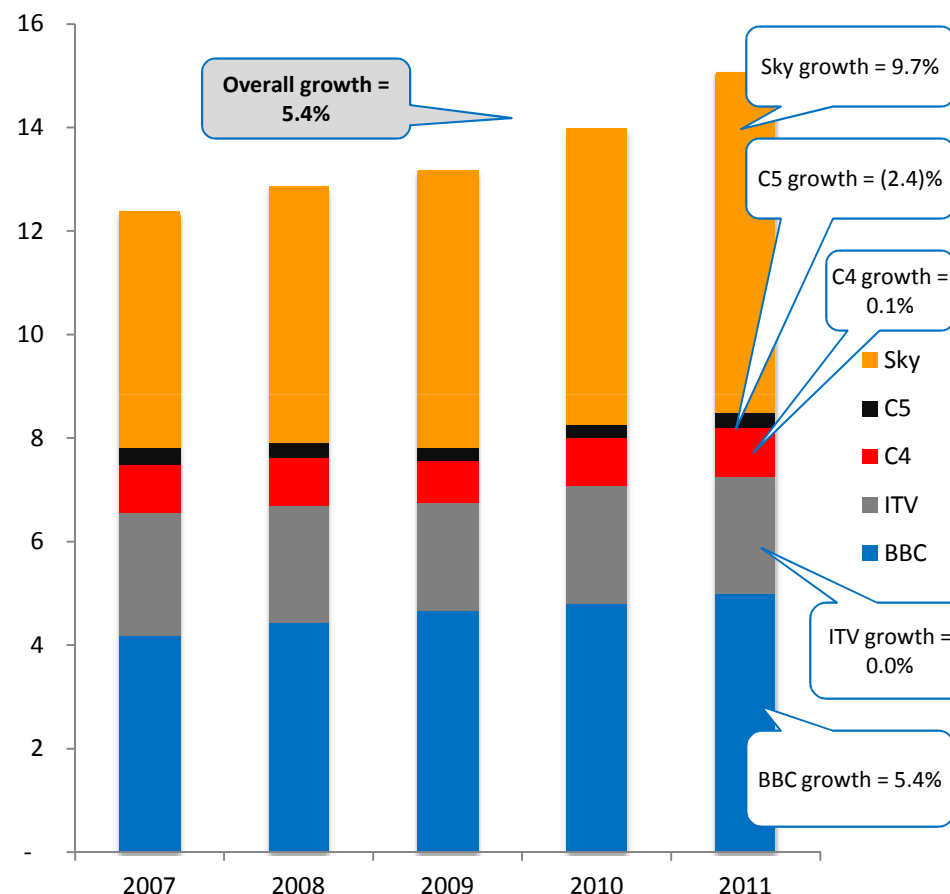
ITN ownership and corporate structure



The providers of UK-centric TV news generated a total of £14.9bn in revenues in 2011 – representing average annual growth of over 5% since 2007, but masking flat or falling revenues for the commercial PSBs

- The revenue models for the providers of broadcast news in the UK broadly fall into three categories – the licence fee (and BBC Worldwide plus, currently, FCO funding); subscriptions (Sky) and advertising (the commercial PSBs and Sky)
- Sky also generates wholesale and commercial revenues, and supplies broadband and telephony in addition to pay TV services, while ITV and C4 earn content distribution income
- Growth in Sky’s subscription, advertising and ancillary revenues and increases until recently in the BBC licence fee have meant significant aggregate expansion over the past five years in the total revenues generated by the providers of TV news
 - Sky’s total revenues have grown by 9.7% CAGR since 2007
 - BBC total revenues have grown by 4.6% annually, including revenues from BBC Worldwide
- This masks poorer performance by the commercial PSBs
 - ITV and C4 have experienced roughly flat revenues in the same period (ITV revenues include STV, UTV)
 - C5’s revenues have fallen by 2.4% annually
- As a result of the revenue pressures, ITV and C4 both secured less expensive supply contracts with ITN at their last contract renewals and ITV successfully sought permission to reduce its regional news budget
- The total revenues generated by the main providers of TV news reached £15bn in 2011, from c£12bn in 2007

Total funds generated by TV news providers in the UK (£bn)



Source: Annual reports. Total funds generated include all revenues accruing to each provider

Establishing the level of investment in TV news is complicated by lack of data and issues around definition, degree of multi-skilling in operations, particularly at the BBC and Sky

Methodological and analytical issues regarding TV news

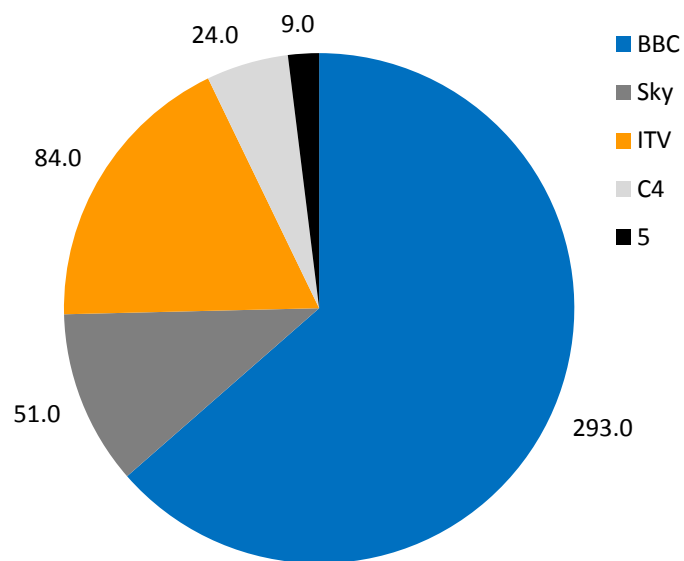
Item	Notes	Assumption
ITV, C4 (C5) news spend	<ul style="list-style-type: none"> ITN is paid 'in full' for the news services it provides and therefore the total income received by ITN from the three client broadcasters is all associated directly with news provision (this totalled, across ITV and C4, c£65m in 2011). However, even here there are areas of complexity, for instance in the role that ITN staff such as Jon Snow and Cathy Newman play in providing commentary on the Channel 4 website (linked through C4.co.uk as part of the broadcaster's broader online services) From early 2012, ITN is supplying the C5 news contract, which would add a further c£7m 	c£65m (2011) ITV, C4 news spend
ITV regional news spend	<ul style="list-style-type: none"> The ITV Regional News budget is also easier to track, as it was the subject of negotiation with Ofcom as part of the latter's review of public service obligations placed on licensees – the budget was c£40m in 2011 (not counting STV, UTV and London Tonight regional news services – these additional services represent incremental spend of c£10m) 	£50m (2011)
Distribution costs	<ul style="list-style-type: none"> For all commercial network news, we have excluded any share of distribution costs of the delivery of the network on which the news is broadcast, given that these costs (DTT capacity, transponder segment space, etc.) would have been sustained in any event to broadcast the mainstream channel hosting the news bulletins In the case of rolling news, we have added distribution costs for each of BBC News Channel and Sky News, as these are 'destination' news services the delivery costs of which are foundational – thus we have added £6.2m of distribution costs for the BBC and an equal figure for Sky News, which has a nearly identical footprint to the BBC News Channel (although a slightly lower penetration of Freeview homes owing to its carriage on a commercial rather than a PSB Mux) 	£12.4m (2011) Cost of distribution of BBC News Channel and Sky News
BBC TV news spend	<ul style="list-style-type: none"> Further complications are introduced by the level of multi-skilling at both the BBC and Sky, particularly around their supply to other platforms, including radio and online (and indeed the sharing is often in both directions, with BBC News radio and TV journalists overlapping and /or sharing); the degree of this inter-relationship can be seen in the contributions by journalists to radio, TV and online (Robert Peston, Nick Robinson) and by the BBC's brand-building use of certain journalists such as Fiona Bruce and John Sergeant in other BBC formats More broadly, the BBC has established a news-gathering hub that feeds (and is in turn fed by) journalists and staff working in all areas of BBC Journalism – whether in national or regional TV, network or regional radio or online Following iterations with the BBC, we have established the BBC's total investment in TV news on the following basis: network news (BBC1 news programmes, BBC2 (Newsnight), BBC3 and BBC4 bulletins and the regional news programmes on BBC1 cost a total of £240m, with the News Channel costing an additional £53m for a total of £293m 	£240m (2011) Cost of all news programming £53m (2011) Cost of BBC News Channel

Source: BBC, Mediatique interviews

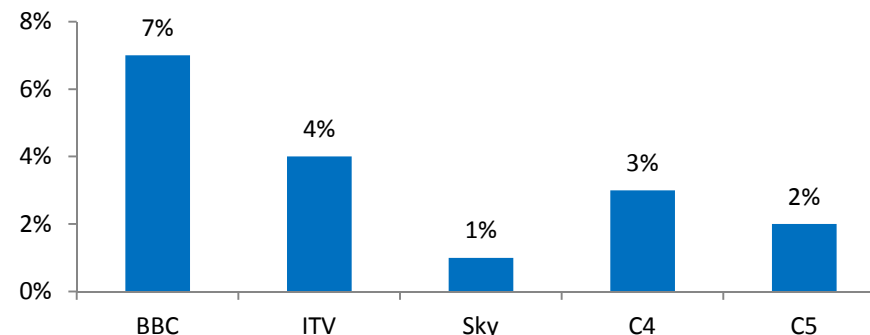
These broadcasters spend an average of 3% of revenues (£461m) on the production of their TV news services

Total funds spent on TV news services in the UK (£m)

Total UK TV news spend = £461m



Proportion of broadcaster's revenues spent on TV news (%)



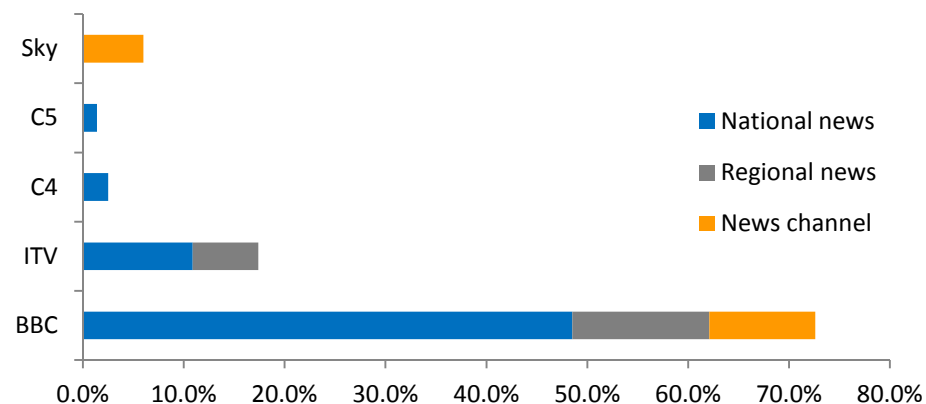
- All costs of producing news services are included, before distribution and not including shared overheads in the case of the BBC and Sky
- Budgets include the cost of agency supply (e.g., Reuters)
- In addition, the costs of distribution for news-only services (Sky News and BBC News Channel) are including in line with our core methodology (segment space, uplink, DTT carriage, EPG listing fees, etc.)
- ITV's spend includes its ITN supply contract and c£40m for regional news; an additional £10m is spent by STV, UTV and on London News Tonight
- We assume £9m for Channel 5's contract at Sky – the contract has now reverted to ITN (estimated value £7m p.a. from 2012 onwards)
- The total spend on UK TV news is £461m for 2011
- This represents 3% of TV news providers' total revenues

Source: Mediatique analysis

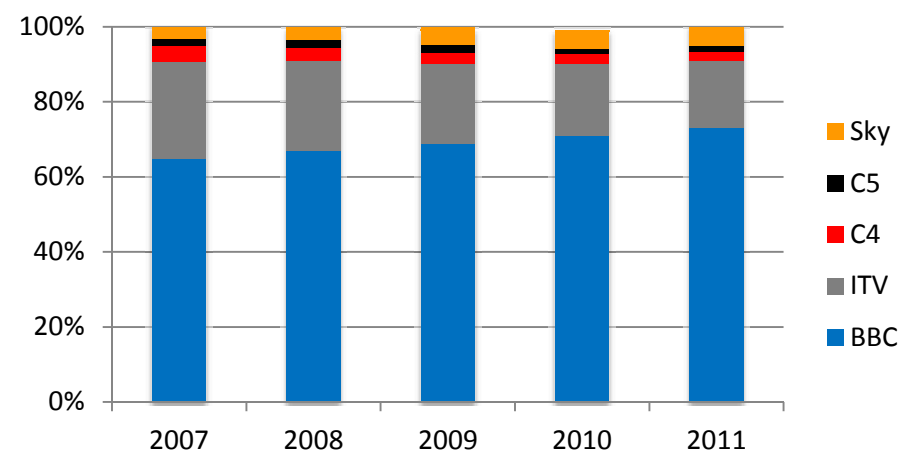
The TV news programmes and channels account for 10% of all TV viewing in the UK, most of which is accounted for by BBC news services

- National and regional news programmes and 24 hours news channels account for 10% of all TV viewing in the UK, representing a small average decline of 1.8% per year since 2007
- Early and late evening news programmes on the BBC and ITV typically generate audiences of 3-5m (with the BBC routinely more popular). The BBC's News at One typically generates audiences of 2-3m
- 72.5% of total news viewing is of BBC-produced TV news services, a share that has been growing by 2.9% per year since 2007
- Share of news viewing accounted for by commercial PSBs has fallen by an average of 2.7% per year since 2007
 - ITV news programmes (including STV and UTV) account for 17.4% of TV news viewing - declining by 1.3% per year
 - C4 news programmes account for 2.5% of TV news viewing – declining by 7.4% per year
 - C5 news programmes account for 1.4% of TV news viewing – declining by 9% per year
- The share of TV news viewing accounted for by Sky News has grown by 10.5% p.a. on average, reaching 6% in 2011
- Throughout, we have used the data set provided by BARB (via Ofcom) for the period 2007-2011, covering categories of News/International News for adults; for regional news viewing, we have used daypart viewing for specified slots (covering all key news schedules across seven days), again for adults in the period 2007-2011; for news channels, we have used BARB 'rolling news' category, all adults (across satellite, cable and terrestrial)

Share of total TV news viewing, by source (% , 2011)



Share of total TV news viewing over time, by source (%)

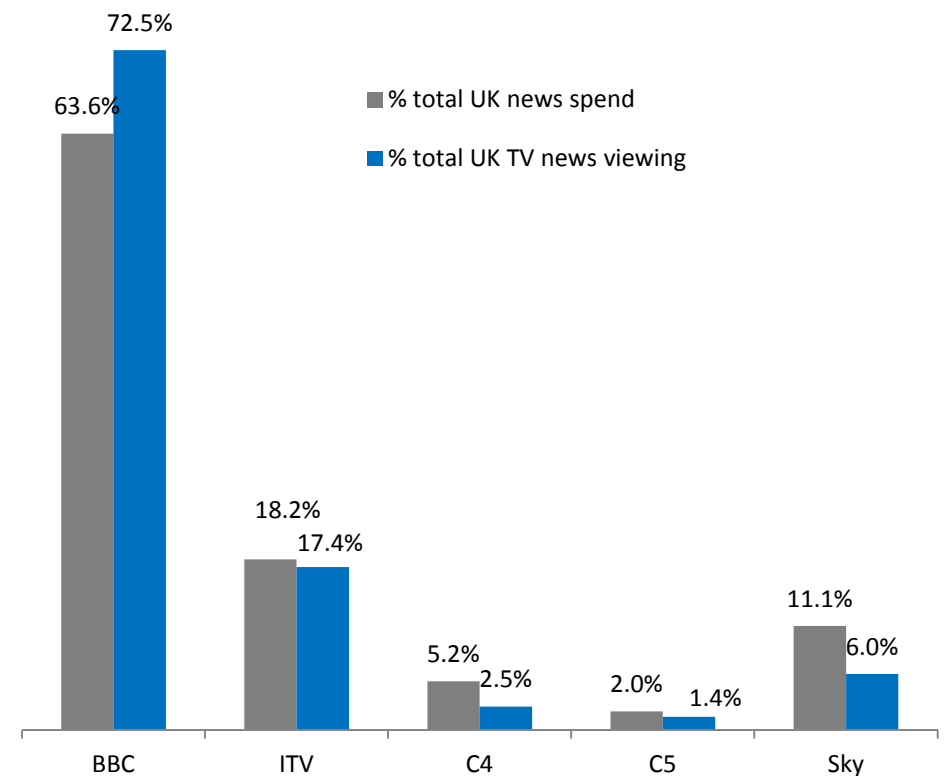


Source: BARB, Mediatique analysis

The proportion of total UK TV news spend by each broadcaster exceeds the share of relevant viewing it delivers except in the case of the BBC

Relationship between share of news spend and share of news viewing

- The BBC dominates TV news viewing in the UK, with a c73% share of all viewing to news bulletins and news channels, corresponding to its 64% share of TV news spend
- ITV (including STV, UTV) accounts for 18.2% of TV news spend and delivers 17.4% of relevant news viewing
- Sky News accounts for 11.1% of total TV news spending, but this delivers only 6% of all news viewing in the UK
- Likewise, C4 accounts for 5.22% of all TV news spending, delivering only 2.5% of viewing
- C5 accounts for 2% of all TV news spend and this delivers 1.4% of TV news viewing

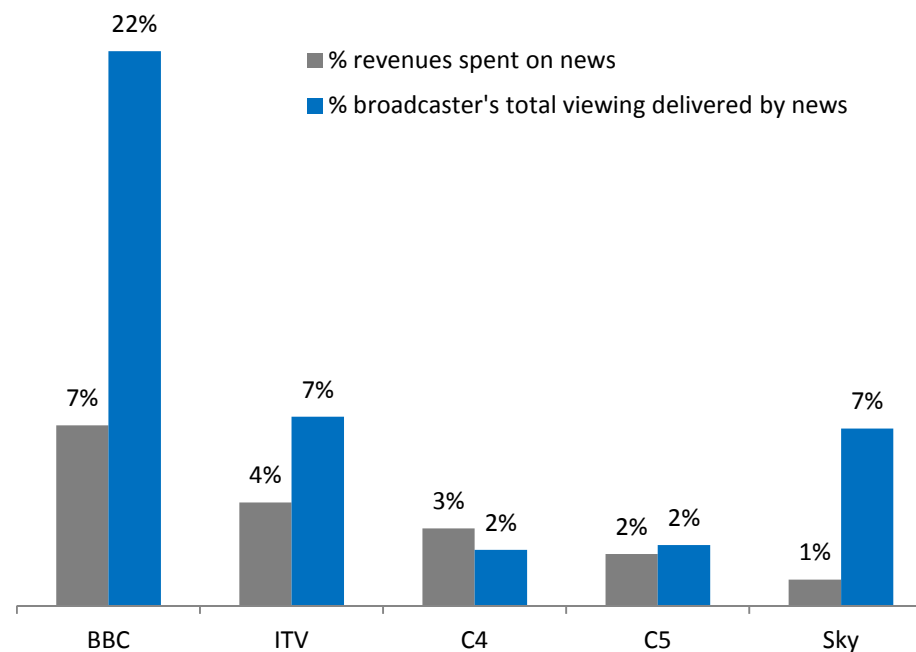


Source: BARB, annual reports, interviews, Mediatique analysis

For the BBC, ITV and Sky, news programming takes up a significantly higher share of total viewing than the share of their revenues spent making the news programming

Relationship between % revenues spent, and % viewing delivered

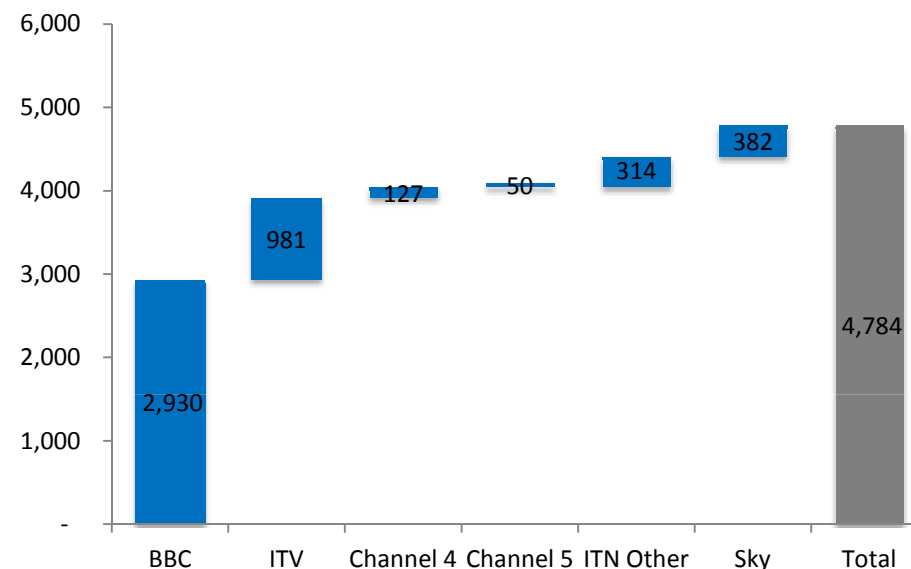
- The BBC's remit (broadly, to inform, educate and entertain) is reflected in the high proportion – 21.6% in 2011 - of its viewing accounted for by TV news services
- As a proportion of viewing to its own channels, Sky News accounts for 6.9%
- The BBC and Sky both operate hub newsgathering operations, meaning that the core newsgathering activities supply online and radio in addition to the TV news services
- As a result, the figures for spend quoted here slightly overstate the amount spent on TV news itself, since a proportion of newsgathering activities is devoted to other, non-TV news services
- ITV's investment in news (including STV and UTV) delivers 7.3% of its total viewing while C4 and 5's TV news services deliver just over 2% of total viewing



Source: Annual reports, BARB

We estimate that there are approximately 4,780 people working in TV news in the UK, plus freelancers – though this includes some central newsgathering in the BBC and Sky servicing of non-TV news operations

Numbers of employees producing TV news services



The BBC and Sky News operate centralised newsgathering operations that service all the different news services – TV bulletins and channels, radio and converged media services (apps, websites) ; the numbers here are likely to exaggerate TV activities as some of the resource is used for non-TV services; we return to some of these issues in the separate section on web/apps

The news industries depend heavily on the use of freelancers at all parts of the value chain – the figures here state permanent employees, so do not reflect the involvement of freelancers

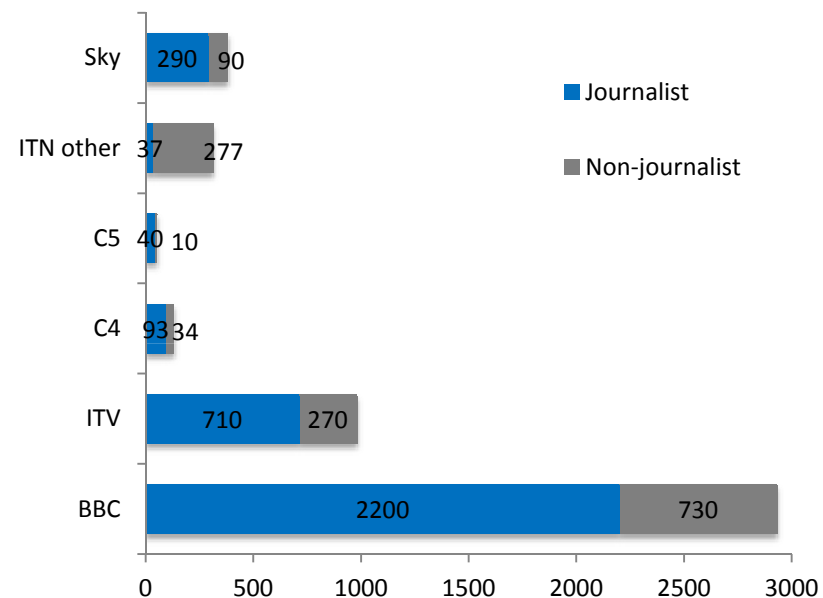
- Given the nature of TV news, with significant resource commitment to production, graphics and editing in addition to news gathering and reporting, we have calculated all the costs associated with the production of TV news, including 'front line' journalism
- Definitions across the industry vary as to what constitutes 'journalism' and we have made a broad judgement to exclude any shared overheads (e.g., at ITV/ITN) and the effects of joint venturing with international broadcasters (overseas bureaux sharing, access to in-kind support, etc.)
- The BBC reports a figure of 3,800 journalists working across TV, radio and online, with 1,800 employed producing network TV and radio (with multi-skilling a feature in London) and 700 in regional TV
- This compares to 5,000 working for BBC News (including operations and administration), suggesting 'journalists' account for 75% of BBC News staff positions
- We have further broken down the network and radio skilled staff number in line with radio and TV's respective shares of the BBC budget, suggesting c1500 national TV journalists, or a total of 2,200 journalists across TV
- Using the same ratio of journalists to total staff, there are an estimated 730 staff involved in administrative and operational functions in BBC TV news, giving a total of 2,930
- ITV's news staff is made up of the dedicated ITN employees and c600 staff working on ITV regional news (of which 450 are in editorial jobs); C4 and C5 figures are ITN only, with another c300 working for ITN on other contracts and syndication; we estimate a further 150 news staff jobs at STV and UTV (included with ITV at right)

Source: Annual reports, BBC Public Policy, BBC News, Mediatique industry sources

The number of frontline journalists is therefore estimated at c3,370 across TV news, the majority of whom are working on national news programmes in the capital

Breakdown of employees producing TV news services

- Of our estimated 4,780 staff working on TV news in the UK, we estimate that 3,370 are in editorial posts
- This includes c1,250 journalists and editorial staff in the regions (largely BBC and ITV licensees) and 1,900 in London
- The remainder (approximately 250) are based in foreign news bureaux
- Prior to taking over full operational and financial responsibility for the World Service, the BBC has 40 international news bureaux, compared to nine for Sky, six for ITV news and two for C4



Source: Annual reports, BBC News, ITN, BSkyB, Mediatique industry sources

The high cost of newsgathering in TV has already encouraged extensive collaboration between news providers, as recent developments illustrate

- The costs of newsgathering in TV are significant, including:
 - Equipment: outside broadcast trucks, cameras, editing equipment
 - Services: satellite uplinks, communications
 - Travel and accommodation: moving people around the UK and the world quickly, with their equipment
 - People: qualified, experienced journalists and production staff able to work under pressure
- As a result, TV news providers to seek to exploit economies of scale where possible (see table at right)
- Producers are also seeking obvious cost savings arising from the declining costs of network delivery of pictures and audio and improved quality of digital delivery
- Within ITN, ITV regional and all international footage is shared between the three main commissioning channels (ITV, C4 and C5), on the basis that exclusivity is respected (thus, for example, C4 cannot show any ITV footage until it has been shown on ITV, or vice versa)
- Furthermore, ITN retains the rights over all footage shot for its commissioning clients, and is able to sell rights to this footage once the broadcaster has used it for its bulletins
- The BBC has an extensive collaboration with US broadcaster ABC, which allows complete sharing of all footage between the two broadcasters. This is beneficial to the BBC in US election years, and to ABC for coverage of events worldwide; ITN's collaboration with NBC is similar and includes – amongst other features – the operation of joint bureaux in South Africa and Tel Aviv

Partnerships in newsgathering

UK provider	Partner	Description
BBC	• ABC (US)	<ul style="list-style-type: none"> • Full sharing of all footage and stories • Resources sharing in the field • Journalism collaboration
ITN	• NBC	<ul style="list-style-type: none"> • Full sharing of footage • Bureaux sharing (Tel Aviv, Jo'burg) • Ad hoc partnerships (e.g. Royal Wedding, US presidential elections)
ITN	• ITV regions	<ul style="list-style-type: none"> • Full sharing of footage
ITN	• ITV / C4 / C5	<ul style="list-style-type: none"> • Sharing of all non-exclusive footage, after transmission by commissioning channel
Sky News	<ul style="list-style-type: none"> • Fox • News Int'l 	<ul style="list-style-type: none"> • Footage and story sharing

News agencies used by UK TV news providers

- Reuters and Associated Press operate international audio-visual newsgathering services to which most TV news providers (and all of those in the UK) subscribe
- The use of agency footage is not tracked formally but tends to be used *in extremis* where the broadcaster’s own newsgathering is unable to provide footage of a particular event
- Broadcasters also tend to use both Reuters and AP to ensure they are covering all essential news developments, particularly from overseas and the US
- The costs of supplying these services are confidential and are believed to range broadly across the newspaper, print and online markets depending on client size
- In all cases in this report, the costs of supply agency material are subsumed in overall editorial budgets and are immaterial within the budgets of the key players (Sky, the BBC and ITN) – for example, we believe that ITN pays no more than £500,000 in licence fees to Reuters
- We have excluded these agencies from our determination of TV news market share given their marginal role in terms of editorial judgement and the relatively small amount of video content actually incorporated into bulletins and other news content
- We return to the role of agency in the Scenarios section of this report, where we explore the possible increase in their contribution to news provision and the implications of this

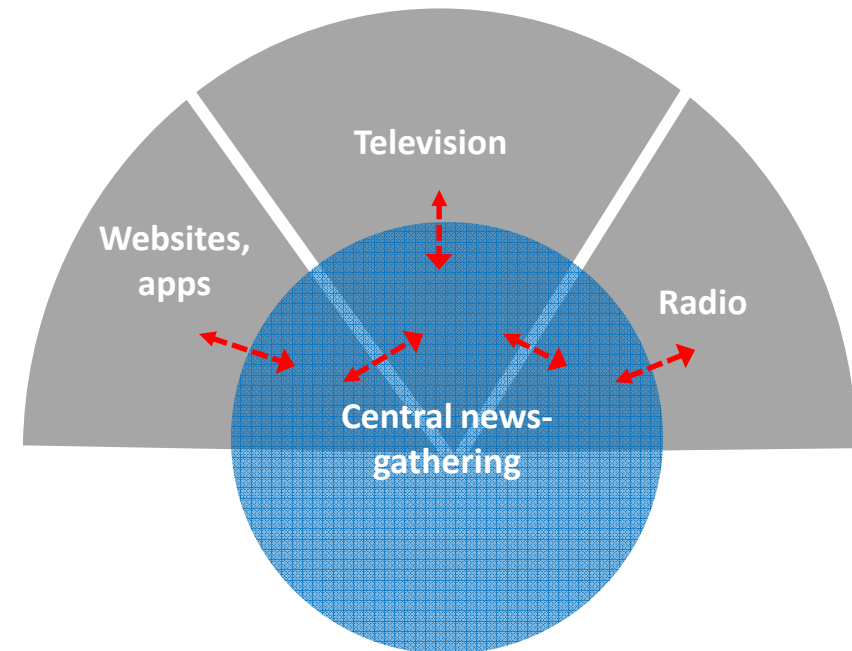
Reuters	<p>Thomson Reuters provides newswires, pictures, graphics and video to most key news broadcasters in the UK (and to newspaper groups at both national and regional level)</p> <p>It does not report detailed revenue figures for the UK, although stated for 2011 that it earned £200m from the sale of products and services in its Media division</p>
Associated Press	<p>The Associated Press ('AP') is a US not-for-profit co-operative providing daily newspaper, radio, television, and online customers with coverage in text, photos, graphics, audio and video</p> <p>APTN - Association Press Television News defines itself as 'the largest video news agency' globally, providing content to over 500 broadcast newsrooms, portals, Web, broadband and mobile customers worldwide</p>
Press Association	<p>Press Association also supplies broadcasters but is mainly focussed on print and is profiled in the relevant section of this report below. Both Reuters and AP are also suppliers to the newspaper market, and some stories/packages are aggregated within online news sites – both in text and A/V format</p>

Source: Corporate websites

Internally, each news organisation also shares as much newsgathering as possible – the BBC and Sky have organised their activities around a newsgathering 'hub' that supplies all news services within the organisation

Hub configuration for TV-centric newsgathering operations

- The BBC introduced a hub approach to newsgathering in 2008, since when it has aimed to create economies of scale across the organisation
- This followed the launch of 'multi-skilling' between TV and radio journalists in 2002
- The hub approach means that stories will be covered by reporters who file video for a TV package, audio for a radio story and may write an article for the website – this saves substantially on newsgathering costs
- Sky also has a central newsgathering operation, which accounts for nearly 50% of its staff, and which supplies content to each of its different service teams – TV, web/apps, radio
- ITN re-launched the ITV News website in March 2012, leveraging journalism and footage from the TV news bulletins
- As practiced at the BBC and Sky, this new paradigm in news provision means an active, dynamic sharing of information and newsgathering between all outlets for news, not just a one-way supply from the centre outwards
- Multi-skilling and the hub approach has been accompanied by job losses at the BBC; these will be compounded by a further 500 positions being cut at BBC News under the terms of the new licence fee and Delivering Quality First (with the budget cut over the licence fee period by c15%)



This reflects the development of services beyond conventional TV news coverage – particularly into applications for tablets and smartphones, and websites

- The BBC and Sky have created services and applications that sit on the new platforms and devices that have emerged in recent years
- The BBC launched its BBC News tablet application in February 2011 and Sky launched its Sky News tablet application a month later
- The BBC interprets its charter to entail an obligation to follow audiences where they consume their information, education and entertainment
- Sky has no obligation to provide such services but, given that it views news as an essential component within its genre mix, it has stated clearly that it is committed to providing services and applications that deliver news where its customers want it
- Sky’s news website employs 40 people, and the tablet app 14
- ITV has invested less, but agreed to re-launch its news site as part of its ITN contract
- C4 has an extensive news app for Apple devices (fully integrated with its 4OD video on demand service)
- Channel 5 has elected to concentrate on its app for Demand Five, the VOD service and has no news service application available
- All the major broadcasters encourage the use of Facebook and Twitter by their key journalists, albeit with a number of rules in place around how stories may be broken in these ways

Extent of news service development by TV news providers

News provider	TV service	Web	Apps	Radio
BBC	Bulletins BBC News Channel	Yes – extensive	Smartphones Tablets	e.g. R5 bulletins
ITV	ITV1 bulletins	Yes – medium	None for news	None
C4	C4 bulletins	Yes - medium	Smartphones Tablets	None
C5	C5 bulletins	Yes – limited	None for news	None
Sky	Sky News	Yes - extensive	Smartphones Tablets	IRN supply

Issues around convergent media are explored in greater depth in the Web/apps section of this report

Recognising evolving viewer needs, all TV news services are also developing deeper editorial specialisation – this favours broadcasters which provide news services across the different media

- Due to the ready availability of up-to-the-minute news information on a variety of devices, many viewers are aware of certain major headlines before the start of the news bulletin (particularly for evening news)
- As a result, TV news programmes offer more than simply delivering the news – this is reflected in an increased emphasis on developing specialisation that provides greater understanding and depth
- The BBC has done this most notably with its 'star' specialists, such as Robert Peston, who appears right across its different news services and apps – radio, TV, website and apps – and whose multi-platform profile is consistent with the BBC's centralised newsgathering approach
- All the TV news providers acknowledged to us increased recruitment of journalists trained in the press to provide a greater specialisation and expertise. This includes journalists such as Robert Peston (The Independent, FT, The Daily Telegraph), Cathy Newman (The Independent, FT) and Andrew Marr (The Independent)

Importance of specialisation

'Most viewers know the headlines before they switch on, so we need to say something new.' **Senior TV news editor**

'As we increasingly share non-competitive content with other providers, we need to invest more in distinctive, specialised journalism...because viewers want quality above all.' **PSB news editor**

'Robert Peston is the perfect example of how a specialist becomes a destination voice – on all the BBC's services, the viewer/listener/reader wants to know what he has to say on any economic subject.' **News editor**

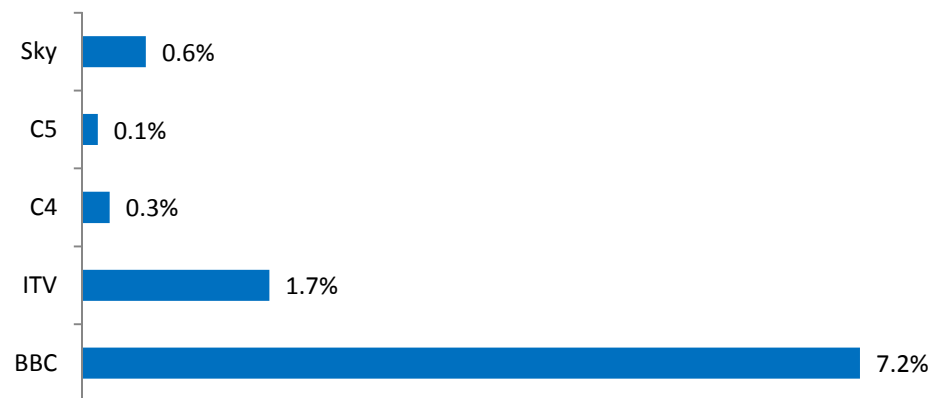
Source: Mediatique interviews

None of the TV news providers is motivated by direct profit from news...and, except for the BBC, news programming represents a small proportion of viewing

- Apart from Sky, all the broadcasters that invest in TV news must do so as part of their obligations as public service broadcasters
- Furthermore, only the BBC achieves a significant proportion of total viewing from news programming – Sky, C4 and C5 achieve less than 1% of total viewing, and ITV less than 2%, from news programming
- None of the UK's TV news providers makes an explicit profit out of broadcasting news programmes/channels
 - Indeed, commercial broadcasters typically minimise their advertising minutage during news bulletins and transfer it to more expensive advertising breaks in peak (within allowable averages)
- Nevertheless, all of these broadcasters view news – certainly national news – as an essential part of their brand and, it could be argued, invest significantly more (except perhaps for C5) than would be required simply to tick the regulatory box

Source: BARB, annual reports, interviews, Mediatique analysis; quota obligations sourced from Ofcom, Compliance Reporting, PSB Report 2010, Information Pack G.

Share of total TV viewing accounted for by news (%)



Extent of news service development by TV news providers

News provider	Revenue model	Obligation	Minimum hours	Quality* threshold
BBC	Licence fee	Charter and Agreement**	1,380 275 peak	Yes
ITV	Advertising	Ofcom licence	365 125 peak	Yes
C4	Advertising	Ofcom licence	208 208 peak	Yes
C5	Advertising	Ofcom licence	408 100 peak	Yes
Sky	Advertising Subscription	None	None	None

*All broadcasters adhere to the Broadcasting Code, which sets minimum values of impartiality and fairness and other quality thresholds; the PSBs have specific undertakings as to 'quality' as conditions of their licences as does the BBC in its Charter; ** the BBC's obligations are enforced through service licences issued by The BBC Trust

2. News provision in the UK

Overview

TV

Radio

Print

Web/apps

Market description

- Radio news (other than on the BBC) is largely driven by bulletins and headline services, and tends to be of short duration and dependent for national/international coverage on agency supply
- The market leaders in UK radio are the BBC and two commercial groups – Bauer and Global; Global's LBC is a news and speech format station carried in London and on DAB and on TV platforms
- The BBC spends c£680m a year on its radio services, of which the bulk goes to the national network services; the total revenues of the commercial radio sector were c£435m in 2011
- Commercial radio is dominated by music formats around which news plays only a minor role – largely headlines and short bulletins; while local news is produced to incorporate into these bulletins, the volumes are light
- There are approximately 1,700 journalists working in the radio sector in the UK – the majority of whom are employed by the BBC
- The BBC spends approximately £120m on radio news across the UK, including significant budgets for individual shows broadcast on its flagship national stations
- The commercial sector spends only c£27m on radio news – incorporating both national and local stations; national and international news is provided by IRN, which in turn is supplied by Sky News
- News accounts for 13% of total radio revenues in the UK – the majority of which is accounted for by the BBC

Radio market dynamics

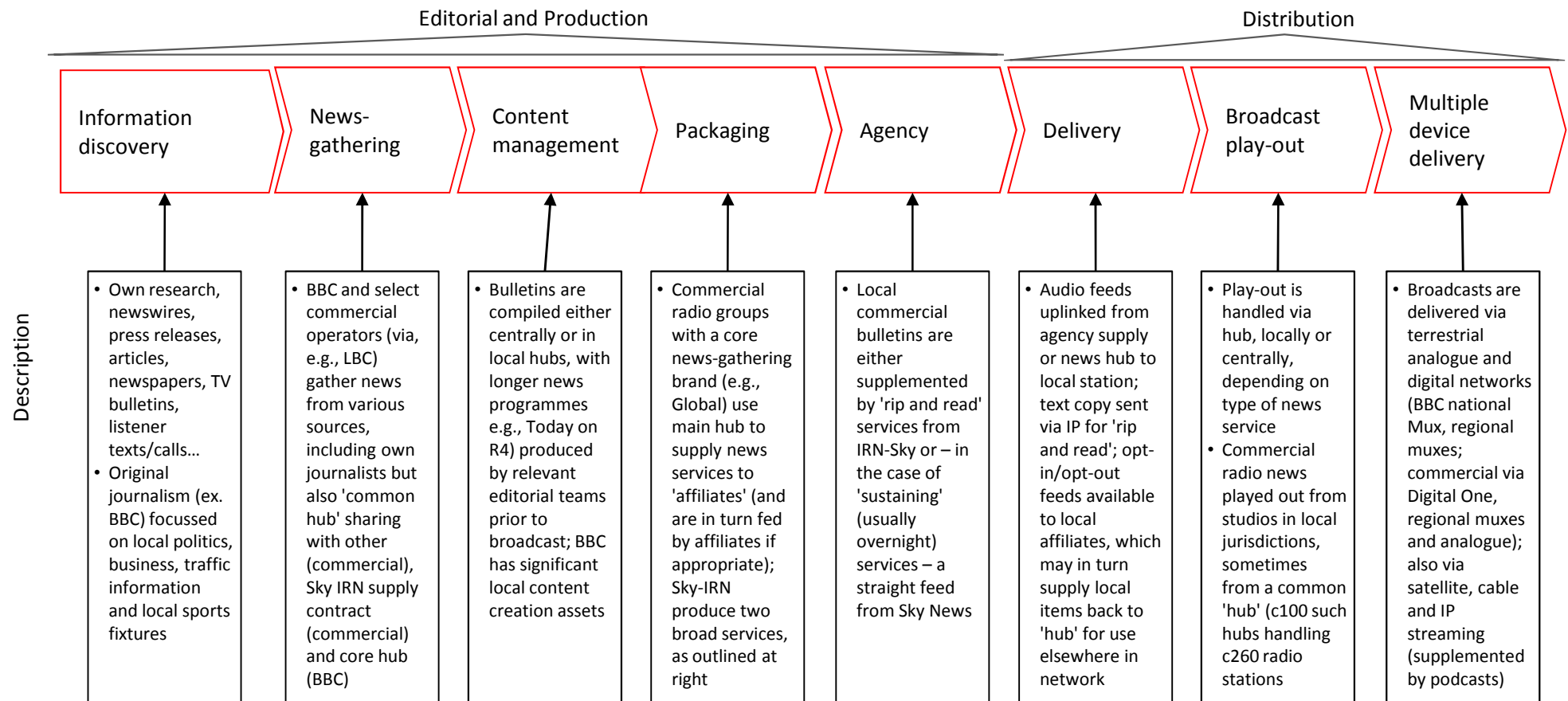
- There is little reason to believe that the provision of news on commercial and public radio will change dramatically in the coming years; the BBC's commitments are likely to remain as they are now, and commercial radio is unlikely to move beyond headlines (outside TalkSport and LBC) – note that TalkSport announced in March 2012 that it would concentrate its entire schedule on sport
- Indeed the commercial sector's commitment to news could be further reduced in the event that the analogue signals are switched off via radio digital switchover, and current local provision undertakings – secured by analogue licences – are abandoned



- *Status quo likely to continue – with commercial commitment to news likely to remain limited (and even reduced from current levels)*
- *The significant role played by the BBC in local/regional radio news is never likely to be challenged by any commercial service*

Radio news (outside the BBC) is largely driven by bulletins and headline services, and tends to be of short duration and dependent for national/international coverage on agency supply

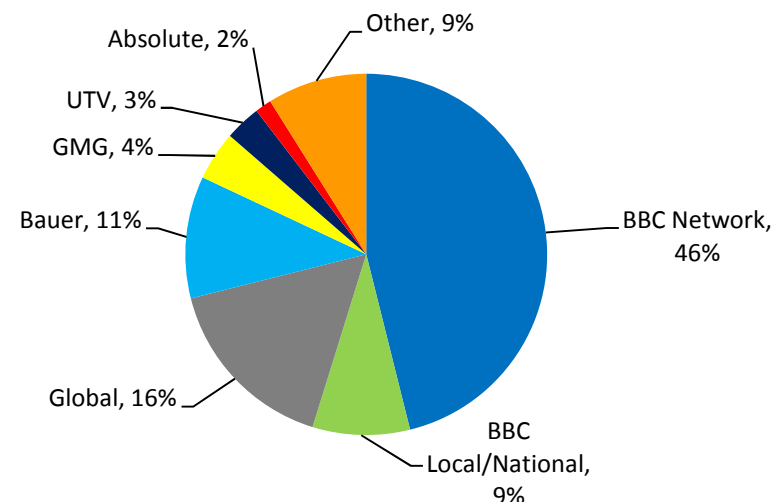
Radio provision industry structure



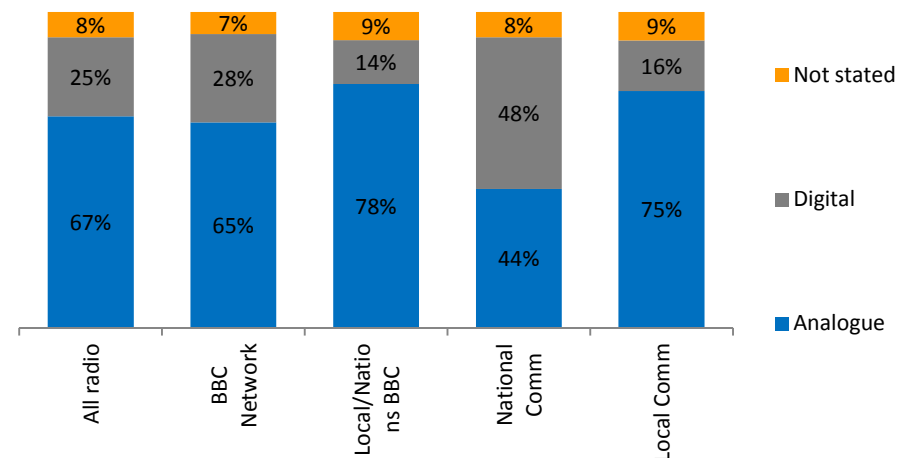
- There are hundreds of radio licences operating across national, local and regional areas. In terms of market share, the radio sector is roughly split 55:45 between the BBC and the commercial sector
- Following significant consolidation in the 2000s, there are two key commercial radio groups in the UK – Global and Bauer – responsible for c75% of all commercial advertising inventory sold
- Of the remaining groups, UTV owns the profitable TalkSport station; Guardian Media Group operates Real Radio brands and Orion holds four licences (including BRMB in Birmingham), sold by Global as a condition of earlier mergers; Global also sells some GMG Radio inventory
- The commercial sector is a largely local/regional business, with only three national analogue licences, Classic on FM; Absolute and TalkSport on AM; commercial radio has a more extensive digital footprint (nationally and – via regional/local multiplexes and DTV – on an 'as national' basis)
- This contrasts with the BBC, which operates four national FM services in analogue (Radio 1, Radio 2, Radio 3 and Radio 4), and a further AM national service Radio 5 Live; it also has a number of digital-only services (Six Music, the 'extra' services associated with Radio 1 and Radio 5)
- The BBC operates a significant number of local and regional stations in addition and all BBC stations provide news services
- Obligations to provide news on commercial stations vary by licence

Source: Mediatique analysis, BBC, RAJAR, interviews, Ofcom; RAJAR listening share data based on Q2 and Q3 2011 shares, by group, all individuals 15+

Key market players and listening share, UK radio (2011; %)



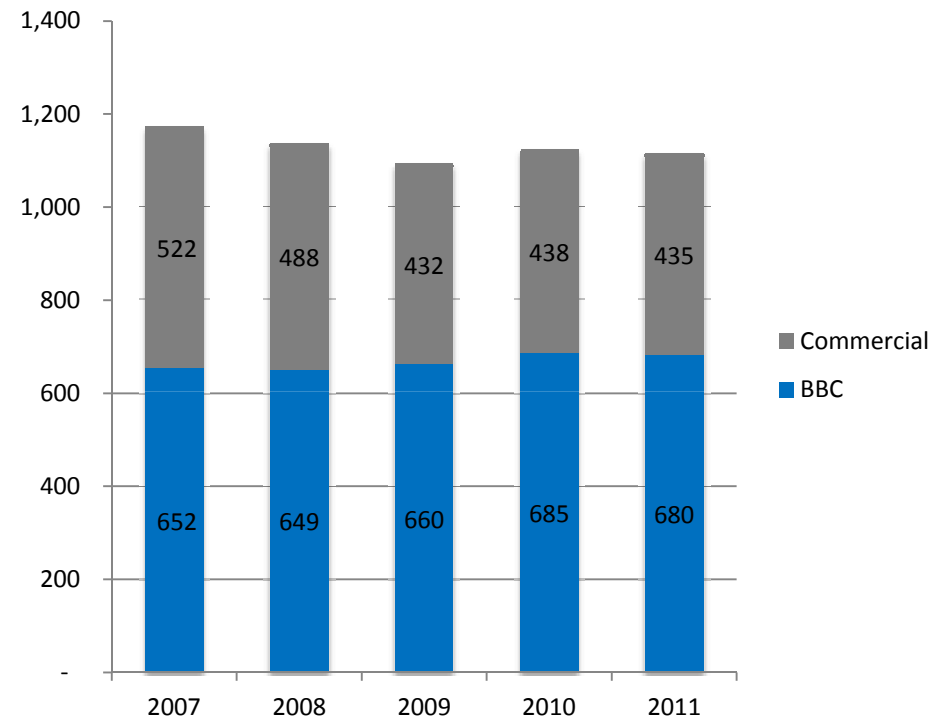
Share of radio listening, by service/category (2011, %)



The BBC spends c£680m a year on its radio services, of which the bulk goes to the national network services; the total revenues of the commercial radio sector were c£435m in 2011

- The BBC's radio operations are funded by the licence fee, with the BBC spending £680m on its radio services in 2011
- This funds a significant news operation across all the BBC radio stations - although this is highly integrated into BBC News service generally, and shares resources and journalists notionally working in TV both at network level and in the nations and regions
- The commercial radio sector is largely funded by spot advertising and sponsorship/promotions, which is normally split between national and local categories, and these totalled £435m in 2011
- The commercial sector has seen a significant decline in advertising revenues over the past five years, due in part to declining audiences (although listening hours have recovered in recent quarters), declining airtime prices and a reduction in expenditure by advertisers on what is often seen as a 'secondary' medium by buyers
- Radio has also been downgraded owing to the growing use of jukebox services such as Spotify and the generalised popularity of download and streaming services for music that have competed in commercial radio's traditional space of popular music
- Consolidation coupled with recessionary pressures has seen significant cost cutting, portfolio culling, re-branding and more use of backbone networked programming (permitted by a more liberal regulatory environment)

Total funds generated by radio in the UK (£m)



Source: Mediatique analysis, Ofcom, BBC, Radio Advertising Bureau, interviews

The BBC has a strong commitment to speech radio across its flagship brands and operates a well-funded network of news provision on a national, regional and local basis...

Constituents of BBC radio news

National news

- BBC Radio has extensive resources both for national network radio and for local/regional services, and produces significant content that is used directly on local services and not elsewhere on BBC outlets
- While the BBC's radio news services can rely on agency support from the Press Association, Reuters and other wire services, their key attribute is access to BBC News content from other media (online, TV) and from the BBC's international bureaux and its regional TV points of presence
- This is effectively a two-way sharing of resources, with BBC TV and online both able to access material created for national and local news services, and with extensive multi-tasking by key journalists, who will routinely work across TV, radio and online media

- The BBC has 5 flagship national stations, with a number of digital-only extensions on a national basis
- The BBC is committed to providing significant speech-based services through its national speech radio format Radio 4 and its news and sport service Radio Five Live. Radio 4 has a significant commitment to news throughout the day, with the flagship Today programme, the World at One, and PM all 'destination' news programmes in the Radio 4 schedule
- Other national stations – e.g., Radios 2 and 3 - rely on news bulletins taken from Radio 4's schedule
- Even Radio 1, particularly through News Beat, has a commitment to news provision, despite its otherwise relatively 'commercial' playlist and reliance on DJs

Local, regional and nations news

- The BBC's local and regional stations have a significant commitment to speech on local radio (60% of hours are non-music, with a significant proportion of this news or current affairs related; the proportion is even higher during peak drive times)
- The BBC's local news content is highly differentiated, owing to the significant resources at local level both in England (40 stations with journalists on staff) and in Scotland, Wales and NI

Commercial radio is dominated by music formats around which news plays a minor role – largely headlines and short bulletins; while local news is produced to incorporate into these bulletins, the volumes are light

- With a few exceptions (e.g., LBC, TalkSport, City Talk), commercial radio stations are largely music-based, with significant focus on youth and adult contemporary
- As a consequence, the role of news is relatively small in commercial radio, effectively to deliver headlines, traffic, weather and sport updates through the day, with the key bulletins in hours of peak 'drive time' listening
- Latest survey data* suggests that there is an average of 180 minutes a week of local news and 80 minutes of national news across all commercial radio – including the news formats LBC and TalkSport) and an average of 19 bulletins a day per station; the Radio Centre has calculated that 70% of bulletins contain local news
- This will decline following the announcement in March 2012 that TalkSport will be sports-exclusive
- Major stations have websites largely dedicated to promoting the streaming of live feeds and providing scheduling information. These sites provide modest news headlines and summaries; some (e.g., Clyde One, Capital FM) have launched apps to promote listening via mobile devices, sometimes affording access to the limited headline and summaries services available online

Constituents of commercial radio news

National commercial news

- There are 3 national commercial stations – TalkSport, Classic FM and Absolute**, each with varying levels of news provision (with 13 commercial stations on the national DAB multiplex); TalkSport announced in March 2012 that it would focus exclusively on sport and sport news
- Other stations have a near-national footprint owing to distribution on regional DAB, satellite and/or DTT

Local commercial news

- There are c260 local and regional commercial stations, with news obligations dependent on each licence (stated in each licence's promises of performance)
- Most news slots include traffic and – crucially – local sports coverage. Local stations also report on local politics and business, and are a key source of information for weather-related issues such as road and school closures
- Local radio stations also rely on emails, texts and phone calls from users to supplement in particular traffic updates
- LBC (owned by Global Radio) is one of the very few local stations that is speech based (it is also carried on digital multiplexes outside London and on Sky/Virgin)

* Source: Action Stations: The Output and Impact of Commercial Radio, Radio Centre, 2011

** TalkSport is owned by UTV, Classic FM is owned by Global Radio

Commercial radio dynamics

Sharing of resources

- While there are Points of Presence requirements for news under industry regulation, there has already been relaxation of some 'localness' requirements, and as a result various 'hubs' have been created to supply multiple stations from a common source, both for music programming and for the brand themselves
- Among the chief commercial brands, Capital is now the brand for 9 services and Heart for 13 services; stations in the Bauer group – including in the North and in Scotland, have significant shared programming (up to 20 hours a day) and common news bulletins in parts of the schedule (e.g., sourced from heritage stations such as Radio Clyde)
- The commercial exceptions on news are the LBC service in London, which also acts as a key 'hub' supplying news to other stations in the Global stable, and TalkSport, which continues to provide a speech format around talk call-ins and live sport, but with the latter now dominant in the scheduling mix (TalkSport announced in March 2012 it would concentrate solely on sport)

The role of agencies

- Most radio stations source content from agencies, particularly for stories that are outside the local area. Sector wide, there is generally more reliance on agencies over-night and outside peak
- For national and international feeds, commercial stations nearly all use 'rip and read' or sustaining services from IRN (whose sole supplier is Sky News), supplemented – particularly during peak periods – with their own locally produced news, either produced at the relevant station or regionally (at hubs serving a number of radio stations in the same group)
- IRN sells inventory around the national and international news bulletins it supplies, and rebates the bulk of this back to the commercial radio stations that use the service on a complicated formula based on station size, audience and impacts; Bauer and Global own IRN and the rebates owed to their stations is managed by them
- GTN also supplies traffic and entertainment news, although is smaller in terms of revenues and number of bulletins than the IRN contract

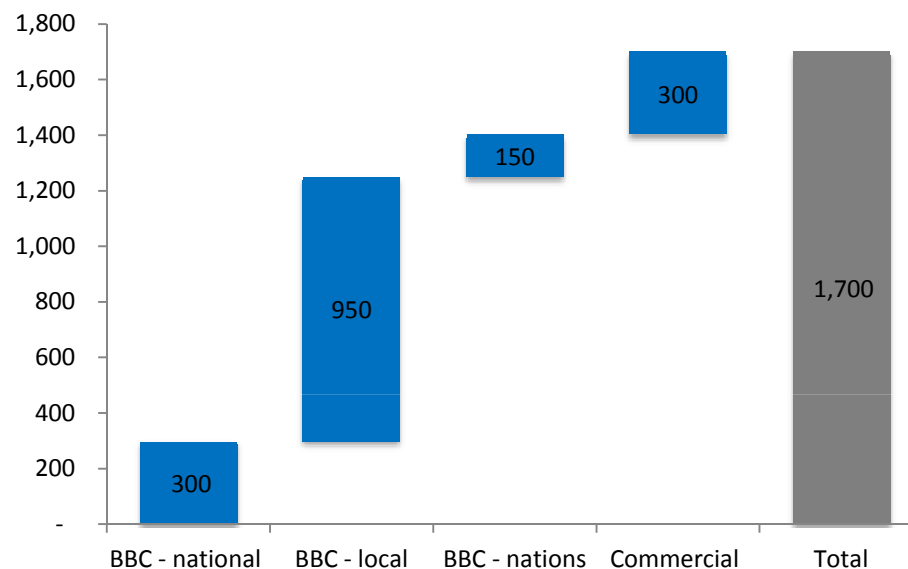
Commercial strategies

- Broadly, Bauer and GMG are more focussed on local radio licences (and on local advertising), while Global has been more aggressive in branding its stations under key names (as, e.g., Capital and Heart); in terms of locally produced news content, Bauer's focus on its Scottish and other local stations is tempered by joint news provision across licences and common scheduling, while Global's more national focus is tempered by its commitment to news provision via its LBC brand, which acts a hub for other Group stations and provides news services that are then localised

There are approximately 1,700 journalists working in the radio sector in the UK – the majority of whom are employed by the BBC

- Determining the number of journalists involved in creating radio news programming is difficult:
 - In particular, the BBC’s radio news operations rely heavily on cross-fertilisation and sharing of resources from the BBC’s broader news operations across TV and online
 - In addition, the commercial sector’s primary focus on music (rather than speech or news) makes a separation of the resource requirements of news bulletins hard to establish
- We have pursued a number of primary and secondary research routes in order to estimate the total number of journalists working in UK radio news
 - The BBC reports 1,800 journalists working across BBC TV and BBC Radio at the network level (implying c300 for radio on the ratio of BBC Radio to BBC TV overall budgets)
 - We estimate that there are 1,100 journalists working across local and regional BBC radio news (including 150 journalists that are estimated to be working in Scotland, Wales and Northern Ireland)
 - The number of journalists working in commercial radio (across all stations in England, Wales and Scotland) is unlikely to be more than 300

Journalists employed in UK radio news



Source: Mediatique analysis, BBC, interviews

The BBC spends approximately £120m on radio news across the UK, including significant budgets for individual shows broadcast on its flagship national stations

- The BBC's accounts provide an estimate of budgets for specific radio services, although there is no breakdown provided for the element of budgets accounted for by news
- In general, the BBC operates an integrated operation across national and regional news and across media (online, radio and TV), with journalists contributing across media and with significant sharing of resources, including audio feeds, news wires, and reports from correspondents – as a consequence, apportioning budgets to particular media is complicated
- Following consultation with the BBC, we have determined three investment categories for radio news, as set out opposite
- We therefore calculate that the BBC spends £118m on news content on all its radio services; consistent with our approach throughout this report, we allocate any distribution costs in those cases where the principal reason for consumers/users to use a given medium is to receive news – on this basis, Radio Five Live's distribution costs of £1.1m are added to the total, bring the BBC's news budget on radio to £119m

The BBC's spend on radio news

Network news

- The main network news budget covers the key news programmes on Radio 4 (Today, World at One, PM), which we estimate to represent c30% of R4's total content budget of £93m, or c£28m (note that the news bulletins on Radio 2 and Radio 3 comes from the Radio 4 news operation); a further £4m is spent on bespoke news for Radio 1
- Radio Five Live, which is mandated to provide rolling news, is estimated to spend 60% of its £55m content budget, or £33m, on news

English local/regional news

- The 40-station English regional radio network is mandated to provide at least 60% of its output in speech as opposed to music, and this rises to 70% in the morning and afternoon 'drive time' peaks; we estimate that £40m of the network's £114m network budget goes to news content

Nations news

- The bespoke Nations services (two in each of Scotland, Wales and Northern Ireland) have a content budget of £65m, of which c£13m goes to news

Source: Mediatique analysis, BBC

The commercial sector's spend on radio news

- The commercial radio sector, while required to broadcast news, is recognised as having a different role to play in regard to news provision compared to other media, and therefore is unlikely ever to be a prime source of news for citizen consumers other than for headlines and – crucially – traffic, weather and very local news stories (e.g., school closings)
- As a result, expenditure by commercial stations is relatively small compared to the BBC; in the event of radio digital switchover, even this level of investment may be reduced as local requirements attached to analogue licences would no longer be in force
- Owing to the nearly complete transformation of the UK radio industry from public to private in the late stages of the recent consolidation phase, there is very little financial information available on company operations
- As a result, we have used a range of sources to triangulate spend on news programmes:
 - Industry revenues are tracked by the RAB and analysis is undertaken on behalf of the commercial sector by the Radio Centre
 - Some limited additional information is available on company corporate websites
 - We have also spoken to a range of industry contacts to broadly validate the analysis presented here
- We estimate the total annual commercial radio news budget to be £26.5m across all stations (including the IRN-agency cost)

IRN-agency costs

- The Sky supply contract is worth c£1.5m a year, and is produced by a dedicated staff at Sky News headquarters in London (current number of employees is 14); the team at Sky is able to access all the news-gathering resources of the Sky News channel (and its online extensions)
- In addition, radio stations pay IRN an additional fee of £1.5m a year to run the news service

Local/regional commercial stations

- We estimate that c100 stations in the UK have local journalists on staff, primarily producing small amounts of local news and incorporating feeds from Sky-IRN, group hubs, etc.
- We estimate that each station spends on average c£180,000 (including salaries, newsgathering and production)
- In addition, Global and Bauer both produce networked content with news elements – with LBC in particular responsible for significant news gathering in London and other reports centrally produced for broadcast on branded networks such as Capital and Heart

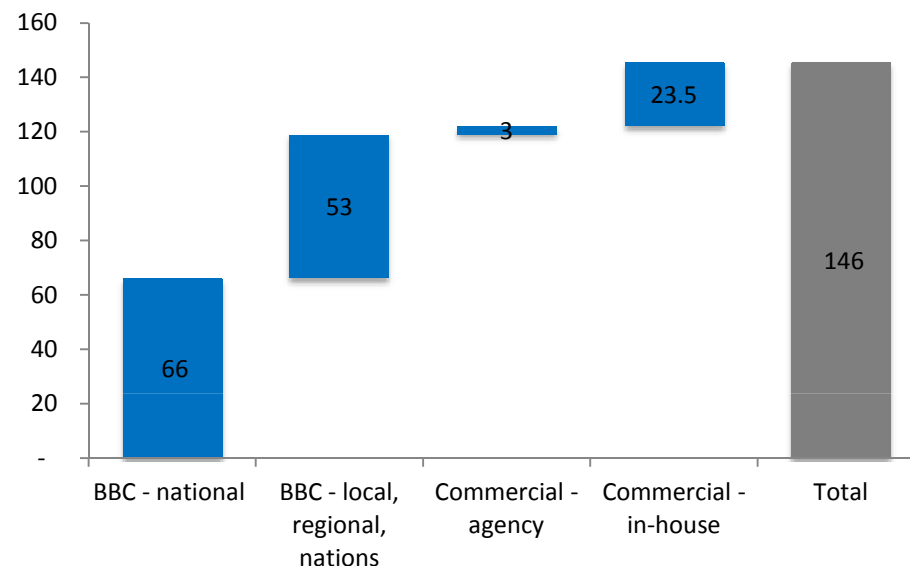
Source: Mediatique analysis, interviews

News accounts for 13% of total radio revenues in the UK – the majority of which is accounted for by the BBC

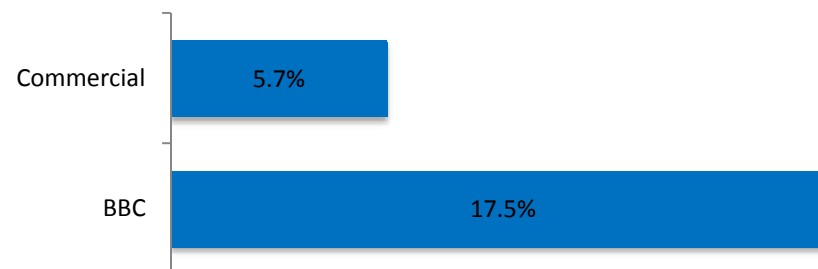
- The radio sector spends £146m on the provision on news in the UK (including the distribution costs of 'destination' news radio)
- This is equivalent to 13% of total funds generated by all radio operators (including BBC expenditure), but represents 17.5% of the BBC's total radio spend, and 5.7% of total commercial radio revenues
- Our analysis confirms that the majority of the sector's spend on news is accounted for by the BBC, as befits its bias towards speech radio, the role of news programmes in the proposition of its flagship stations and its commitment to news in the regions
- There is a widespread view in the commercial radio sector that there will be no point competing with BBC networks on news and that the level of news in the regions (based in particular on increasing use of 'hubs' and shared resources) is unlikely to increase in future even in the event that commercial radio revenues fundamentally grow
- We have not sought to assign share of news listening as distinct from general radio listening owing to the lack of data from industry measurement body RAJAR
- The share across all radio – with the BBC at 55%, Global at 16% and Bauer at 11% – is generally indicative of market positioning (although given the difference in format bias, the BBC's share of news is likely to be underweighted), and the extent of the Global/Bauer near-duopoly in regard to airtime sales representation is the key commercial revenue dynamic

Source: Mediatique analysis, BBC, interviews

Total editorial costs in UK radio news (£m)



Spend on news as % of revenues



2. News provision in the UK

Overview

TV

Radio

Print

Web/apps

Market description

- Despite undergoing a period of dramatic change, the print news sector remains primarily wedded to physical distribution of newspapers via established wholesale and retail delivery, and remains dependent on advertising and circulation revenues
- The sector is split into national and regional segments – there are four pure national newspaper groups, three straddling national and regional markets, and around 20 regional press groups
- Circulation has fallen dramatically in recent years, with advertising declining by even more; In 2011, newspaper groups generated c£6bn in aggregate from circulation and advertising, for a decline in nominal terms of c£2bn over the past five years
- As a result of these changes, print media operators have sought to extend their revenue models across both B2B and B2C propositions
- They have sought to reduce editorial costs, which are significant in this sector, particularly for national broadsheet operators which spend a greater proportion of their revenues on editorial than other players
- High printing costs have been addressed through consolidation, pagination and format changes, new investment to increase efficiency and out-sourcing/contract printing
- Despite the structural challenges, the print sector is still profitable in the aggregate, although this masks a range of market positions

Print market dynamics

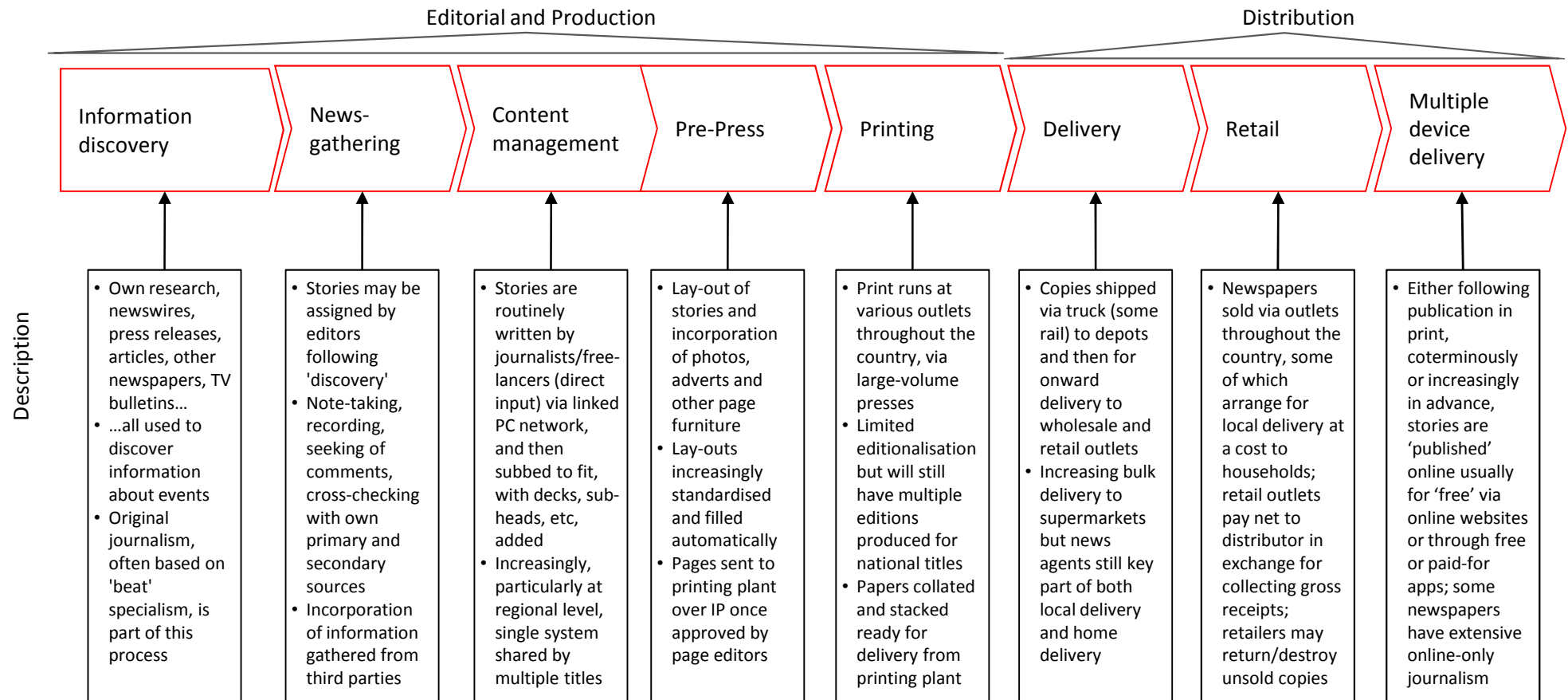
- The rate of decline in newspapers appears steep, but viability for the industry depends most on evolving consumer behaviour and whether consumers will retain sufficient demand for the physical product – particularly younger demographics for whom newspaper readership is less habitual
- Print groups have sought to establish new customer bases – ‘following eyeballs’ – through web and application-based services, but revenues generated here have not so far been commensurate with lost print revenues



- *Print may continue its decline, posing a threat to the high level of investment in journalism made by newspaper publishers*
- *Consolidation may ameliorate the situation but it is likely that the base of salaried print journalists will decline in coming years*

Physical distribution of print newspapers continues via established wholesale and retail delivery, and remains dependent on advertising and circulation revenues

Newspaper provision industry structure



The print media sector is split into national and regional sectors – there are four pure national newspaper groups, three straddling national and regional markets and c20 regional press groups

- The UK newspaper industry is logically divisible into two broad categories (national, regional) and further characterised by a number of sub-categories
- The national market is made up of 10 ‘qualities’ (once termed ‘broadsheets’), four titles in the mid market and seven* in the tabloid market, each with different characteristics, both in terms of editorial positioning and the mix of key revenues
- The regional market is multi-layered and crowded, although highly consolidated as to ownership

**The demise of the News of the World in mid 2011, and the subsequent launch of the Sun on Sunday in February 2012, complicates a number of the data points used in this section; in general, we have included 2010 figures for NOTW in sector wide data and noted this accordingly (see analysis on shares further on)*

Categories of press in the UK newspaper market

National	Regional
<p>Quality</p> <p>The Financial Times, The Guardian, The Independent, The Telegraph, The Times</p>	<ul style="list-style-type: none"> ▪ Standalone newspapers in the nations (e.g., The Scotsman) ▪ Regional newspapers (e.g., The Evening Standard) ▪ Local newspapers (e.g., The Bexley Times) ▪ ...these include national brands repurposed on a local/regional basis (e.g., Metro) ▪ In total, there are 1,100 titles
<p>Mid -market</p> <p>Daily Mail, Daily Express</p>	
<p>Tabloid</p> <p>The Daily Star, The Daily Mirror, The Sun</p>	
<p><i>Daily titles listed above; all titles except The Financial Times have a version on Sunday (sometimes branded differently – e.g., Guardian/Observer); The People is Sunday only</i></p>	
<ul style="list-style-type: none"> ▪ Four groups account for 50% of sector revenues <p>Northcliffe, Newsquest, Trinity-Mirror, Johnston Press</p>	

There is significant shared ownership across the various categories:

- Three media groups – DMGT (Daily Mail, Metro, Northcliffe), Trinity-Mirror (Mirror, the People and regional) and Lebedev-Independent (Independent and Evening Standard) have both national and regional titles in their stable
- News International – operates across both the quality and tabloid national markets. Northern & Shell has both mid-market (Express) and tabloid (Star) titles

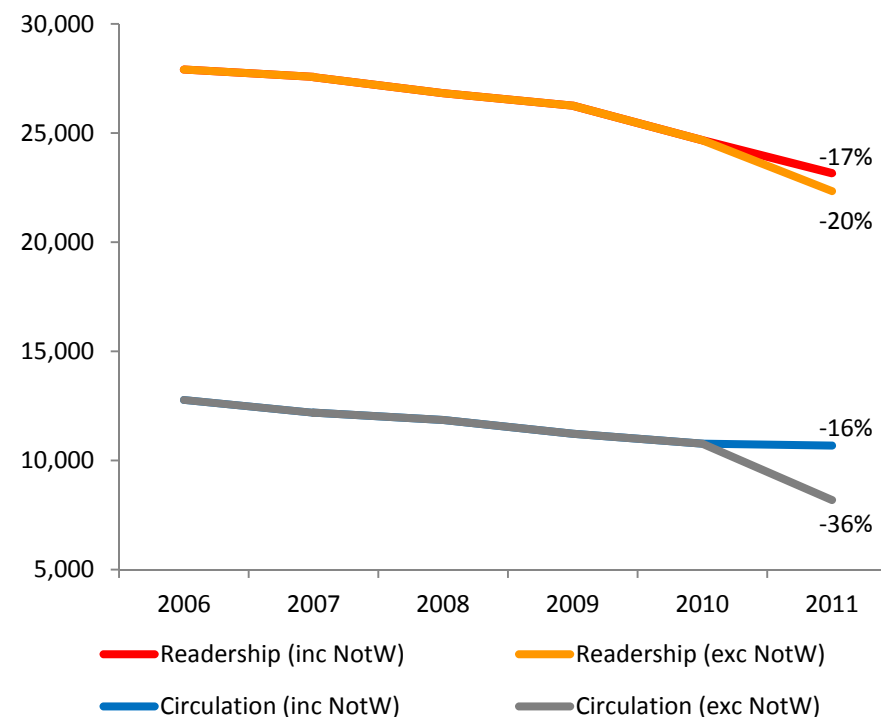
The news proposition of print news providers varies by sub-sector, with significant commitment of resources at both national and regional levels

	National – quality	National – mid-market	National – tabloid	Regional
Degree of activity	<ul style="list-style-type: none"> ▪ Significant number of titles, each under separate ownership 	<ul style="list-style-type: none"> ▪ Two major titles (Daily Mail, Daily Express), which are consistently among the highest circulated 	<ul style="list-style-type: none"> ▪ Significant number of titles, many with shared ownership with quality nationals ▪ Sun (NI) and Mirror (Trinity-Mirror) key titles in sub-sector 	<ul style="list-style-type: none"> ▪ Wide range of free and paid-for titles, serving geographical (regional and local) areas of varying size
Newsgathering	<ul style="list-style-type: none"> ▪ Extensive teams of front-line journalists; some reliance on agencies for news headlines ▪ Despite cuts of recent years, some titles (e.g., Guardian, Times, FT) maintain significant international bureaux ▪ Commitment to investigative journalism still very strong 	<ul style="list-style-type: none"> ▪ Extensive teams of front-line journalists ▪ Heavy reliance on high-profile columnists and opinion writers 	<ul style="list-style-type: none"> ▪ Extensive teams of front-line journalists – although under intense scrutiny following phone-hacking and police corruption allegations ▪ Heavy resource allocation at national level – reliance on agency feeds for international news 	<ul style="list-style-type: none"> ▪ High number of front-line journalists, although numbers have been reduced in recent years ▪ Increasingly dependent on citizen journalism/press releases
Editorial proposition	<ul style="list-style-type: none"> ▪ Largest commitment to granular journalism, with extensive, expensive specialist journalism (international, political, economic, business) ▪ Expansive coverage of key verticals (entertainment, lifestyle, etc.) particularly at weekends 	<ul style="list-style-type: none"> ▪ Mix of national and international news, alongside ‘lighter’ news, entertainment, lifestyle, high-profile columnists 	<ul style="list-style-type: none"> ▪ All operate similar styles – entertainment, celebrity gossip, scandal – but different political agendas (Sun to the right, Mirror to the left) 	<ul style="list-style-type: none"> ▪ Mix of local news features (council, courthouse, local business), lifestyle, commentary ▪ Traditional source of local information (listings, recruitment, reviews), owing to lack of alternatives – providing obvious context for recruitment/classified advertisers (although online substitution has intensified in this sector particularly) ▪ Coverage of local politics has been reduced in recent years at smaller titles

The industry has been characterised by a relentless decline in circulation and readership at both national and regional level

- Newspaper circulation – namely the number of copies distributed on an average day – has declined significantly on both national and regional levels, with the regional press down c15% (not counting the free sheet Metro) since 2007 and the national press down by 16% over the same period (excluding the News of the World effect)
- The decline in Sunday circulation in 2011 was exacerbated by the closure of the News of World, 800,000 of whose readers exited the Sunday market altogether*
- Similar downward trends are reflected in readership data, as shown in the graph at right (note that there is no reliable readership data for regional titles sector wide)
- Circulation declines reflect a number of complicating factors, including the transition of titles in the regional press from daily to weekly and from paid-for to free and the closure of c200 titles since 2000
- The effect on profitability has not been linear, however, as the shift to weekly from daily periodicity has led to lower production costs (a significant share of total costs for newspapers) and the national press has selectively and successfully sought to increase cover prices intermittently throughout the period
- However, the decline in readership has also led to lower advertising revenues across the sector, exacerbated by the switching by classified advertisers to online media

Average daily readership & circulation of national newspapers (000s)



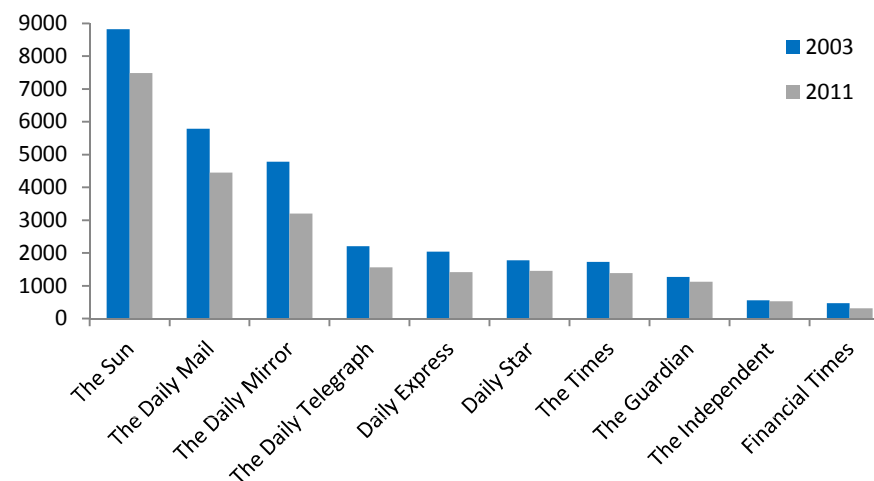
*It is not yet clear how many of these the Sun on Sunday will sustainably recover: its launch edition had a circulation of 3.2m, compared to c2.7m for the NOTW before its closure; by the second week, the Sun was down to 2.7m, in line with the NOTW, and by the fourth week was down to 2.4m

Source: Mediatique analysis, ABC, NRS, interviews (Audit Bureau of Circulation is for all reported sales in the relevant years; National Readership Survey is based on all adults)

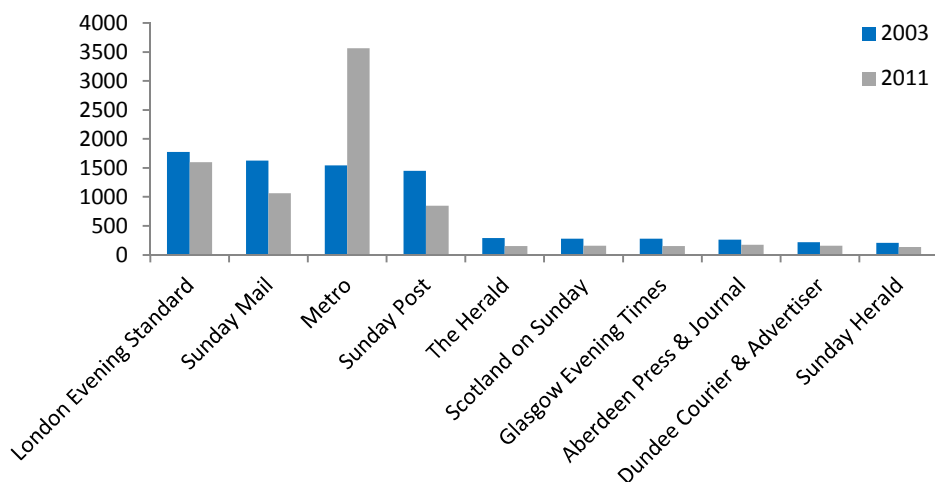
Confirmation of the wholesale nature of the decline in readership is the fact that only one title has managed to grow between 2003 and 2011 – Metro – owing to an expansion in its distribution model

- With the exception of the successful Metro title – re-versioned for multiple markets and distributed for free to commuters – all titles in both the regional and national press have lost readers in the period since 2003
- We have included the News of the World in our readership analysis for comparison’s sake; however, we have used the 2010 readership figure
- Below are a selected number of regional titles of varying size (and including Sunday newspapers) – the trends here are indicative of the whole of the regional press

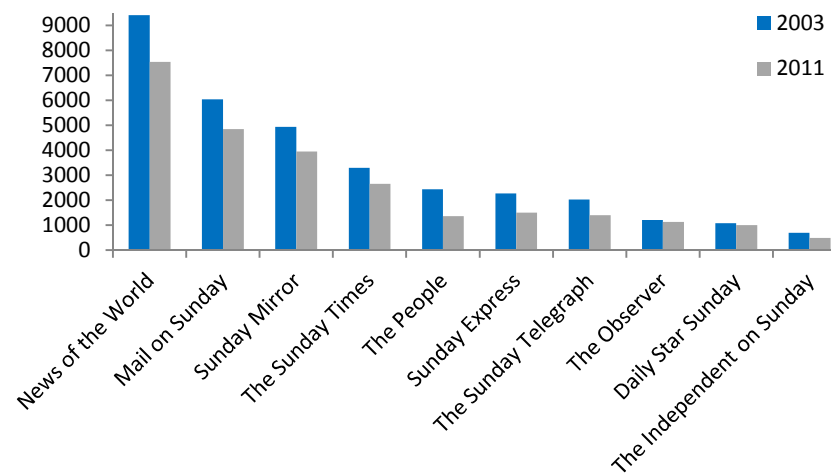
Readership of top-10 national UK dailies (000s)



Readership of selected regional titles (000s)



Readership of top-10 national UK Sundays (000s)



Source: Mediatique analysis, NRS, interviews

Reasons for decline in press circulation

The internet

- Online distribution has created an increasing array of sources of news, and users are typically able to access multiple sites on an easy and quick basis without the need to make multiple purchases; substitution effect on revenues has thus far been most marked in declines in classified advertising compounding declines in both regional and national newspaper readership; further pressures are being created by smartphone/tablets
- All UK national newspapers (and the vast majority of regional newspapers) operate their own websites alongside their print editions, albeit the relative economics of each differ, with online consumption worth far less to newspaper operators than the sale of a print copy

New players

- New players have emerged in the news market, including the launch of dedicated 24-hours news channels in the TV space and aggregator sites in the online market. The latter have gained traction by presenting a range of news headlines sourced from third-parties, allowing users to compare coverage and to gain access to a much broader range of suppliers than traditional newspaper operators

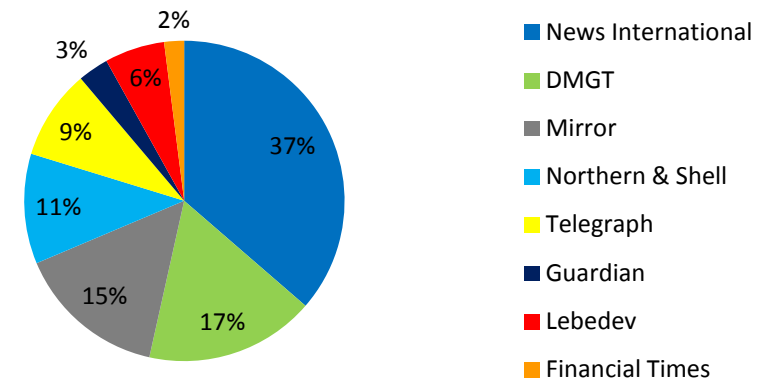
Lifestyle changes

- Licensing laws – particularly Sunday shopping – have changed leisure time patterns, reducing the amount of time spent at home on Sundays which was often spent reading newspapers. Primary research also suggested that a decline in the number of newsagents had augmented a decline in newspaper circulation
- Younger demographics, in particular, are making greater use of mobile telecommunications and social media and shifting away from the consumption of traditional print media

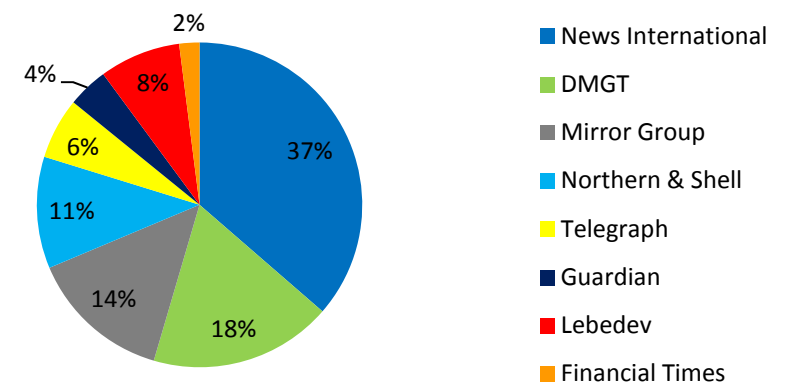
National market share by readership continues to confirm the leadership of News International, although data comparisons are complicated by the closure of the News of the World and the launch of the Sun on Sunday

- Market shares on the basis of readership (NRS) reflect the enduring popularity of News International titles, whose share remained stable between 2007 and 2010 at c37% of the national press
- In that period, the Mirror and its stable lost a point of share, while the Daily Mail gained a point
- Of the other movers, both the Guardian (slightly) and the Telegraph (more markedly) lost share in the past five years, while the Express titles held steady and the Independent (helped by the success of the i) gained share
- We have looked at 2010 to account for the closure of the News of the World in 2011, which led to some of that paper's readers moving to other titles (and some – c 800,000 – exiting the Sunday market altogether)
- If 2011 trading is included, News International's share is down to 32%, with the Mirror up to 17% and the Express Group improving to 12%
- It is too early to say whether the Sun on Sunday, trending lower after a strong start, will win back readers formally loyal to the News of the World

Share of readership – national newspapers (2007)



Share of readership – national newspapers (2010)

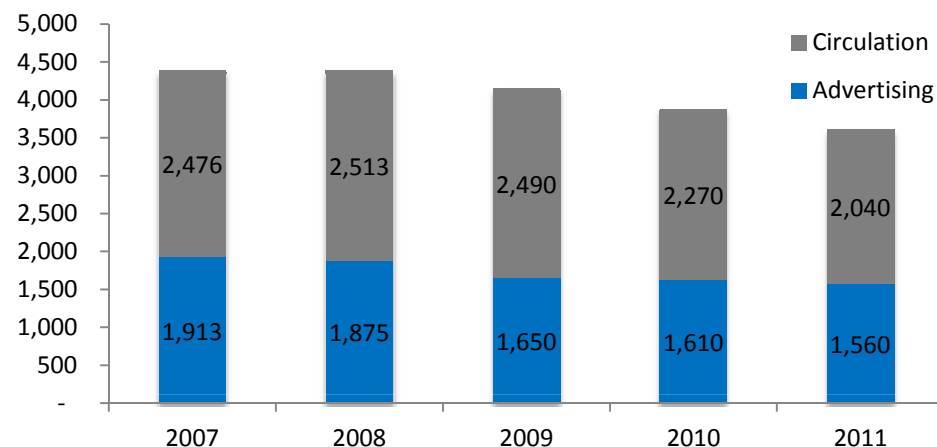


Source: Mediatique analysis, NRS, interviews

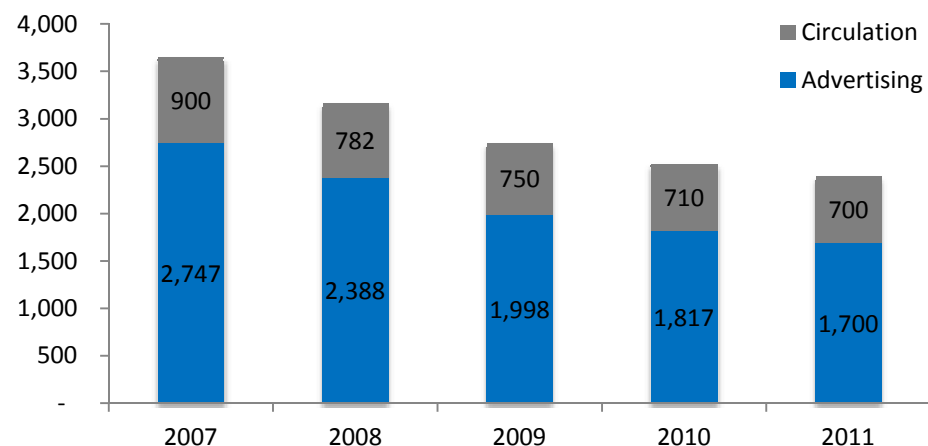
The newspaper groups generated £6bn in core revenues in 2011, for a decline in nominal terms of £2bn over the past five years

- Core newspaper revenues, both circulation and advertising, have declined dramatically in the past five years, exacerbated by the recessionary pressures of 2008 and 2009 – although increases in cover prices have in part offset the full effects of declining circulation nationally and regionally
- The decline has been structural in large part, and extends over a period of at least a decade during which time advertising (particularly regional press advertising) has been eroded by the growth of online competition, notably in classified, a traditional exposure of the regional press
- Between 2007 and 2011, newspaper advertising dropped by nearly 30% in nominal terms while over all advertising expenditure was flat - lost newspaper market share was almost wholly ceded to internet advertising; the regional press has seen the biggest declines, with sector-wide advertising revenues dropping by £1bn since 2007 (-c40%); by comparison, the national newspaper market (more exposed to display) has proved relatively resilient, with total advertising income down 18%
- The national press also benefits overall from a lower dependence on advertising in the revenue mix, trending toward a c60/40 split between cover price and advertising; in the regional press, c70-75% of core revenues are generated through advertising
- The level of financial disclosure varies across the industry; we have looked at two newspaper groups (DMGT and Johnston Press) in greater detail overleaf, as both are quoted entities that published extensive details of their operations and are reasonably representative of industry-wide trends

Core national newspaper revenues (£m)



Core regional newspaper revenues (£m)



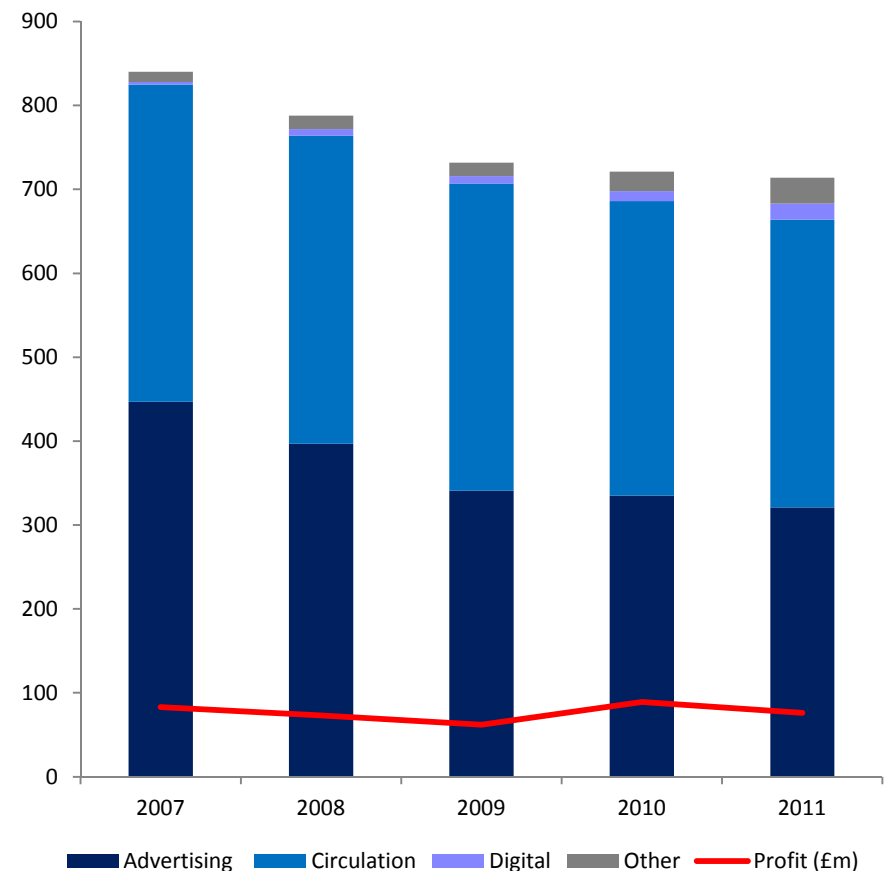
Source: Mediatique analysis, Ofcom, AA/Warc, interviews; advertising revenues are gross of commission; 2011 figures are Mediatique estimates

Typical of the UK's national newspaper publishers, since 2007 DMGT has seen a decline in revenues from national advertising and circulation, only minimally offset by revenue growth from digital and 'other' sources



- As a publicly quoted company, DMGT publishes reasonably detailed information regarding its financial performance; recent results offer an apt illustration of the experience of the industry as a whole – not just in terms of revenue trends but in how the company has responded to market pressures by cutting costs and closing operations
- In the past five years, there has been an overall decline in print advertising (driven by falling readership and by the move by classified and recruitment advertising in particular to online media): DMGT's national papers (including Metro) have witnessed a decrease of 19% in advertising revenue (note that we have re-stated 2007 and 2008 in the figures at right to account for the sale of the London Evening Standard in 2009)
- Revenues from circulation of national newspapers have also declined gradually over the same time period, decreasing by 10%
- DMGT's national papers have seen a growth in digital/other revenues of 333% (to £50m in 2011) but this growth only minimally offsets the decline in the legacy revenue streams
- In response to falling revenues and profits for both national and regional titles, DMGT cut costs throughout the period – by c10% between 2007 and 2010 in the case of DMGT
- In 2011 DMGT announce further staff cuts (602 jobs), sold seven titles, stopped 10 free titles, reduced production and distribution costs by 17% (£19m) aimed at delivering underlying year-on-year cost savings on £15m

Revenues and profits generated from DMGT's national press (£m)

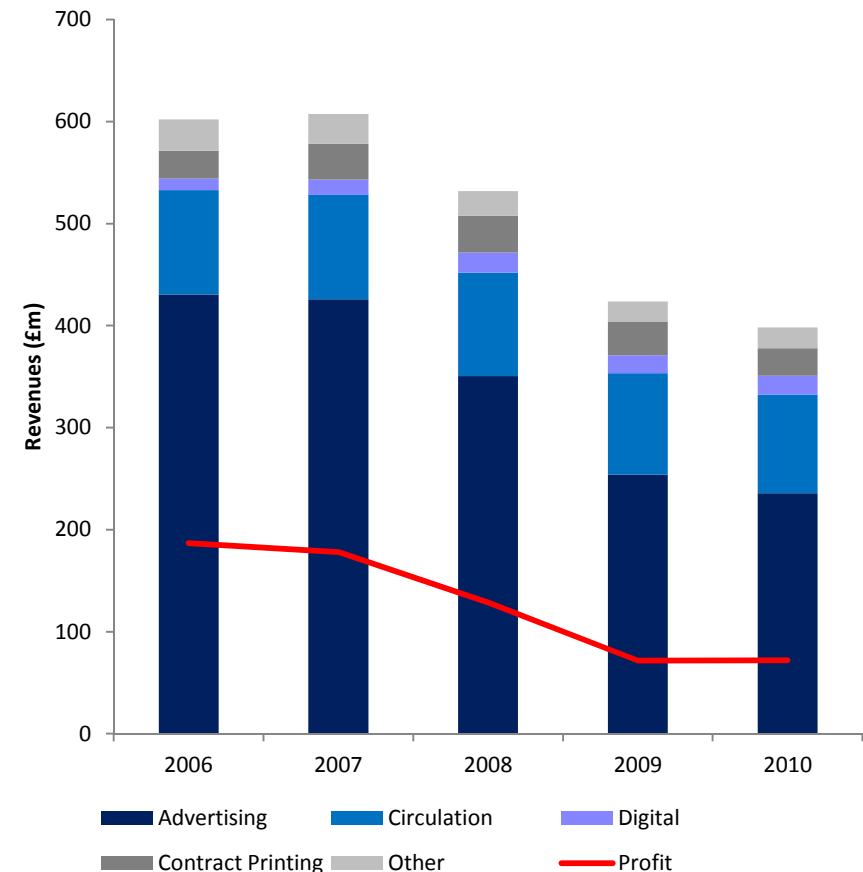


Source: Mediatique analysis, DMGT Annual Report, interviews

The large declines in revenue and profits generated by Johnston Press are emblematic of the struggles faced by regional press over the last five years

- In the period from 2006-2010, Johnston Press has seen revenue decrease by 44%, and operating profit drop by 61% to c£72m; in that period, operating profits margins declined from c30% to 18%
- The declines followed a round of aggressive acquisitions, seeing Johnston Press buy the regional newspapers sold following the merger of EMAP and SRH, and the Northern Ireland titles of Trinity Mirror – both in 2005
- Johnston Press’s regional newspapers have witnessed a decrease of c40% in advertising revenue in the past five years, consistent with the declines seen by the regional sector in the aggregate
- Revenues from circulation of their newspapers have also declined gradually over the same time period, decreasing by 5%
- Revenue generated from digital distribution has increased year-on-year, with a rise of c£7m (62%) over the past five years
- Profits levelled out in 2010 after rapid declines in 2008 and 2009, following radical cost cutting (a c21% decline in operating expenditure between 2007 and 2010)
- This has been matched by aggressive restructuring of the company’s printing operations, standardisation of print formats and the introduction of a common editorial content management system

Revenues and profits generated by Johnston Press (£m)



Source: Mediatique analysis, Johnston Press Annual Report, interviews

Print media operators have therefore sought to extend their revenue models across both B2B and B2C propositions...

Commercial strategies in press news

Diversification

- The major press groups, including News International, DMGT, Trinity Mirror, and the Express Group, all generate incremental revenues from contract printing, which represent c8-15% of total revenues for those groups with excess capacity
- Both national and regional newspaper titles sponsor conferences and exhibitions, some of which are revenue-generating but which represent a small proportion of sector revenues. The major exception is DMGT's wider exhibitions division, generating significant B2B revenues not included in newspaper revenue categories

Experimentation with alternative revenue models

- Many operators have sought to extend reader engagement into key verticals such as retail and travel, often in conjunction with third-parties
- Regional press operators have shifted many titles toward free rather than paid-for, and toward weeklies rather than dailies. This has occurred alongside the outright closure of titles, with the number of regional titles declining from 1,300 in 2000 to 1,100 in 2011)

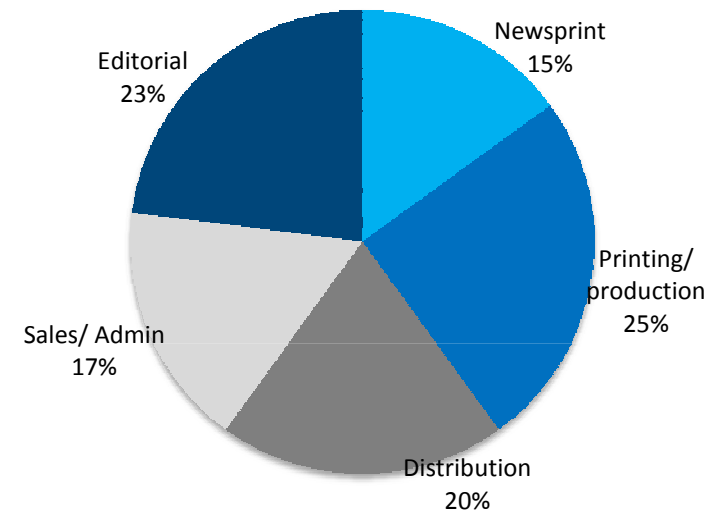
Online media

- All newspaper groups have sought to engage with readers online, by launching their own websites for consumption both via computers, and on tablets and mobiles
- Such strategies also seek to maintain relationships with advertisers (notably in relation to classified and recruitment advertising where online media offer a more effective basis on which to engage with readers) and to embrace broader developments in consumer behaviour (allowing readers to offer their own comments or supply blogs alongside mainstream news)
- Advertising revenues generated via digital by newspaper publishers (outside stand-alone verticals such as DMGT's property and recruitment sites) are no more than £250m, with the Guardian (c£40m) and the Mail Online (c£30m) in the lead; regional press is estimated to have generated c£130m in 2010 via online, with nationals at c£120m
- Only the FT and the Times currently charge for online access; experiments with paid-for apps are at an early stage, with the Telegraph, the Guardian and the Daily Mail all seeking to charge for mobile/tablet apps (DMGT has an ad-funded free app)

Source: Newspaper Society, Mediatique analysis, interviews

- The relative economics of press media continue to prove challenging as some of these costs are not incurred by other media – notably in relation to high input costs (newsprint), the requirement to deliver physical product around the region/country and to share retail proceeds with end distributors
- In both regional and national press markets, newsprint is an essential cost of production, at around 15% of revenues. The sector continues to suffer from fluctuations in the cost of raw materials
- Printing accounts for c25% of total revenues, while distribution, retail commission and marketing is another 20%
- Editorial costs vary across the print sector (as we set out overleaf), although the average is c23% sector wide, as a proportion of core revenues
- Sales and administration represent a further 17-18% on average
- A typical breakdown of costs for news print media is set out opposite

Key cost categories in press (illustrative, sector wide), 2011 (%)



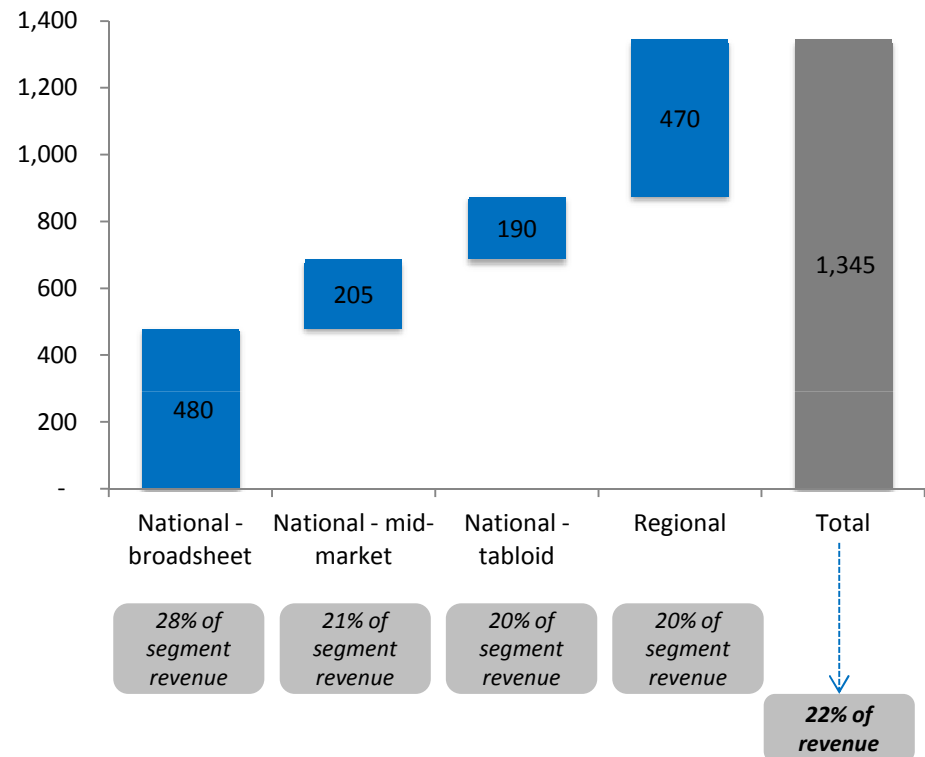
Source: Mediatique, primary sources

To account for the range of profits, we have calculated the main cost categories as a percentage of core revenues rather than as a percentage of the operating cost base – on the basis that the profit margins across the sector are roughly equivalent to the non-core revenues

Editorial costs are significant, particularly for national broadsheet operators which spend a greater proportion of their revenues on editorial than other players

- Editorial remains the lifeblood of press media – and by extension continues to inform other news media
- Isolating the proportion of total costs that are solely related to editorial is difficult, however – as the resources applied to newsgathering are typically also shared in editorial and production roles
- We have estimated the editorial costs of press media across each of the identified sub-segments – generating a total of £1.35bn of expenditure in 2011 (we have included a full year’s worth of estimated costs at the NOTW); note that these costs cover all editorial content (including, e.g., lifestyle, listings, etc.)
- This figure includes payments to in-house and freelance journalists, and the costs of agency feeds, including national and regional agencies
- National titles in particular continue to spend significant amounts on columnists, including often expensive ‘celebrity’ columnists in the case of the mid-market/tabloid segments
- On the basis of these calculations (and extrapolating from the number of journalists working for key publishers for which figures are available, then validating through industry interviews), we estimate that the national press currently employs c6,000 journalists, with another 13,000 in the regions
- Editorial costs are the key differentiator between the cost base of the regional press compared to national titles; there are also lower wage bills for administration, printing and transport

Total editorial costs in UK press media, 2011 (£m)



Source: Mediatique analysis, interviews

- As discussed in the section on TV, above, Reuters and Associated Press are suppliers of agency content to a range of media companies, including broadcasters, online web/app services and press
- In addition, the Press Association is the third major provider of agency (wire, video) services, and is a particularly important contributor to regional press titles where editorial resources are focussed primarily on the local region and/or where cost cutting has increased dependence on agency copy
- Again, given the relatively small contribution of agency services within the whole of press (and the fact that the services are so widely supplied) any effect on editorial output is diluted and is at any rate subject to editorial judgements title by title
- In areas outside core news – for example in entertainment, sports results and weather, PA is used more intensively; there are also a number of smaller, regional agencies that feed both the national and regional press
- As with Associated Press, PA was developed as a collective to allow newspapers to share stories and to benefit from access to content coming from other markets and territories
- Its net revenues, therefore, are relatively small – c£60m in 2010, compared to the much larger revenue streams generated in the aggregate across the UK by Reuters

Source: Company website

Case study: role of Press Association in supplying newspapers

The Press Association is a UK-based multimedia news agency supplying a continuous feed of text, pictures, video and data into newsrooms around the country.

Alongside the core national news agency operation, the Press Association also supplies a wide range of content and editorial services ranging from international sports data, comprehensive entertainment guides and photo syndication to editorial training and weather forecasting (e.g., for Sky News).

Key services include:

- **Wire Service** - breaking news stories in words and pictures
- **Digital** - Content to power websites, widgets, mobile services, digital display screens, etc.
- **Images** - latest news, sport and showbiz pictures, plus an archive of more than 15m images
- **Video** - News, sport and entertainment coverage from around the UK available as footage, clips and packages
- **Listings** - entertainment and TV listings
- **Weather** - Specialist weather information for media

Revenues in 2010 were c£60m

Distribution costs are a key differentiator of newspapers from other news media, and revenue pressures have obliged key players to cut underlying costs where possible, including in editorial...

Shifting economics in press media

- The challenging economics of press media has driven significant attempts to reduce costs throughout the value chain in recent years
- Such changes have been implemented throughout the major costs categories, as the industry works to bring costs in line with eroding core revenues
- Notably there have been significant changes in format (including the moves by the Guardian, the Independent and the Times to smaller sizes), cuts in pagination and the dropping of sections
- Deeper cuts, out-sourcing and changes to production processes are all being implemented/contemplated across the industry

Editorial payroll

- All newspaper groups have sought to reduce their staff numbers, notably in expensive editorial positions
- We estimate that approximately 5,000 editorial jobs have been cut across the regional and national press in the past 10 years

Outsourcing of supply

- Many national titles have slimmed down their international operations, closing many international bureaux and/or partnering with international newspapers
- These groups have sought to place more reliance on stringers and agency copy to source international news
- At a regional level, newspaper groups have significantly reduced their reporting coverage of local politics (i.e., council meetings, courthouse), and shifted towards less expensive issues/topics

Production processes

- Most press groups have introduced or are introducing new content management systems to allow streamlined copy creation and preparation to pre-press stage, thus reducing layers of editorial oversight (fewer sub-editors, copy editors, etc.)
- Throughout the industry, operators have imposed cuts on pagination and imposed format changes that rely on more standardised layouts to reduce the need for expensive sub-editorial oversight – this is particularly the case at regional level

Printing costs have been addressed through consolidation and out-sourcing/contract printing; although major groups have continued to invest heavily in state-of-the-art printing facilities



Trends in printing and press production

- The physical costs of paper and ink, and the costs of printing and physical production account for approximately 40% of total press media costs
- At each stage therefore, operators have sought to reduce costs:
 - Operators have historically been subject to fluctuating costs in raw materials, and have sought to reduce and/or stabilise their cost of paper through a combination of financial hedging and a transition to recycled paper. Despite this, primary sources confirmed that the cost of paper remain expensive and variable
 - The industry requires a constant need to maintain, and periodically upgrade, printing presses which impose significant capital expenditure requirements. As a result, the press sector is in the midst of significant printing plant consolidation, as the publishing groups seek volume advantages – as we set out opposite

Relocation

- In an attempt to reduce costs, the main locations such as Surrey Quays (DMGT) and West Ferry (Express) are now being replaced by cheaper out-of-town centres (which are also better connected to transport links for national distribution)
- Northern & Shell have relocated all printing to Luton, for example. There are similar moves by regional players, who are looking to consolidate to render physical printing more economical – for example, Johnston Press has centralised printing in Dinnington and Portsmouth

Sharing of printing facilities

- There are numerous commercial arrangements in place among the various press groups, as operators seek to contain the costs of maintaining high-tech presses
- As a result, many national and regional titles are printed by competitor titles. Johnston Press, for example, has contracts in place to print regional runs of The Sun and the London Evening Standard is printed by News International
- GMG considering closing current plants in Manchester and Stratford in favour of using Mirror's plant in Watford

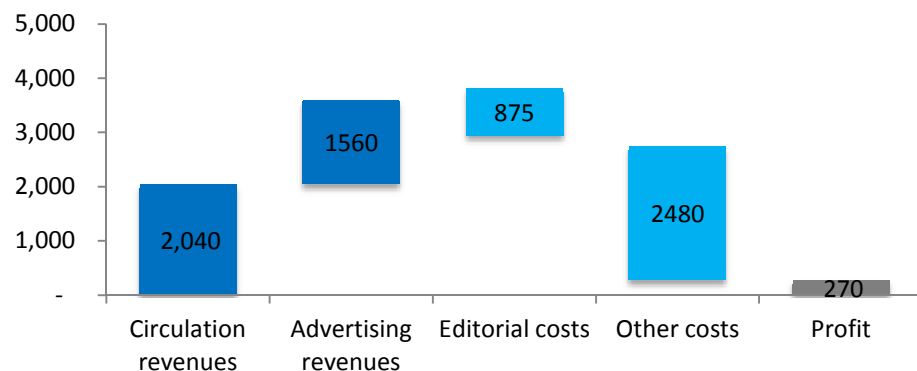
Upgrade and investment

- Capex costs among print media are significant, as presses are increasing sophisticated and capable of last minute changes and reformat. Daily titles that print millions of copies each day (often repurposed on a regional/national basis) incur significant maintenance costs
- We estimate that the sector has spent or contracted to spend almost £750m in new investment over the past four years
- News International alone spent £650m opening and upgrading three sites – Broxbourne, Glasgow and Knowlsey – where The Telegraph is printed
- Current investment plans suggest that the main groups – notably DMGT, Express, Telegraph, News International and Johnston – see a long-term requirement for print facilities, despite structural challenges to revenue models

Source: Company announcements, press articles

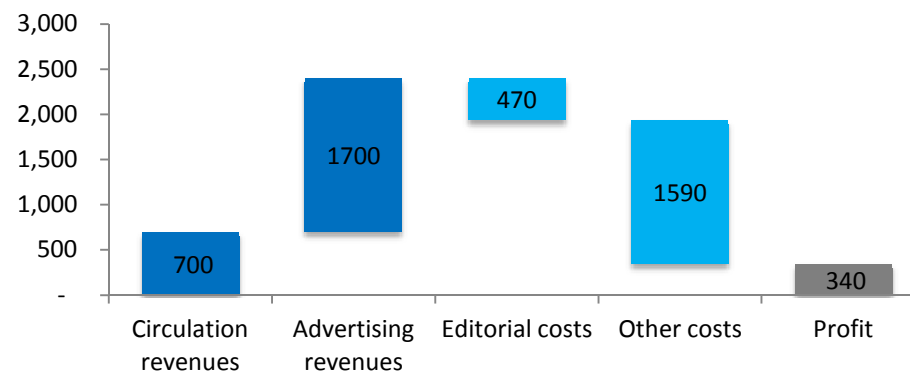
Despite the structural challenges, the print sector is still profitable in the aggregate, although this masks a range of market positions; in particular, the 'quality' market remains challenged outside The Telegraph and the FT

Flow of funds in national press, 2011 (£m)



- We estimate the national market operates at a profit margin of 7% based on core revenues only; this hides a number of distinct trends, however
- The key 'quality' titles are all at break-even or lose money with the exception of the FT and The Telegraph – each of these reported c£55m in profits in 2011 (excluding associates); the FT's stated profits are after significant income from online subscriptions
- Both the Guardian/Observer and the Times/Sunday Times have operated at a loss in recent years (2010/11 losses of c£40m for Guardian Newspapers and c£50m for the News International titles). The Independent/i are likely to be just in profit
- The mid-market is profitable, with the Express and Mail titles generating profits for their owners Northern & Shell and DMGT of c£100m (Mediatique estimate); the tabloid market generates profits of c£150m
- These figures include the 2010 performance of the News of the World, which will not be included in full year 2011 results owing to the title's closure; the launch of the Sun on Sunday is expected to claw back a significant proportion of NOTW revenues on a lower cost base owing to its integration with the Sun

Flow of funds in regional press, 2011 (£m)



- We estimate the regional market operates at a profit margin of 14% based on core revenues only – i.e., sharply down from the early 2000s, when groups were able to generate up to a 30% margin
- Among the major operators, reported margins today hover at between 8% (Northcliffe) and 18% (Johnston Press)
- While Trinity-Mirror Group and Johnston Press provide relatively detailed information in their annual reports and earnings statements, there is far less visibility for other major players such as Archant (privately owned) and Newsquest (owned by Gannett of the US but which reveals little operational data)
- We have estimated the whole of the regional sector by reference to the revenues declared by Johnston, Trinity-Mirror Group and Gannett, adjusted to account for sector-wide advertising and circulation data and checked via market sources

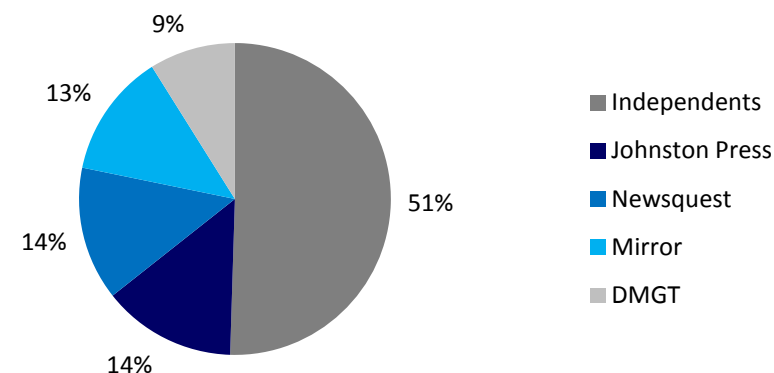
Source: Mediatique, primary sources, company accounts
 Figures in flow charts exclude digital revenues, and contract printing, exhibitions, conferences; these are included by the FT, NI and others in published accounts

Market shares expressed in revenue terms reflect the strength of the News International titles, although the closure of the News of the World and the eight months' hiatus before the launch of the Sunday Sun offsets this

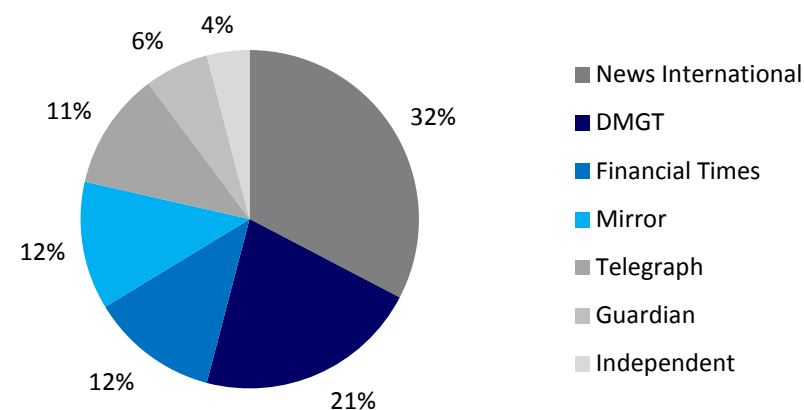
- We have calculated indicative market shares of key players in the sector both in the national and regional press
- As throughout this report, we have only included print advertising and circulation revenues, excluding revenue lines such as contract printing, exhibitions and B2B revenues; we have also excluded digital revenues, which are treated in the Web/app section further on
- In the regional press, four companies represent nearly half the market on the basis of these core revenues, with Johnston Press and Newsquest in roughly equal first, followed closely by Trinity Mirror Group
- The DMGT regional titles have been particularly affected by the double impact of structural challenges and the recession and the company is likely to have posted the lowest margins among the sector leaders (Gannett does not report operating profit for Newsquest)
- At the national level, News International is considerably ahead of its next biggest rival in core revenue terms (although note that these figures reflect a full year's worth of News of the World, closed in 2011, and do not account for the gains made by competitors as a result, particularly the Mirror's national Sunday titles and the Express Group's Daily Star on Sunday)
- The FT revenues are flattered by the title's significant circulation income from outside the UK; other UK titles have modest overseas sales, except via their digital propositions (e.g., the Guardian Online and Mail Online in particular)
- Where data is unavailable (e.g., for privately held companies), we have used market sources where possible/appropriate)

Source: Mediatique analysis, interviews

Share of core revenues – regional (2011)



Share of core revenues – national (2010/11)



The continuing commitment of quality titles to editorial, despite revenue pressures and margin squeeze, is reflected in a simple comparison across the national and regional press of editorial investment vs. revenues

- We have sought to illustrate the relative efficiency of newspapers by category on the simple measure of core revenues generated per £ invested in editorial
- Unsurprisingly, given the relatively higher editorial budgets at quality newspapers (to cover the costs of a highly specialist granular journalism and their smaller circulations) titles in this group generated less revenue (c£3.20 for every £ spent on editorial production) than others
- The mid market and the tabloid segment were quite similar in their ratios of editorial investment to core revenues generated, at £4.70 for the former and £4.75 for the latter (again, these are based on 2010 to offset the hiatus effect of the closure of the News of the World)
- The regional press was on this measure the most 'efficient' at converting editorial expenditure into revenues, although this is more reflective of the lower share in their cost base of editorial compared to their national rivals

Revenues per £ spend on editorial



Source: Mediatique analysis, interviews

2. News provision in the UK

Overview

TV

Radio

Print


Web/apps

Market description

- Consumption of news on websites and via apps has grown dramatically in recent years, driven by faster networks and proliferation of consumption devices such as smartphones and tablets
- News provision on websites and via applications is effectively tri-partite in structure – broadcaster services, newspaper services and services provided by 'stand-alone' players, including the leading search and aggregation companies
- Online consumption of news is nevertheless still delivered principally by traditional news providers such as broadcasters and newspapers – even if search engines drive some of the traffic to these extensions
- The majority of news sites are accessed on a free basis, and advertising has become the primary commercial model for general news
- But the funding model for online news is challenging, as 'online' advertising revenues – a large and growing category – largely accrue elsewhere
- Operators have experimented with pay models, but evidence suggests that these models can only gain real traction in the case of specialist news; charging for apps (conferring mobility and inter-operability advantages) is being widely trialled but results are inconclusive
- The provision of online news is largely funded by legacy players, even though business models remain subject to pressure from new entry

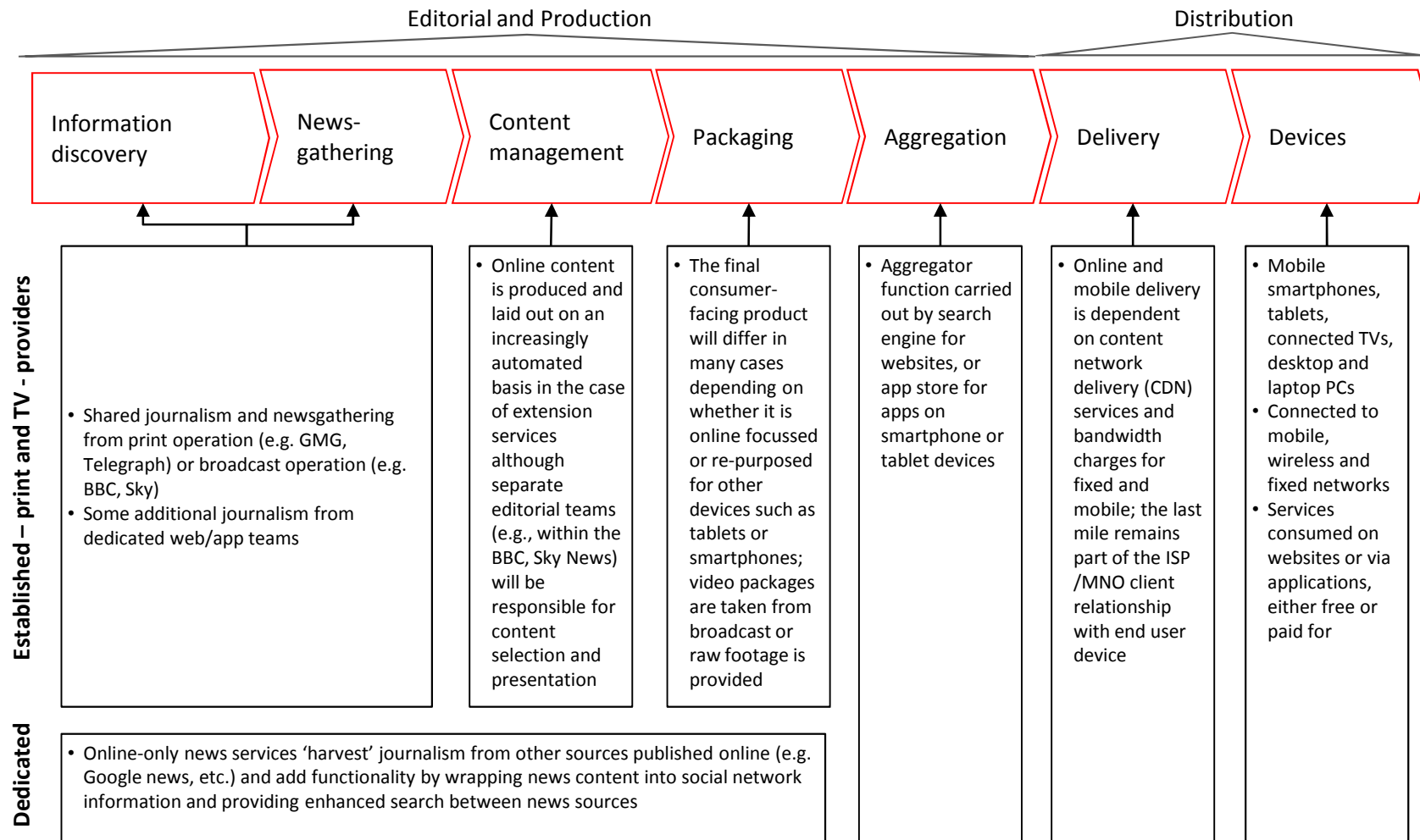
News websites and applications – market dynamics

- Many in the news provision industry believe that the future consumption of news will be largely via websites and applications on multiple devices. This is based on the personal nature of how news is consumed: within an application or website, the user can skim or engage in a chosen level of detail and analysis, and do so when and where desired
- As the printed newspaper declines in popularity, and news consumption online grows, the revenues are not necessarily finding their way to those funding content, thus posing a serious question about how the granular journalism found in the print sector will be funded if all or substantially all news provision activity ends up via websites and applications

- 
- A decorative horizontal line with a downward-pointing arrowhead in the center.
- *Major questions remain over whether a viable financial model will develop for web- and application-based news services – essential for print legacy groups looking for migration to a new model, but not for TV players that do not necessarily expect profit*
 - *Web-only sites that 'harvest' news from other sources are likely to remain, but the question of whether these attract more revenues, disproportionately, than the 'source' sites will determine whether they have an impact on the viability of those players that invest in newsgathering and journalism*

The provision of news services designed for consumption on PCs, tablets and smartphones divides broadly into dedicated providers and established providers from TV and print

Convergent media industry structure



Reasons for growth in convergent media news consumption

Broadband access

- Broadband access and network upgrades allow more and more consumers to access news content online, while devices are being inter-connected, allowing news alerts and related functions to be shared across platforms
- Proliferation of connected devices – including mobile phones and tablets – has also increased opportunities to consume news stories on the move

Consumer behaviour

- Consumers increasingly want more control over access to fresh content; online enables consumption at a time/place of consumers' choosing. Online also allows viewers to respond and comment on news, to submit information and to access news in real time
- Users are increasingly promiscuous, particularly in relation to general news content, where plurality is highly valued. Online consumption allows easy, quick and cheap access to news content from multiple sources (across international boundaries) on a 'fresher' basis than scheduled/printed news

New entry

- Barriers to online content distribution are few, compared to traditional media platforms. This allows new entrants to emerge in the news arena, many without a traditional legacy news business to support and with access to free legacy content
- Digitisation of news copy has allowed third-parties to access and repurpose news stories on a cheap and fast basis

Commercial strategies

- Legacy news providers have had to reform their distribution strategy and business models to keep up with these changes. Whether willingly or not, they have been forced to launch online news services
- News providers have historically focused on a single distribution mechanism – e.g., The Times in print or Sky News in broadcast. Recent consolidation and platform/network enablement and device proliferation have led media owners to seek to address users on multiple platforms – e.g., Sky News functions as a news channel, an online news site and a tablet-distributed video and text service – taking/drawing existing consumer bases with them

Technology

- Technology means greater functionality on websites and applications that increase utility in news consumption – filtering, recommendations, news alerts, finding different sources, organising media etc. – and this fuels innovation in news services, particularly among news aggregators

Sources of web/app news

- There is an increasing array of consumer propositions in the convergent media space...
- ...powered by existing operators and a disintermediating role for new entrants
- Users themselves play an increasing role in supplying or amplifying content, either to existing sites (e.g., personal footage uploaded to websites including social networks) or to specific user-generated or blogging sites (e.g., Twitter)
- ...this is typically complementary rather than substitutive of professionally produced news

TV broadcasters

- Broadcasters have launched news websites, offering a mixture of video and textual content (including live streaming and catch-up of programmes)
- Websites have been enriched by selective editorial content, including blogs from key news editors and presenters
- This includes the major players in TV – BBC, ITV, Channel 4 and Sky

Radio broadcasters

- Radio operators (including the BBC and commercial players) have also made their news broadcasts available online – both via live streaming and as podcasts – and operate websites (and in some cases apps) that include headlines and summaries

Newspaper operators

- All newspaper groups have launched online versions of their printed editions
- Typically, these services include additional editorial and features (including complementary video content in certain cases – e.g., Telegraph TV)
- These services extend across both national and regional titles, with the latter driven in particular by their ‘localness’ in regard to search (including information on local services, listings and property)

Standalone players

- A number of new entrants have launched online news services that provide bespoke journalism, bulletins and editorial – this includes websites such as The Daily Beast, The Huffington Post, MSN and Yahoo News
- Search engines have also sought to add value as news providers, by providing websites or applications that aggregate headlines and bulletins from other online sites in a function-rich environment. This includes the likes of Google and Bing
- Both categories rely heavily on journalism from affiliated sources such as TV and newspapers operators. In the case of search engines, these services typically present an overview of headlines sourced (and indeed linked) to third-party news providers, rather than gathering or presenting news stories or comment themselves

- Distribution of news in the online space has brought together players from previously distinct media categories
- This has led to some convergence in consumer propositions:
 - A key dynamic in online media is the increased use of video – both by broadcasters (able to leverage existing assets) and by press groups – the latter via partnering with A/V producers/agencies, links to YouTube and other suppliers, and through their own production (e.g., filming journalists)
 - Equally, TV operators such as the BBC have used online distribution as a basis on which to provide more detailed analysis and commentary, in a similar fashion to traditional print media
 - All players have shared characteristics with broader online trends, including the incorporation of blogs and user commentary
- The proliferation of compatible devices has enabled a number of points of entry for consumers to access online news. It has also led to a number of inconsistencies in approach, however – for example, a smartphone user seeking to access content from the Guardian is faced with paying for a repurposed app or accessing the same content for free (albeit not repurposed) via a web browser on the same phone
- Legacy print operators have pursued a number of models in this nascent stage of online distribution – notably the Guardian and the Times have pursued directly opposing consumer models, as we set out opposite

Points of entry to 'online' news – the Guardian example

Website

- Main online portal
- Free access (ad-funded)
- 'Digital first' strategy, where stories are available in advance or simultaneous with print copy
- Accessible via online and mobile browser

Mobile app

- Repurposed app for smartphones
- Paid-for access
- Accessible via mobile app store

Tablet app

- Repurposed app for iPads and tablets
- Paid-for access
- Accessible via tablet app store

Points of entry to 'online' news – the Times example

- *The Times is the sole example of a generalist paper charging for online access, seeking either stand-alone subscribers or those who bundle newspaper and online/App (priced at £2, £4 or £6 per week)*
- *It has struggled to generate per user revenues better than a quarter of the ratios generated in print*

Evaluations of the 'success' of a digital extension are complicated: is the objective to replace lost revenues as the traditional model erodes (in which case experiments in creating digital extensions for generalist news have been failures) or is it to shift to a revenue model that can generate an equal or greater profit ex. the high costs of distribution? If the latter, then at some point a title (the Guardian?) may elect to close its presses

Drivers of a free model in online news

Competition

- Most online news providers have pursued a land grab strategy, seeking to drive short-term traffic (and to transfer brand engagement from offline to online) without considering how to monetise it; this was driven in part by the low margin cost of online extensions, as content costs were largely already covered by core print titles
- This trend, coupled with the BBC's freely available news content, has set a precedent, and an expectation in the consumers' mind that 'online equals free'; this renders any subsequent attempts to introduce pay very challenging

Threat of new entry

- Low barriers to entry online have enabled new entrants to emerge, with no legacy business to protect and with access to syndicated content at low or zero cost
- They have been willing to provide free access to content to drive traffic to their sites, in many cases to deliberately undercut legacy players; furthermore, 'content leakage' is a real problem in online distribution, with one site easily picking up news content from competing sites

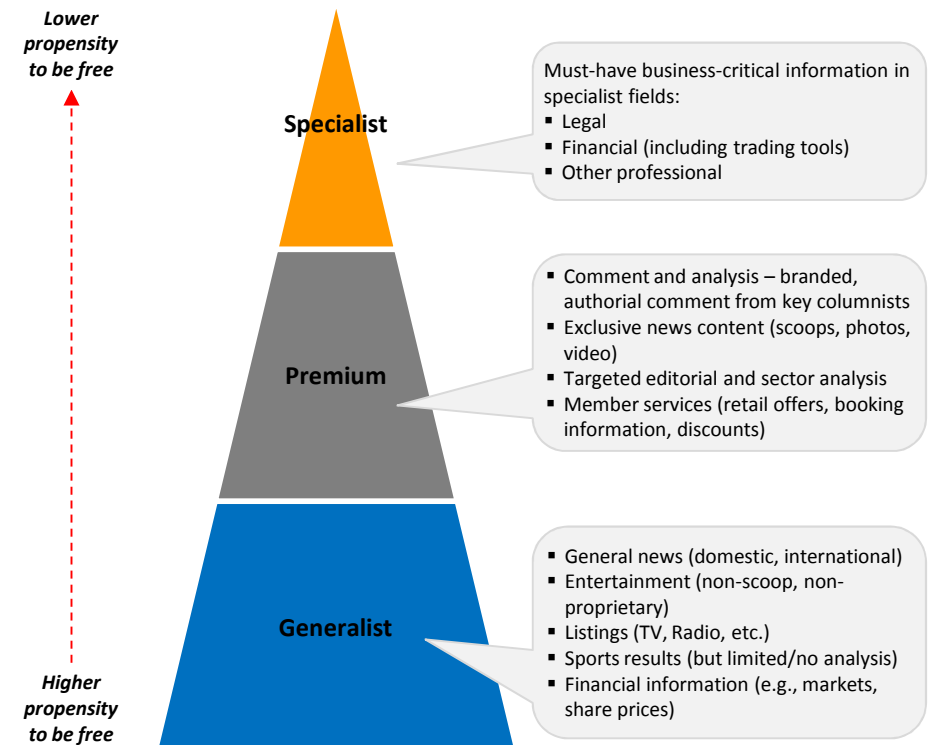
Consumer behaviour

- Many players have depended on search engines to drive eyeballs to their online news sites – compounding promiscuity among users. As a consequence, general news is available via multiple sources, and online users typically consume content from numerous sources. Attempts to charge for content unilaterally therefore are undercut by a multiplicity of other competing sources providing news on a free basis

Website news operators have experimented with pay models, but evidence suggests that these models can only gain real traction in the case of specialist news

- There have been limited experiments with pay walls in online and convergent media news provision
- Although evidence to date suggests that consumer willingness to pay for news has been limited
- Indeed, only very specialised online news services have generally been able to launch and maintain a pay model
- The key examples of successfully transferring a paid-for model from print to online products are largely confined to one genre: detailed financial analysis and in-depth business coverage (e.g., Financial Times, The Wall Street Journal and The Economist)
- In local media markets, despite a number of experiments with pay walls – Johnston Press most recently – the websites and mobile services owned by regional press groups are nearly all title-specific and free (even for access to stories that are available in print form only on a paid-for basis)

Propensities to pay for news content, by category



This bias towards free is confirmed by the primacy of free news websites (from broadcasters and newspapers) in share of consumption

- The online news market – and increasingly similar services available via tablets and smartphones – continues to be led by the traditional suppliers of news
- Of the top 20 news websites (ranked by audience), 12 are from newspaper groups (including one international group, the New York Times) and three are from TV broadcasters (BBC, Sky and MSNBC)
- The remaining standalone players including the news aggregator services from the two main search aggregators Google and Bing and three content portals (Yahoo, MSN News, AOL)
- In the top 10 (again by audience) only Yahoo ranks from outside broadcaster or publisher sites
- Crucially, nearly all the major players in online news operate on a free basis
- Ranked by market share, the BBC is the clear leader (see chart, right), with c42% of minutes, following by DMGT, with its globally popular Mail Online service a distant second
- By market share, nine of the top 20 are newspaper groups, four are broadcasters, and three search portals
- The top five by market share – the BBC, Daily Mail, News International, Gannett and Yahoo – constitute nearly three quarters of minutes with the next five taking the share to c84%

Market share of online news sites, by provider, 2011 (top-20)

	Share of minutes	Share of page views
<i>BBC</i>	42.3%	47.6%
<i>DMGT</i>	19.7%	15.6%
<i>News International</i>	7.4%	7.5%
<i>Gannett</i>	3.6%	4.4%
<i>Yahoo news sites</i>	4.3%	3.8%
<i>BSkyB</i>	2.1%	2.1%
<i>Trinity Mirror</i>	2.3%	1.8%
<i>MSN News</i>	2.5%	1.7%
<i>NewsNow</i>	1.5%	1.4%
<i>Guardian</i>	1.8%	1.2%
<i>NBCU</i>	1.1%	1.1%
<i>Archant</i>	0.7%	0.9%
<i>AOL news sites</i>	0.8%	0.8%
<i>Telegraph Media Group</i>	1.0%	0.8%
<i>Trinity Mirror Group</i>	0.9%	0.8%
<i>Google news sites</i>	0.8%	0.7%
<i>Orange</i>	0.5%	0.5%
<i>Scotsman</i>	0.4%	0.4%
<i>Time Warner</i>	0.3%	0.4%
<i>Topix</i>	0.4%	0.3%
Top Five	73.7%	
Top 10	83.9%	
Top 20	90.8%	

Source: UKOM/Nielsen, December 2011, all adults 2+, top internet news sites, current events and global news

Many of the web/apps-only services use functionality – as opposed to journalism or newsgathering – to aggregate existing ‘news’ sources, and include social network information feeds

- Google news is typical of a news aggregator which ‘harvests’ news from multiple public sources, presenting the user with a range of choices of where to source information or commentary on a particular news story. It directs users to the source site, so acts as a conduit for driving traffic to existing news websites
- Applications such as Flipboard and Pulse invest in creating a function-rich experience that aggregates news in a user-friendly and well-designed environment personalised to individual preferences
- Flipboard goes further in aggregating not just news stories but feature magazines, plus information that comes from Facebook and Twitter (and other social network) feeds of relevance to the user
- These applications ‘re-package’ content from elsewhere into a personalised ‘magazine’ application – on smartphone or tablet – that seeks to become the user’s primary portal for news and information
- Pure news providers may be at a disadvantage since they are not focused on bringing together feeds from the various different sources that increasingly ‘promiscuous’ news and social data consumers are using

Web/app news aggregators

Google News

- Google news ‘harvests’ news from published sources
- Functionality gives users a view of how many sources there are for each story, personalisation and ranking according to news preferences

Flipboard

- Flipboard aggregates news with social media and other interest areas – personalised for each user
- Available on smartphone and tablet only, provides a function-rich experience, akin to a ‘personal electronic magazine’

Pulse

- Pulse is similar to Flipboard but is more focused on news, creating an ‘intelligent harvest’ of news sources, providing a personalised magazine-style experience for tablet only

Experimentation with mobile and tablet apps is accelerating, led by brands in newspaper publishing and broadcasting, including the BBC



- While general experimentation with pay walls online has largely been unsuccessful, there has been renewed interest in the prospects for charging users for the use of apps – particularly on iPads and other tablets
- The Guardian has pioneered the paid-for app for its IP-enabled service, and is seeking to charge users a monthly fee to get constantly refreshed material, extensively re-purposed for tablets
- The Telegraph is also charging for its app (mobile and tablets), while Sky recently started to charge non-TV subscribers for apps on the iPad; the BBC's News app continues, of course, to be free
- The apps market, both for smartphones and tablets, is beginning to have a material effect on the 'look and feel' and functionality of news on the move, with significant use of video (both packages re-purposed by Sky and the BBC from their TV services and raw footage and/or bespoke video produced by newspaper publishers such as the Telegraph and the Guardian to enrich their mobile apps)
- The result suggests that there is a new arena for competition for news consumption – an amalgam of the text-rich tradition of newspapers and the video-rich packaging typifying broadcast

Source: Company websites; Mediatique

Pressures on the economics of apps

- For now, producing material for apps generates additional content costs – for example, The Times has a team dedicated to creating material for its Android application as the requirements cannot yet be automated – and there is no clear revenue stream
- Moreover, with broadcasters such as the BBC (for reach) and Sky News (as part of its stated strategy of following its users to multiple devices) committed to a free model (in Sky's case, free to TV subscribers on the iPad), there is no clear glide path to profit in the apps market for news

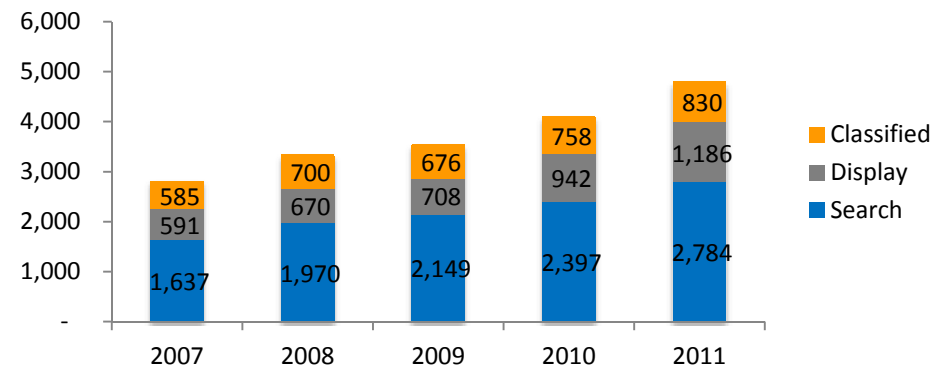
Range of business models in web/apps market

	Website	Smartphones	iPad
Guardian	Free	£4.99/year (mini-app free)	£9.99/month
Independent	Free	Free	£9.99/month
Times/Sunday Times	£2.00 - £6.00/week	£9.99/month (free for subscribers)	£14.99/month (ST £2.49/week) (free for some subscribers)
Financial Times	£6.69 - £9.00/week	Requires FT subscription	Requires FT subscription
Daily Mail	Free	Free (with ads) £8.99/year (w/out ads)	£19.99/year
The Sun	Free	£4.99/month	£4.99/month
Telegraph	Free	£1.99/month	£9.99/month
Express	Free	£64.99/year for both formats	
Daily Star	Free	£49.99/year for both formats	
BBC News	Free	Free	Free
Sky News	Free	Free	Free to Sky subs

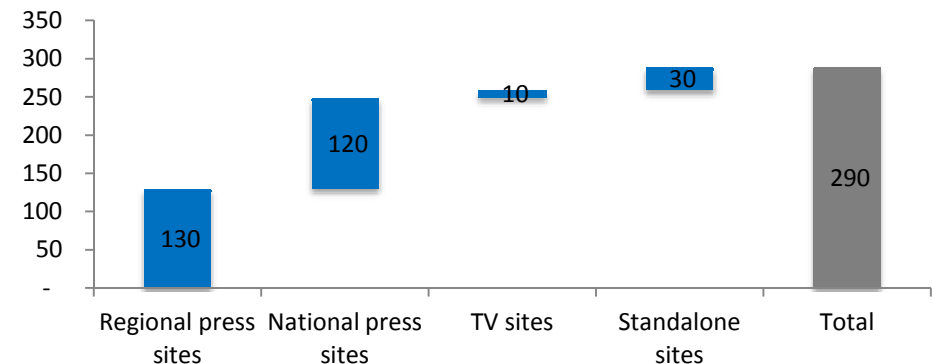
The core funding model for generalist online news is challenging in this environment, as 'online' advertising revenues largely accrue elsewhere...

- Online advertising revenues have continued to grow significantly as internet usage reaches critical mass
- Total online advertising spend in 2011 reached £4.8bn across three categories (display, search and classified, including mobile). This has provided an attractive opportunity for online providers – of any genre – to pursue
- The main commercial model for online news is banner or display advertising, with invitations to click-through or respond. Individual sites are also able to secure revenues from classified; while aggregator sites rely on search as the key driver of revenue (search also delivers audiences to news sites, although this is difficult to track externally)
- The proportion of total online advertising revenues that accrues to news is a function of both consumer engagement (i.e., proportion of time spend viewing news sites) and commercial metrics (i.e., cost of inventory)
- ...indeed, the latter metric varies significantly among sites, with 'quality' sites such as The Daily Mail's or The Telegraph's able to generate far higher prices (either cost-per-thousand or cost-per-click) than aggregator sites where the majority of inventory is sold via ad networks
- We have estimated that news sites in the UK generated a total of £290m in 2011, the majority of which accrues to newspaper brands
- We have excluded the paid-for Times subscribers (small) and those of the FT (which has an extensive international clientele and whose business model is based on specialist rather than generalist news)

Total online revenues (£m)



Total online news revenues, 2011 (£m)

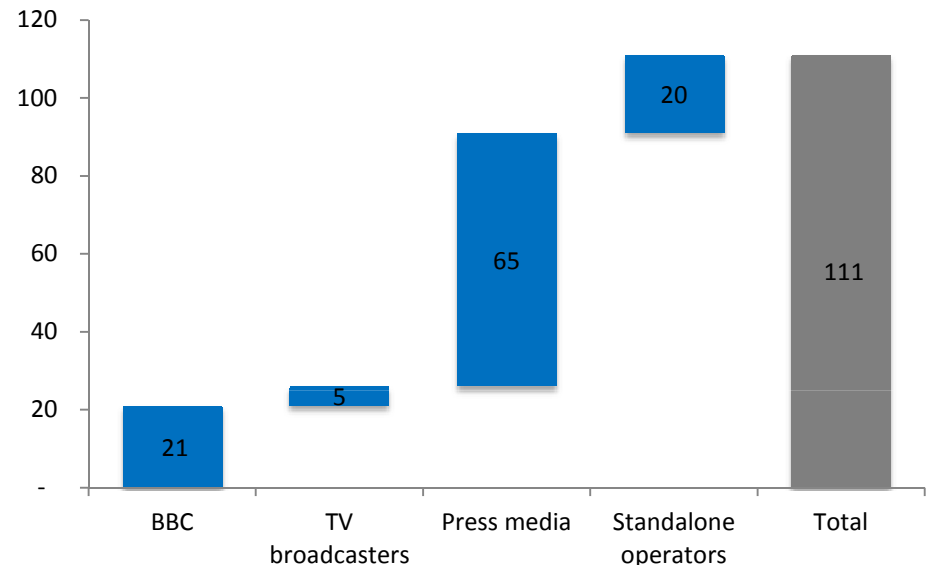


Source: Starcom, AA/Warc, Internet Advertising Bureau, Ofcom, Mediatique analysis, interviews

The provision of online news is largely funded by legacy players, even though business models remain subject to pressure from new entry

- The economics of online distribution place significant pressures on the funding of newsgathering and journalism:
 - Business models for online access are nascent, and the absolute amounts of advertising and subscription income generated by web/apps news providers are relatively small
 - New entrants have been able to enter the market with relatively few costs (e.g., streaming costs are declining rapidly), and have been able to rely on expensively produced news content from legacy TV/print providers without necessarily contributing to the costs of news production
- Online services rely on access to the breadth and depth of news content that is typically funded from other media (notably TV and print); on their own, the revenues from web/apps are not sufficient to fund the significant costs of news production, at least not on current levels
- We estimate that the amounts spent on producing bespoke online news are relatively limited – £111m in 2011 (including the BBC). This represents 2% of total online advertising revenues

Total online news expenditure (£m)



Based on these estimates, and in line with the indications we have had from the BBC, Sky News and selected newspapers, we estimate that there are no more than 600 journalists working exclusively on web/app news provision

- ...200 at the BBC
- ...40 at Sky News
- ...and the rest on newspaper or aggregator sites/apps

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Drivers of change in the UK news provision ecology

- Our analysis of the UK news market gives rise to the identification of four main driver areas for how the market will develop in the coming years (these are described on the right)
- A combination of outcomes for each of these drivers determine the scenarios that may prevail in the UK in the next few years
- We have developed three resulting scenarios that capture a range of possible outcomes for news provision in the UK:
 - ‘*Evolution*’, effectively a natural, slow development from today’s status quo
 - ‘*TV triumphs*’, in which the print model fails and web/apps do not deliver a viable business model
 - ‘*Convergent media triumphs*’, in which a viable business model is found
- On the following pages, we examine each one in turn
- In all scenarios, we assume that the BBC model and services continue roughly as now

Network capability

- Speed and capacity of delivery networks – mobile or fixed – and the extent to which barriers to entry associated with networks are reduced
- *Outcomes: either networks deliver audio-visual content seamlessly or hold back development due to insufficient capacity*

Consumer adoption

- Adoption of new technologies, modes of consumption, perhaps driven by coming of age of the digital cohort
- *Outcomes: consumers change news consumption habits rapidly, or remain wedded to current paradigms*

Cohort strategies

- Outcome of strategies by players that hasten or hold back development – bundling, mergers, cost-cutting etc.
- *Outcomes: either players adapt and develop and succeed, or fail to adapt and fail*

Propensity to pay

- Propensity to pay for consumption of news
- *Outcomes: either consumers adapt to payment for web/app-delivered news content (sufficient to represent viable standalone model) or online=free paradigm remains*

Note: unless otherwise specified, all references to potential changes in corporate strategy in this section are based on Mediatique’s own analysis and should not be taken to reflect intentions of the companies mentioned

- Increasing internet speeds for both mobile and fixed lines will allow improved user experience of news websites, with much faster access to video-rich news websites ‘on the go’
- This potentially allows audio-visual content to be consumed immediately, with minimal content download times, which could drive take up of new news services
- However, delays to both mobile and fixed broadband infrastructure could serve to hinder the development of the market



- *Take up of news services designed for convergent media will depend on the availability of network capacity and speeds*

Enabling changes to mobile and fixed networks

Improvements in mobile broadband services

- Ideally, 4G would provide mobile broadband speeds close to those of current fixed ADSL broadband, and provide greater network access to devices across the country
- New wireless network technologies are enabling mobile service providers to increase hotspot capacity by up to 10x, whilst simultaneously reducing data costs

Increasing fixed broadband speeds

- BT and Virgin offer internet speeds of up to 100 Mb and are investing in ‘super fast’ network infrastructure across the country
- However, Virgin only passes c50% of homes, and BT is targeting 65% of homes by 2014, of which 75% would be “fibre to the cabinet” not to the home
- Network congestion could be caused by rapid take up of audio-visual rich services – and without new charging paradigms, network investment may not match usage growth

- Traditionally it has been the younger age groups who have adopted new technologies quickly
 - However Ofcom data suggests that internet take up for 55-64 year olds is now at the national average of 74%
 - Internet use on mobile phones is rising, and smartphones now represent over half of all phones sold in the UK
 - The number of tablets sold in the UK is also growing, trebling in 2011 to over 3.6m (c7.6% of the population)
-
- *The ability of new technologies such as smartphones and tablets to enable immediate access to news content will have a significant impact on the future of news delivery*
 - *Equally, the growth of social networking, permitting news to be shared across the globe in a matter of seconds via, e.g., Facebook and Twitter, creates additional competitive pressure on traditional news*
 - *News bundling (personalised feeds) and news on the move are both likely to increase (and there is a prospect for portability and personalisation to generate a pay model over and above network charges); will such charges fund news provision?*

Consumer adoption of new technologies

Evidence of increasing internet uptake

- Internet take-up has risen for older people aged 55-64 who are now at the UK average (74%)
- 41% of internet users now say they watch audio-visual content online, an increase from 32% in 2009
- 31% of internet users look at news websites at least once a week; the figure in 2009 stood at 22%

Methods of consuming information are changing

- Internet users in 2010 were more likely to use a mobile phone to go online than in 2009 (31% vs. 28%), with this most prevalent among 16-24s (55%)
- TV remains the most-used media for UK adults as a whole, although this has decreased – from 50% in 2009 to 44% in 2010

Smartphone and tablet sales are increasing

- More than 3.6m people in the UK now own a tablet (c7.6% of the population) This marks a threefold increase from November 2010 (2.8% of the population)
- Smartphones represented around 50% of mobile phone sales in the UK in 2011

Source: Ofcom UK Adults' Media Literacy 2011; Financial Times

- TV news providers have invested heavily in developing news services for websites and smartphone and tablet applications that represent an extension of their TV news brand into the converged media space – they are effectively ‘following eyeballs’ onto platforms that offer a natural home for news consumption; they can afford to leverage their TV journalism and newsgathering since they are not necessarily seeking incremental profits from the provision of these services (BBC News is free; Sky News is free to subscribers)
- Likewise, all the newspaper groups have developed websites and applications for smartphones and tablets that contain more content than is published in the newspapers – but, unlike the TV providers, these groups seek to generate profits from web/app distribution
- Newspaper groups have followed two broad charging strategies:
 - Website free, with subscription payments for smartphone and tablet apps (e.g. Guardian), thus depending heavily on both volume to drive display ad revenues, and subscription revenues from apps
 - Erecting a pay wall (e.g. Times, FT), thus depending more heavily on subscription revenues

- *Should the decline in the newspaper industry continue, establishing a successful strategy for converged media services will be crucial – otherwise, there is a risk that editorial assets associated with ‘print’ journalism may be seriously undermined*
- *But tough competition is now presented by websites and applications provided by ‘TV news providers’ who are not necessarily seeking to generate profits from their web/app services*

Examples of strategies for web/apps

Guardian online, Daily Mail online

- Comprehensive website free at point of use
- Contains all the content in the print version, plus dynamic updates throughout the day
- Tablet app at £9.99 (Guardian) or £2.49 (DM) per month
- Smartphone app at £4.99 (Guardian) or £8.99 (DM) per year (ad-funded app for DMGT is free)


The Times and Sunday Times, Financial Times

- Pay wall erected for all web/app services
- The Times/Sunday Times: £4 per week for all platforms (£6 a week when bundled with newspaper)
- FT: £6.79 per week for all platforms (£12 a week when bundled with newspaper)

BBC, Sky

- Free website, containing video footage and packages plus streaming of TV service
- Free apps for smartphones and tablets (in case of Sky, iPad is free for TV subscribers; otherwise £4.99 per month)

- Traditionally, consumers have been accustomed to paying for papers, but not for news on TV or radio
- Yet recently a free model for newspapers is emerging (e.g. Metro, Evening Standard) which has proved extremely popular with consumers
- Within the converged media space, most news services remain free (BBC News apps and websites, newspaper websites such as Guardian, Daily Mail, Telegraph); some newspapers charge for iPad but not smartphones; in any event consumers may not develop a propensity to pay
- Those news websites or applications that charge have not yet demonstrated a high level of demand for paid-for services and demand for free apps has significantly out-stripped demand for paid-for apps
- Apple recently announced 25bn cumulative app downloads to its various devices – although free apps are still overwhelming more popular

- 
- *Consumer propensity to pay for news services will have a significant impact on how the news landscape will develop – without sufficient revenues to substitute for the failing print model, newspaper journalism may suffer major damage*
 - *A source of payment may be revenue share with network operators, from data charges levied on users, share of mobile advertising, etc. More broadly, there may be a charging model for portability, personalisation*

Selected key data, mobile/tablet news apps

Smartphone and tablet owners

- 15m smartphones have been sold in the UK
- 3.6m tablets have been sold in the UK

App downloads in the UK

- 47% of smartphone and tablet users download apps
- 25% of smartphone and tablet users have paid-for apps

Selected free news apps

- Sky News, BBC News, Channel 4, The Independent
- (Sky iPad App free to subscribers; Independent iPad is £9.99/week)*

Selected paid-for news apps

- The Telegraph, the Guardian, Mail (ad-free version)

Emerging evidence of take up of paid-for news apps

Evidence of robustness of paid-for news Apps remains limited

- Times/Sunday Times: approximately 120,000 digital subscribers (including mobile)
- Guardian: 500,000 downloads of iPad app when free (January 2011)
- BBC News (free): 6m apps downloaded

Drivers of change in the UK news provision ecology

Network capability	<ul style="list-style-type: none"> Steady but unspectacular improvements in network; social networking plateaus and citizen journalism continues to face issues around lack of credibility
Consumer adoption	<ul style="list-style-type: none"> Evolution in consumer behaviour, but with older cohort resistant to change
Consumer payment	<ul style="list-style-type: none"> Little appetite to pay directly for online news as today
Cohort strategies	<ul style="list-style-type: none"> Traditional models stay the course, but evolve in line with the challenge of revenue dislocation (one or two national newspapers fold; regional pruning continues)

'Evolution' scenario outcomes

- Print revenues continue to decline as consumers shift to convergent media (and advertisers follow them) but cost cutting (and exit by failing players) allows print model to survive (press players effectively bundle services, take some share of online advertising in line with market innovations around interactive/tailored advertising, continue to offer deep-information display advertising opportunities and extract micro/subscription payments but not very much)
- TV continues to benefit from reductions in the costs of news provision (adapting new technologies to render ENG cheaper, etc.); more hubbing, shared costs (particularly internationally); ITV agrees new compact that underpins lower but still decent level of news investment; Sky remains a key player
- Online (existing players and new entrants) continue to provide an ad-funded model (with perhaps some viable payment systems emerging for portability and bundling extensions from print and broadcast models); advertising metrics slowly improve, as do premia for certain audiences; online/convergent space becomes more video rich but still recognisably similar to current characteristics

Print continues to decline but is still a force in news provision and a contributor to plurality (although business failures and further radical restructuring likely); TV news sustainable if still under threat of technological/consumer behavioural and revenue model shifts

Drivers of change in the UK news provision ecology

Network capability

- Improvement in network allowing more video rich services, reliably delivered

Consumer adoption

- Consumers continue to aggregate around key bulletins on broadcast TV and toward video-rich online/convergent services delivered by big TV players (BBC, ITN, Sky), all of which continue to be key news providers and which embrace social networking and citizen journalism

Consumer payment

- Pay models do not take hold (except via enablement pay to allow portability/rich video content on non-linear basis)

Cohort strategies

- TV players consolidate engagement with viewers; newspaper publishers either decline rapidly (as they lack the attributes to compete in an A/V-rooted news environment) or manage a transition by adopting competitor strategies

'TV triumphs' scenario outcomes

- Print revenues reach a tipping point at which even a low-cost operation with skeletal staff and reliance on agencies cannot afford the costs of physical distribution and experiments with pay walls cease even remotely to allow bundling to extend the life of print; every £ loss to print flows to online/convergent media on an ad-funded basis (where A/V skills and services are at a premium, thus favouring TV legacy skills and new entrants able to compete in this space); Guardian's model of 'Digital First' wins, but maybe not with the text-bound legacy products intact
- Specialist journalism formerly associated with print migrates to TV, with the best communicators providing depth to TV and TV-linked convergent coverage; network improvements vastly reduce the costs of A/V distribution, both in the supply chain of ENG (electronic news gathering) and to the end user on his or her chosen device; the mainstay bulletin remains a key appointment to view, and rolling news flourishes on multiple platforms
- Online favours A/V skills set, and strong links to broadcast brands create barriers to new entrants and editorial challenges to match A/V-rooted journalism with cheap aggregation on the previous model; brand strengths and relentless cross-promotion favour key TV brands on multiple devices

Plurality may be challenged but broadcast model of news (with impartiality, fairness) protected

Scenario 3: the 'convergent media triumphs' scenario represents the emergence of a viable web and applications model for news provision

Drivers of change in the UK news provision ecology

Network capability

- Superfast broadband rolls out beyond expectations, wireless 4G creates vast new capacity and speed

Consumer adoption

- Social networking/social media grow ever more powerful, becoming key trading areas for even mass-market consumers

Consumer payment

- Pay models subsumed by network charges to enable connectivity/interoperability and advertising and direct purchase take centre stage

Cohort strategies

- Legacy players either transform or fail; widespread adoption of new business models based on data, instant purchase, one-to-one marketing

'Convergent media triumphs' scenario outcomes

- Print model dies; physical distribution of paper product untenable – and diaspora of skilled journalists migrates online
- TV news on the broadcast model becomes redundant as immediacy of convergent delivery – enhanced by ubiquitous, fast broadband (fixed and wireless) – provides *anytime anywhere* news on demand
- Sky ceases to operate an expensive broadcast news service, ITV reduces its commitments to a bare minimum and BBC is only remaining legacy full-service player in TV News
- Online – web, tablets, smartphones, IP to the home – dominates distribution model, trumping both broadcast and print; advertising rapidly moves to online and premia develop around one-to-one marketing and the enabling of consumer purchases (newspaper brands able to move to a digital-only model do so such that they and new entrants ultimately provide whatever level of news content funding that arises outside the BBC); the BBC aggressively targets convergent media, trumpeting standards, credibility and internal plurality – but cannot abandon its TV heartland

Commercial news provision moves into lightly regulated online arena; cacophony of views but awkward challenges on impartiality, the lines between commerce and news

Likelihood attached to each scenario

Evolution scenario

- A working assumption of ours in favour of the **Evolution** scenario is based on the observations that the traditional print sector continues to be crowded and competitive despite sharp declines in revenue, and that traditional broadcast and print players have aggressively expanded online and via apps despite the absence of clear revenue models – hence, Cohort Strategies may be the most important short-term driver among those identified
 - Executives in print media are privately fearful of the next few years, and their solutions fall into two categories: migrate online (and be prepared to phase out print) - what one might call the Guardian solution; or stick with pay walls, converting enough people to lock in online as an adjunct to newspapers, extending the life of print; but both identify the need for further cost cutting in any event
- This will inevitably affect staffing levels (other cost categories will prove more difficult to cut – e.g., newsprint, printing plant operations) and lead to further investment in convergent media (particularly mobile) to attempt to claw back ground lost in core revenues ; broadcasters say they will continue to favour online extensions, driven in particular by BSkyB and the BBC, and this will necessarily challenge print media to adopt video-rich attributes for which they are currently ill-equipped and on competitive terms set by the broadcasters, which do not seek incremental profit
- Further cuts to editorial staff may increase reliance on agency feeds (particularly for international news) and thus may lead to a reduction in plurality (not yet an issue for print or broadcast given the relatively light use of agency content)

TV triumphs scenario

- In our view, a **TV triumphs** scenario is perhaps the least likely outcome in the short to medium term, given the relatively small number of suppliers – despite the medium's popularity; the chances of the TV model dominating may be most closely tied with network delivery (and device proliferation), providing a requirement for all suppliers to create video-rich and compelling visual content (even if supported by greater depth of information and analysis); the role of the BBC in TV will be a major factor in determining whether the broadcast model for news holds, and for how long

Convergent media triumphs scenario

- The catalyst for the **Convergent media triumphs** scenario to emerge in the short term is more likely to be a combination of consumer behavioural change, including the willingness to pay for certain services associated with news (for example, personalisation and portability) and innovations in network delivery (including sharing with content suppliers some of the data revenues currently accruing to operators): this is rendered far more likely if a tipping point is reached whereby display advertising moves *holus bolus* away from print and TV and toward online and mobile (tracking the significant transition already seen in recruitment and other forms of classified)
 - This would further pressurise newspaper publishers, leading ultimately to either exit/failure of titles and/or accelerate a move toward a wholly online model for certain key brands (most likely to take this path is the Guardian, which has already openly discussed a digital-only future*)
 - A key point at which this may be determined will be when digital revenues comfortably cover all core editorial costs (in the case of the Guardian, twice what it now generates assuming the same cost base) such that closing the costly print operations becomes plausible

*Adam Freeman, executive director, commercial, told the Oxford Media Convention in January 2012 that it was the company's "mission" to move toward a digital-only future.

Implications of each scenario on plurality

Evolution scenario

- Further cost cutting, inevitably to the detriment of front-line journalism, and conceivably a greater reliance on syndication and agency
- The exit of one or more titles from the national arena and up to 100s more closures at the regional level
- Convergence of models online and via apps favouring video and short clips, devaluing more in-depth analysis

TV triumphs scenario

- Greater dependence on the BBC and Sky – and in particular requiring greater reliance on BBC's 'internal' plurality
- Loss of some granular journalism in favour of TV-style packaging

Convergent media triumphs scenario

- Inability to extract commercial public service obligations around news in exchange for broadcast licences
- Reduced plurality at local/regional level through absence of Channel 3 news (although local TV may be an offsetting factor in the short term)
- Harder to regulate impartiality and fairness in a market context where business models favour one-to-one messaging and personalisation, rather than reach

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Current news is extensive, varied and accessible

- Current news provision is extensive, varied and accessible, underpinned by expenditure of c£2bn by broadcasters, publishers and online players, sustaining c24,000 editorial posts
- **TV news** continues to be popular and trusted, with the highest reach of any news medium (and a key destination for the vast majority of consumers at a time of globally or nationally important events); there is competition (and consequently multiple sources), nurturing a plural ecology made up of public-service broadcasters and commercial players subjected to exacting standards on impartiality
- **Newspaper** readership, although declining, is still high by international standards, and despite recent cost cutting the print sector remains committed to granular journalism (accounting for 65% of editorial spend across all routes to market, albeit including the costs of non-news content), providing in depth coverage, eyewitness reporting, campaigns and investigations
- **Radio** outside the BBC plays a minor role in providing original news content, although is important for delivering local, practical news, weather and sport – its modest budgets are unlikely to be reduced further unless radio digital switchover (date not yet set) leads to abandonment of local news provision by commercial operators
- **News websites and applications** are enriched by extensive re-purposing by traditional media (broadcasters, print publishers), and are now available on a personalised basis via multiple devices – most of them for free apart from network charges; content is increasingly video-rich and compelling, and linked into social networks and UGC feeds that reinforce instantaneousness and provide the ability immediately to respond, thus engaging the citizen/consumer in unprecedented ways

Revenue models are under pressure

- However, revenue models underpinning news provision are under pressure, with TV advertising revenues broadly flat over the past five years, commercial radio revenues declining over the same period and core print revenues sharply down
- Of the key categories currently generating revenues that ultimately pay for news provision, only online advertising and pay TV have been growing and their contribution to creating news is, in the first instance (online) small, and in the second (pay TV), diverting relatively small amounts into news
- The precarious nature of both TV and – to a much greater extent – newspaper revenue models places the sustainability of key elements of news provision at risk, certainly if they are to cover the current level of investment in granular, professional journalism

Digital has yet to provide a solution

- Digital has yet to provide a solution, however. Audiences are evincing more promiscuous behaviour in relation to news consumption, for instance in reading fewer newspapers, watching less TV news overall (the BBC is an exception in terms of audience growth in the past five years) and continue to resist pay models in relation to newspaper content online (which in any event has been largely free)

Web/app players condition users to free model

- The role of online aggregators and new entrants, with no legacy revenues to protect, has been one of further conditioning consumers to a free model; they will continue to provide their services for so long as they are able to secure access to traditional journalism at no or little cost and generate digital advertising revenues that need not (indeed do not) cover the loss in traditional revenues suffered by legacy players
- The print sector has been exploring alternative delivery – particularly through apps and e-readers – as a possible source of paid-for digital distribution; but the availability of significant content via other means, including the apps offered free by broadcasters, has meant that little revenue is being generated over and above network charges, which to date have not been shared to any large degree with content suppliers

Papers' ability to charge for web/apps is constrained

- In short, newspapers' ability to charge for content online and via apps is constrained by consumer resistance, availability of substitutable content, and the commitment of broadcasters (including the BBC) to provide re-purposed content without seeking incremental profit
- In the face of limited salvation from digital, newspaper publishers have been cutting operating costs, particularly around production (pagination, consolidation of printing arrangements) and editorial staff reductions (concentrated in the regions and internationally), with greater use of freelancers

Print publishers will struggle to remain profitable

- Even with no changes in current dynamics, newspaper publishers will struggle to regain/maintain profitability without further cost cutting and restructuring – this inevitably will have an impact on the extent and granularity of print journalism, which plays a crucial role in influencing and informing news agendas across the news sector
- Yet changes in dynamics are indeed likely, as tablet/smartphone penetration inexorably rises and as network improvements (both fixed line and mobile) roll out
- Inevitably, there will be further innovations in network delivery, mobile aggregation and business models linking marketing and individual consumers, enabled by IP; traditional print journalism, if dependent in the future on high costs of distribution, will be further threatened unless print operators are able to migrate to convergent models (e.g., sharing in network revenues, charging for personalisation)

Regional press and TV particularly at risk

- The regional press is particularly at risk, given trends in recent years; TV news may be more resistant, owing to the core role played by the BBC and the appeal of A/V material in a convergent media space that places greater emphasis on video-rich services where broadcasters have skill advantages
- However, only by regulation (via the licence fee, direct aid to local TV, and a rebalanced PSB compact to ensure ITV news commitment beyond national and international coverage) are local and regional broadcast news likely to be sustained at current levels
- While citizen journalism, blogs, commentary and linking through social networking provide instant news discovery and collective analysis, they lack credibility in our view and are not subject to regulatory standards around impartiality and quality

These developments may have implications for plurality

- The key developments identified in this report, and the prospect of further evolution toward fewer newspapers, fewer print journalists, greater reliance on freelancers and agency feeds and a growing role for online/mobile apps to deliver news content could have potentially serious implications for plurality, at least in the short to medium term
- A key issue for regulators in the near future will be the possible absence of traditional means of extracting commitments to news (for example, through licence terms with commercial PSBs), and the lack of a framework to impose requirements around impartiality, fairness, accuracy and redress in convergent media

The immediate future is significant disruption...and heavier reliance on the BBC

- Over time, skilled journalists are likely to transition to new models (both via re-positioning by legacy brands eschewing traditional distribution models and through re-skilling for online/convergent media)
- Equally over time, demand for news (as now bundled with other content such as entertainment, reviews, listings, etc.) is likely to lead to the creation of new models to fill any vacuum created by the failure of legacy businesses – perhaps via a premium payable for aggregation, personalisation, inter-operability and portability, either via subscription, bundled with network charges, or via tailored/contextual advertising and messages and the further enablement of one-to-one purchases of goods and services
- Until these new models become clear, and barring radical pre-emptive moves by traditional news providers to accelerate the pace of change, the immediate future is likely to be one of dislocation, restructuring, consolidation and market exit (certainly in print; conceivably in aspects of broadcasting – notably regional – as well)
- The short term pressures will make the news eco-system even more heavily reliant on the BBC; it is likely to be a crucial source of balance in any transitional period, making it all the more important that its own commitments to quality journalism are maintained, even against the challenges of operating with a frozen licence fee and additional, new claims on its resources

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