



UK news provision at the crossroads

The news market in the 21st Century and the likely implications for the BBC's role

A report for the News Media Association
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1 The key points

The UK currently benefits from having a highly successful and plural news market

- A vibrant combination of news services spanning local, regional and national news markets, all major consumer media and delivered by strong commercial and non-commercial players
- A unique asset in the BBC, providing high quality original news and current affairs content with predictable annual funding from the licence fee

All UK news providers are facing disruption to their traditional operating models as news consumption shifts online and traditional boundaries no longer apply

- All UK news providers, traditionally separated into different market segments by their chosen media, are now competing for audiences in a converged, connected media market
- For players dependent on advertising and consumer pay business models, this means competing for revenues against a much broader pool of competitors, many of whom are global in scale and influence
- For the BBC, this means that there are many more ways to reach increasingly fragmented consumer segments – a challenge that is driving new service and distribution costs

Convergence changes the rules of the game but also provides many more opportunities

- The converged digital news value chain allows for content to be packaged, sourced, shared and monetised in many new ways – the scope to boost consumer engagement with news is enormous
- Of critical importance is that the market evolves in such a way that continues to support a high level of original UK news output within an increasingly globalising mix of sources and voices

Commercially funded news organisations remain strong and are on a path to sustainability in a 'digital-first' future

- In national news, business model innovation continues, including ad-funded UK news outlets now able to exploit global reach and a wide variety of consumer pay models from membership to metered access
- In local / regional news, connected media is allowing much greater reach and engagement, reversing long term trends of readership decline

The approach that the BBC takes to the online news market is increasingly important

- The BBC needs a strong online news service in order to continue to reach as broad a cross section of the UK population as possible
- However, the BBC's move online has also led to it significantly expanding its range of news content – from broadcast TV and radio into the written word and from 'hard' news into 'soft' news and more magazine style content
- This expansion of online news content increasingly brings the BBC into direct competition with what would traditionally have been considered the 'print' media sector, now largely online – an expanding editorial scope is eroding traditional points of differentiation between the commercial news sector and the BBC's output
- The BBC has traditionally been a leader in technology innovation and investment – a position that gives it a strong role in influencing the development of the UK content sector, including news
- As a result of these trends – convergence and expansion - the BBC's future activities in online news now have much more of a bearing on the development of the UK news sector overall

The BBC's 'Future of News' report highlights some of the challenges for the wider news sector but misreads and overplays the imminent demise of other news media – the sector remains vibrant

- The BBC's 'Future of News' report highlights that many long-standing news media 'brands' are facing the challenge of business model renewal in an increasingly competitive online news market
- The need to innovate and compete does not inexorably lead to market failure – commercially funded media players have always had to innovate to survive and the current phase of market development is no different
- The BBC can participate in the evolution of the UK news market without building an increasingly cross-competitive range of services that harms the commercial market opportunity for others

The BBC cannot substitute for market-driven plurality and should not attempt to pre-empt market failure that does not exist

- Part of the BBC's argument for increasing its role in local news provision is that there is an impending market failure – this is not borne out by current evidence
- Local media companies have had to cut costs and adapt to a more competitive landscape for available advertising and circulation revenues, but the sector remains profitable and there are now strong signs that revenues are stabilising
- At the same time, local news media is reaching much larger audiences as new opportunities in social media and on other connected platforms develop
- The signs are therefore that market-driven plurality in national and local news is sustainable

Where there are uncertainties in the UK news market, the BBC's instinct should be towards support and co-operation rather than building up its own services

- Where a market opportunity is nascent or uncertain, the BBC should avoid expansion to colonise the opportunity unless it is either critical to delivering its core purposes or an area where BBC intervention can drive a wider benefit to all market participants (e.g. as it has done in driving catch-up VoD in TV)
- The BBC can play an active role in shaping the future of the UK news market in the 21st century by being open and committed to participating in industry joint ventures that have mutual benefit
- By working with the wider UK news sector, the BBC can gain access to a wider scope of news content and a wider cross-section of audiences without having to replicate existing services

Building in principles of co-operation between the BBC and the wider UK news market has a number of advantages over a separate and increasingly competitive set of strategies

- The BBC can co-operate with the wider news market in a number of ways, including:
 - Linking to external providers and directing audiences to other UK news outlets
 - Content sharing and sourcing – bringing the BBC closer to local markets via partnerships and using the BBC's national platform to promote the best of UK journalism from all sources
 - Participating and co-funding industry joint ventures – sponsoring and supporting original UK journalism and linking with other UK providers in international news markets
 - Purchasing independent commercial content as a means to augment the scope of the BBC's coverage and trading BBC content via other aggregation services to increase its overall reach

The BBC's future governance arrangements should include a specific focus on how it interacts with the wider news sector to mutual benefit

- Alongside clear co-operation principles, the BBC needs to be held to account in delivering new ways of working with the wider UK news sector
- History suggests that this is something best served by external oversight to BBC management rather than being something that is left to internal roles and responsibilities
- The location of these responsibilities will therefore depend on the future oversight of the BBC – If the BBC Trust is replaced by an external body (e.g. Ofcom), part of its remit should be in overseeing how the BBC supports the future of market-driven plurality in UK news

2 Introduction

2.1 The aim of this report

Following the publication of the BBC's 'Future of News' report in January 2015, the News Media Association (NMA) commissioned Oliver & Ohlbaum Associates Ltd (O&O) to review the arguments being made by the BBC about the future prospects for commercially funded news providers in the UK news market and to identify areas where a more co-operative agenda between the BBC and other UK news providers could be to the benefit of the UK news industry as a whole.

The aim of this report is not to provide an exhaustive analysis of the news market, its structure, revenues and the prospects of each player in detail, but rather to set out a view of how a more co-operative approach in the UK news market could bring mutual benefits and support the continuation of diversity and plurality in the UK's successful news media market.

2.2 Our approach

In reviewing the arguments made in the BBC's report, we have mainly used pre-existing market analysis from industry analysts for supporting evidence. The intention is not to create new arguments from first principles but rather to illustrate where existing industry analysis might suggest a different future for the UK News industry. This includes recent market reports published by Ofcom, the BBC, Mediatique, Ender's Analysis and WAN-IFRA amongst others. In addition to these published sources, we have included some new data on recent market performance supplied by the NMA's members.

2.3 About O&O

Founded in 1995, O&O is one of the leading independent consulting firms focusing on the media, entertainment and sports industries. Based in the UK, O&O works with leading media organisations and rights holders around the world on strategy, commercial development and regulatory assignments.

2.4 About the NMA

The News Media Association is the voice of national, regional and local news media organisations in the UK – a £6 billion sector read by 42 million adults every month in print and online. The NMA exists to promote the interests of news media publishers to Government, regulatory authorities, industry bodies and other organisations whose work affects the industry.

3 Executive summary

UK news provision – A continuing global success story despite the challenges of the web

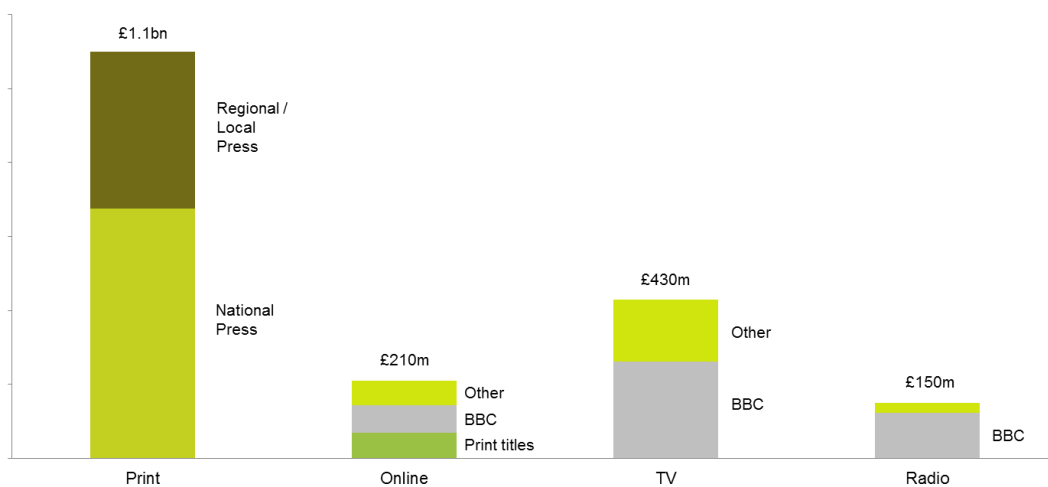
After 20 years of mass market access to the internet and 10 years of mass market access to broadband connection speeds, the UK news provision sector is still among the strongest in the world across local, national and international news markets. In 2013, UK news content brands invested almost £2 billion a year in originated journalism – research, editorial, newsgathering etc. – with news output still overwhelmingly driven by traditional silos of consumption in TV, Radio, Print and Online.

Today, the UK still has the most national newspaper titles per capita, is second only to the US in the provision of local news titles and supports an expanding cluster of international news brands ranging from the BBC (TV, radio and online), to the Economist and Financial Times (print and online), to the Guardian Online and the Mail Online (national print titles moving into global online provision). Many innovative online news models introduced in recent years from Vice, to the Conversation, Summy and BuzzFeed, either originated from the UK or have a significant UK journalistic and managerial input or manifestation.

The enduring strengths of the UK news provider market – its scale, reach, diversity and willingness to innovate – remain today despite some strong economic headwinds over the past 5-10 years. Commercially funded news providers have had to innovate and adapt in order to contend with the rise of online search as a substitute for classified advertising and the wider shift to digital media is breaking down traditional display advertising media silos and forcing greater competition in a broader online advertising market (with many more participants in the value chain). Despite the challenges, the UK news media sector today contains a wide range of successful and innovative news businesses - traditional print players are adapting to a ‘digital-first’ future, revenues are stabilising and profits are still being made.

There are undoubtedly more challenges ahead for UK news providers as part of a globalising news market, but most have shown that they are adaptable to change and can thrive where opportunity presents itself. The main issue is therefore in the pace of change and in there being sufficient funds available in the medium-term for news providers who need to continue investing in innovation ahead of the market.

Figure 1: Total funds spent on news by news providers in the UK, 2013



Source: Adapted from Mediatique analysis for the BBC plus O&O estimates

Note: Excludes non-retail pay TV revenues and non-core press revenues

At the heart of the robust UK news market is the traditional ‘print’ news sector – local and national print with an increasingly strong presence in online – investing c.£1.2 billion a year in original journalism and editorial, and the BBC, operating across TV, radio and online, investing another £460m a year in total. Of the remaining £260m, about £195m is provided by commercial TV and radio news providers – most notably ITN and IRN – which are manifestations of the news “cooperatives” or “mutuals” set up by the commercial TV and radio sectors in the 1950s and 1970s respectively, and Sky News – the news channel offshoot of Sky Europe, which is part owned by 21st Century Fox which in turn is linked to News Corporation, the owners of News UK, owners of The Times, The Sun and The Sunday Times in the UK.

The remaining £65m of content investment comes through a combination of stand-alone online providers in the UK and the UK arms of international news providers such as CNN, CNBC, Al Jazeera, the New York Times international etc.

Each major source and type of news provision not only plays an important role in sustaining overall news investment and provision but also a crucial part in the overall plurality, diversity and balance of news coverage available in the UK. The national newspaper providers (and their online offshoots) provide a range of partial opinion and campaigning journalism across the political spectrum, while national TV and radio news providers (and their online offshoots) are charged with providing impartial and balanced news. Local newspapers, while very location specific in their outlook, by and large try to cover the whole range of views in their market, while the stand alone online world provides both impartial and partisan news content, as do the range of international TV news services available in the UK.

All these individual news sources and the ecology as a whole play a crucial role in holding power to account, and in underpinning a vibrant democracy. Central to this ecosystem are the respective roles of the print sector and the BBC, the two largest (and by international standards the most unique) providers, which while playing distinctly different roles within the overall news ecology are both vital to its remaining vibrancy, economic impact and contribution to democracy.

How these two important players develop over the next 10 years and how they relate to each other is likely to determine whether the UK can continue to benefit from a plural and diverse news provision sector as the second wave of web innovation takes hold or whether some parts of the ecosystem will be crowded out by increasing competition from overseas players (acting to secure market share in the UK based on a global news model) and an expansion of the BBC’s brief beyond its traditional boundaries.

A new wave of challenges and opportunities ahead

Despite the continued success of the UK news sector across both traditional and new business models and both commercially funded and public service (including publicly funded) provision, there is no escaping the increasing pace of change across the market and in particular the growing importance and impact of the internet.

Many would agree that that the UK news sector remains one in transition and that the shift towards online news consumption still poses many commercial challenges. These include:

- The large amount of free content on the web both from traditional TV and radio providers, new online stand-alone providers and other print groups
- The increasing number of intermediaries that now exist between news providers and advertisers, and consumers also makes news services more difficult to monetize
- Increasing competition from a wide range of new news providers – from BuzzFeed to Business Insider

The recent wave of innovative news provider models at both the short form, headline orientated aggregator end – Summy, Upworthy, BuzzFeed – and the deeper more research based end – Vox, the Conversation, Business Insider - are adding to the pressure on traditional print providers who have historically existed somewhere in between these two positions. Add to this the new challengers in investigative reporting in either the form of the commercially funded Vice Media or the Foundation funded First Look Media and it is clear that competition for news audiences is increasing significantly.

The growing role of advertising networks across the web that follow individual users rather than directing monies to specific content providers and the increased role of social networks in directing people to news content threatens to put even more distance between news content providers and those who can fund it.

But the web also offers traditional news providers a route to global markets and younger demographics (where both the Guardian Media Group and the Daily Mail have been in the lead), and there is nothing stopping these providers following the innovators to either the aggregator 'headline' end of the market or the deeper, more researched end of the market in addition to their traditional positioning (typically somewhere in between). For example, both the Daily Mail Group and Trinity Mirror group have had successes with the former headline model recently and Guardian Media and the Times are trying versions of the latter move into more in depth news provision and comment, while the Economist and the Financial Times were arguably already moving towards the deeper research end of the market through online before the new disruptors even arrived.

Improving broadband speeds and compression rates of the web 2.0 age also allow the traditional print players to start to supply audio-visual material in volume online, providing a route to higher video ad yields and potential pay revenues for premium content. At a local level substantial migration of news provision online – sometimes even replacing print entirely - not only reduces cost duplication but also gives providers the local scale and reach needed to become the de facto hub for local businesses and local citizens to communicate and trade.

Most traditional print news organisations would admit that they are currently on a journey towards finding new business models for their services. This is motivating an unprecedented period of creativity, investment and innovation in the news media sector, with traditional and new players all coming together in a converged, connected online distribution market and trying out new ways to originate, curate, package, disseminate and discover news. The initial signs are encouraging – levels of consumer engagement with news content are increasing and online traffic to news originators and aggregators is growing rapidly. The challenge over the coming 5-10 years will be to find the right mix of news products and ancillary services that brings sustainable revenue and operating models so that the strengths of the UK news market are not lost in the transition.

The BBC's view going forward – Filling gaps or crowding out

With all these potential opportunities and challenges ahead, the BBC has been reviewing its future role in the news market in its "Future of News" report as background to Charter renewal in 2016/17.

In its 'Future of News' report the BBC similarly identifies many of the challenges and opportunities outlined above. However, the BBC's report then goes on to conclude that:

- (1) there is a significant risk of reduced supply at all levels of commercially funded UK news provision – but in particular at a local level (due to a failure of the commercial print model) and international level (due to the dominance of the US news providers and state sponsored services from Asia and the Middle East), and
- (2) the BBC needs to compensate for this risk of failure by expanding its own news provision in each of these areas.

The report specifically avoids the issues of further BBC investment potentially crowding out commercial business models by pointing out only two potential scenarios for future market development. In the first scenario, the BBC would find its diagnosis of market failure in commercially funded news to be correct and so their expansion would end up filling much needed gaps in the market. In the second scenario, the commercially funded news market would transition successfully to the digital age irrespective of the BBC's actions, in which case the BBC's expanded news provision should not be an issue and would not harm news provision but instead adds to consumer choice and plurality.

However, many sector analysts suggest a third, more likely scenario for the development of the news market in the UK.

Under this scenario the commercially funded news sector does transition to the digital age and new business models but with many challenges, difficulties and risks along the way. This is exactly the sort of situation where pre-emptive and competitive action by the BBC, although well meaning, could certainly influence the timing of - and available returns to - the transition being made and might even go so far as to contribute to driving the commercial market failure that the Future of News report perceives. At the very least, the BBC's presence in traditionally commercial areas of online news content provision is likely to have a significant bearing on the market incentives for investment.

The signs that the BBC's drive to build leadership in online news provision leads to significant editorial expansion – and hence greater risk of 'crowding out' versus other news sources - can be seen in the current output. BBC Online is already well advanced in moving into areas of 'soft' news, traditionally more of a strength of the commercial print sector – newspapers and magazines. The BBC is also frequently at the forefront of colonising new commercial models for news provision and consumption, including ventures such as Facebook Instant Articles and YouTube channels, both of which are commercial platforms available to UK consumers and places where commercial news providers are seeking to operate.

The idea of a more expanded role for the BBC also pre-supposes that it has the resources to meet the full range of news provision in the digital age by focus (local, national, international), by depth, (headline, investigative, deep background), by source (original newsgathering, on the ground reporting, fly-in expert reporting) and target market (young, old, developed overseas markets and developing overseas markets). Without significantly enhanced resources there is a strong likelihood that a BBC expanding its news services in many directions at the same time will be stretched too thinly across all of these areas, serving none adequately and placing at risk some of its core, traditional UK news output.

An alternative view - The need for co-operation and a BBC that is more partner than competitor

With a challenging transition ahead for commercially funded news providers, a BBC facing increasingly hard choices about the allocation of finite resources and a market need to maintain the two pillars of UK news provision that underpin its success - plurality and a range of provision – the best way forward for the BBC and the traditional print sector in the digital age is likely to lie more in working to find collaborative and complementary models of trade than to increasingly face one another as unnecessarily pre-emptive and competitive rivals, especially where they will overlap the most – in the online news market.

The principle of collaboration should apply to the BBC at a local, national and international level and should be in terms of sharing material – both ways – and in utilising the BBC's undoubted recognition and reach to help promote plurality and the sustainability of the UK news ecology as a whole, not just for the BBC.

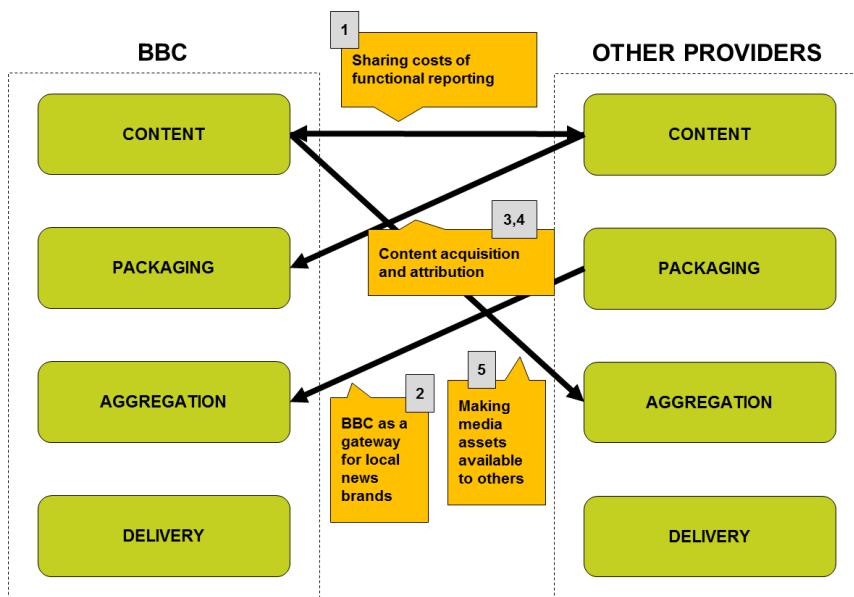
At the local news level this is likely to involve:

Providing transparent attribution to stories and linking to commercially funded sources

Creating a broader news syndication market for local/regional news providers by selecting and presenting more local news stories via BBC online services

Securing a wider audience for BBC news output by making a greater proportion of the news assets generated by the BBC's services available to other UK news providers (especially audio-visual material) on an FRND basis when compared with its own in-house access

Figure 2: Potential areas of co-operation between the BBC and UK local news providers



At the national news level where recognition of the impartiality obligations of the BBC versus the plurality of views of the traditional printed media needs to be maintained, the BBC should:

Commission 3rd party providers for some news output (especially magazine and features content) to increase diversity and reduce the commercial impact of BBC scope

Be more open to representing “impartial” news coverage via the sum of opposing views and debates sourced from external news providers (building on the BBC’s own tradition of newspaper reviews in its breakfast and late night news programming but taking it online as well)

At an international level the BBC should:

Make more of its material from its international newsgathering network available to third parties (on FRND terms when compared with its own internal charging), to local, national and UK based international news providers (subject to any state-aid restrictions)

Co-operate with other UK based international news providers when seeking to commercially exploit its news services overseas through shared advertising platforms and aggregation relationships

Without a clear, externally regulated co-operation framework for the expansion of its news services, the BBC’s drive to ‘do more’ risks becoming a further contributory factor in the erosion of the wider UK news provider market. While the eventual shape of that market is likely to remain uncertain for some time to come, the opportunity is relatively clear. By playing a complementary role, the BBC can help to support the commercially funded news market and leave room for commercial models to evolve and grow, maintaining and ultimately enhancing the strength of the UK news ecosystem.

While success in some areas is uncertain, at the very least the BBC would be signalling that its preferred vision for the future of UK news is one where many different original UK news voices survive and thrive, and where the BBC does not get dragged into an ever escalating need to plug gaps across local, national and international news markets. By contrast, attempting to pre-empt a large scale failure of the printed / written news model by broadening the scope of the BBC’s news services at a local, national and international level is more likely to bring about that market failure by limiting the audience potential of commercially funded news services. In a worst case scenario, this action could hasten the areas of market failure that the BBC Future of News report imagines.

How to achieve a shift towards a more co-operative model?

The BBC already recognises that it can work more in partnership with local and regional news providers as it seeks to deliver a more local news agenda via the BBC News website. Pilot studies looking at how the BBC can provide linking from BBC.co.uk to local media groups and how the BBC can share more of its video content with news partners online have the potential to grow into larger, UK-wide initiatives (with the region-by-region roll out of the BBC's local media linking / attribution initiative already announced to be taking place through 2015/16).

However, the delivery of actual economic benefits from such initiatives is likely to require some independent oversight and scrutiny – for example, while the BBC's local media linking initiatives have been welcomed by regional media companies, those participating in the BBC news linking pilots have commented that only a very low volume of content referrals have actually resulted from having readers link through from BBC Online. Monitoring the performance of initiatives – and adjusting them where they can be more effective – will be an important part of ensuring that co-operation models deliver value in practice.

The first thing to recognise in moving towards a more co-operative model for how BBC news works with the wider UK news sector is that there is never likely to be a 'one-size fits all' solution. However, there are some issues that need to be considered as the BBC plans for the next ten years, including:

Setting out some basic governing principles for how the BBC interacts with the UK's commercially funded news sector

Agreeing a set of governing principles could help to move industry discussions beyond cycles of ad-hoc lobbying, argument and debate to a more stable footing focused on designing new ways of working and their implementation.

Having clear and consistent governance and responsibility for news partnership initiatives

Enshrining news partnerships within the line management responsibilities of BBC News could bring benefits in terms of giving initiatives focus and accountability while also giving the wider market clarity on who to approach with new ideas and innovations on a UK-wide basis.

Setting and monitoring objectives and commitments

With governing principles and accountability in place, a set of objectives, commitments and delivery plans could then be agreed and monitored. Demonstrating that news partnerships can be effective and valuable to all parties will be an important part in gaining momentum for the idea.

Ensuring that controls around the scope of the BBC's news services remain fit for purpose

One of the main issues thrown up by the current market context is that the drive towards greater convergence in news media is irresistible. This fundamentally changes the competitive landscape in news as players historically differentiated by their chosen media – and who in concert still provide the vast majority of funding for original news content – find themselves battling more directly for audiences as traditional barriers break down.

In the old world, the definition of news markets was as much led by the medium than any other factor. Television news lends itself to either bulletins or rolling news coverage. Radio news either to bulletin or discursive formats. Print to a more reflective, in-depth structure and with the space to cover a much wider range of stories than other media bulletins can give space to.

In online news, the medium itself presents fewer natural limitations and hence the choices in the scope of news coverage need to be clearer – both in terms of their rationale (i.e. target audience and impact), delivery (i.e. written versus spoken versus video delivery can co-exist) and tone (i.e. the mix of short, 'hard' news stories versus longer, more discursive and exploratory pieces).

The issue here is not to suggest what the BBC should and shouldn't do in delivering its news coverage – that is something for a much wider discussion – but rather to recognise that as convergence drives traditionally differentiated news services into the same market 'space', the decision-making and governance of the BBC's scope and impact needs to keep pace with the times.

The Future of News – A lot of opportunities to play for

The overall conclusion is that the converged, connected (and increasingly complicated) online news market offers a great many opportunities to all UK news organisations – and that the traditional strengths of the UK news market provide a strong launch pad for continued success. With an emerging market leadership in global news markets as well as an enduring strength, diversity and plurality of news outlets in the domestic market, the future of UK news provision should be considered optimistically.

The final market structure and mix of winners and losers in the battle for online news audiences remains uncertain. However, what is clear is that the UK's unique combination of strengths across the BBC and the commercially funded news media sector should be harnessed wherever possible to maximise the possibility that what emerges from this period of market uncertainty is a durable, vibrant and plural UK news market, enjoying greater engagement with communities at home and conspicuous success in overseas markets. The probability of this market outcome can only be enhanced by the BBC and other UK news providers finding ways to work together for mutual benefit versus an increasing set of global competitors.

The execution of partnership strategies is never easy and will require cultural change, management will and strong oversight. However, the potential benefits to the sustainability of the UK news sector overall - and to the future reach of UK news media - are worth the effort. The alternative vision of the future is much less desirable – a UK news media landscape dominated by social media, global news providers and with the BBC trying to fight in all corners.

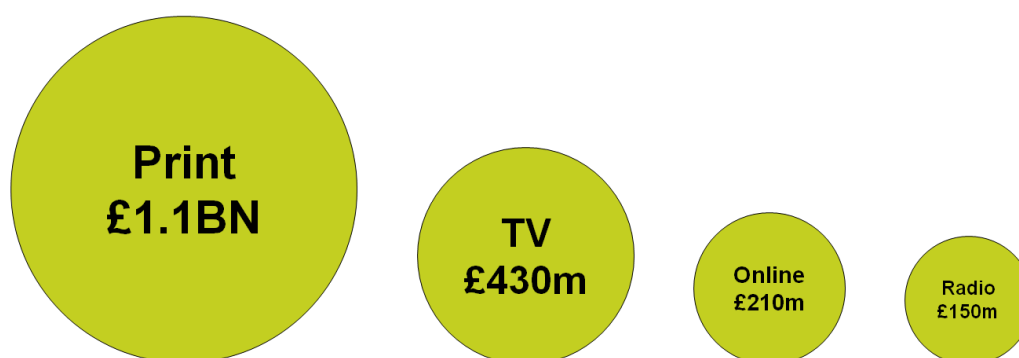
Better to take on the battle for the future of UK news in partnership with the UK's other major news providers than to be ever expanding and - ultimately – risking a situation that undermines the UK's commercially funded news markets and spreads the licence fee too thinly to maintain its impact.

4 The UK continues to benefit from a remarkably successful news provider market

4.1 An overlapping mix of news coverage and outlets creating a vibrant ecosystem

The current UK news ecosystem is delicately balanced but continues to generate a wide and varied mix of original news content every day. Overall, a news market that is able to represent different news voices and different ‘takes’ on the events of the day and is able to provide in-depth coverage at local, regional, national and international levels across numerous commercially funded and non-commercial outlets is likely to be stronger overall - and hence more preferable - than one with fewer news providers, less coverage and with more limited scope and competitive rivalry.

Figure 3: Estimated spending on UK news content by media, 2013



Source: Mediatique analysis for the BBC based on AA/Warc, IAB, interviews

Note: Excludes non-retail pay TV revenues and non-core press revenues

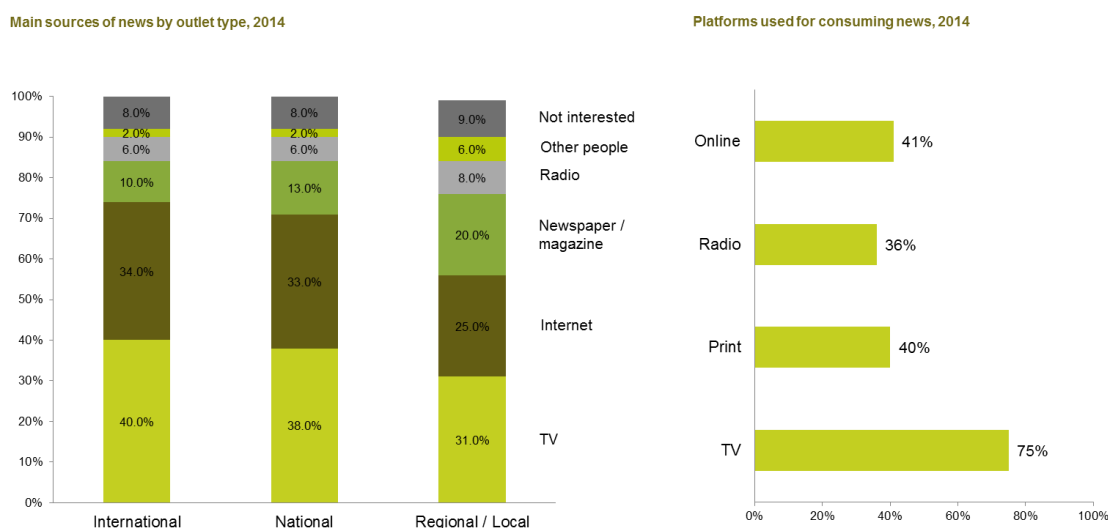
The UK benefits from strong investment in original news content across all major news media types. In print, the news providers across local, regional and national outlets were estimated by Mediatique in its 2014 report for the BBC to be spending £1.1bn annually on news content. Alongside this, the BBC, Sky and ITN all contribute strongly to a further £430m spent on original TV news content. Compared to these two dominant sectors in traditional news consumption, both online and radio news spending still lags far behind (£210m and £150m respectively in 2013) and, given that online, connected and converged models are now widely accepted as being the eventual destination for the UK printed news media, the scale of news investment at risk in this transition can be seen clearly.

4.1.1 The UK currently enjoys the benefits of having a plural and diverse news media market

The UK enjoys a relatively well balanced, plural and diverse news media market, with consumers mixing TV, print, radio and online news consumption to differing degrees depending on their interests and the type of coverage that they prefer to receive. As a result, many news media brands continue to secure large daily audiences for their content and UK citizens never have to rely on just one source or ‘take’ on a news story.

The competitive structure of the news market is complex, with many news providers seemingly overlapping on some dimensions (for example geographic coverage) but differentiated in others (for example depth of coverage on specific issues and / or across specific territories). As a result, the UK news provider market has developed as a mixture of competitors and complements within different sub-markets – certainly most would agree that the provision of news to UK citizens is not a homogeneous activity. UK news consumers reflect this situation and have demonstrated their preference for a plural, differentiated and multi-sourced UK news market by continuing to pay for, view and engage with news media across a very wide set of outlets at all levels from local to global news.

Figure 4: Cited main sources of news coverage by news type and media, UK 2014



Source: Ofcom consumer research October 2014

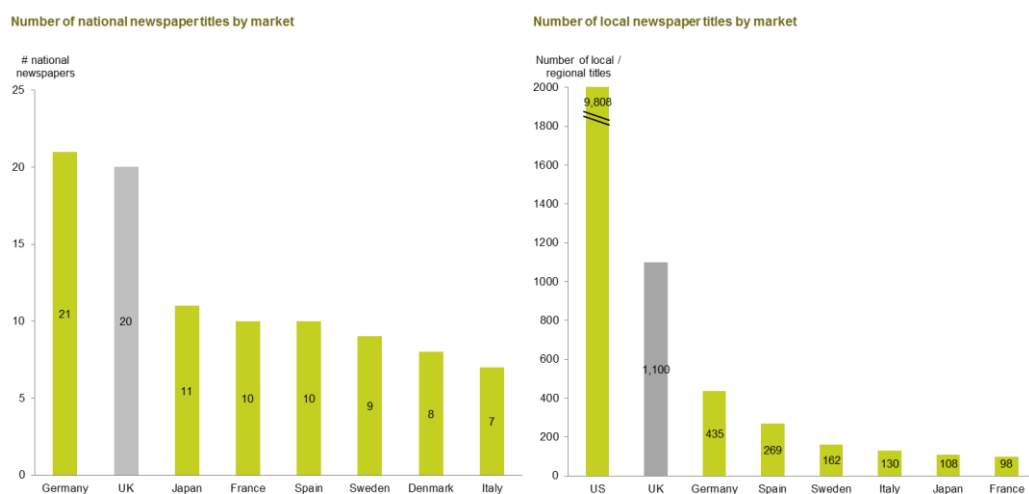
For many, recognising the public value of plurality should be the starting position for any debate about the future of news. The UK news market has strengths because news outlets are:

- **Differentiated:** Whether by tone, style, bundling, pricing or scope of coverage, differentiation in how the news is covered is one of the great strengths of our news market
- **Numerous:** The mixture of public and private funding of news continues to sustain a very large range of news outlets that drive consumer engagement
- **Often complementary:** News interest has always propagated from one media outlet to another and the advent of connected media has only increased the pace by which links and referrals are made

Before going on to review potential influences and outcomes for the future of news, it is worth pausing to consider how these strengths are manifested in the UK market today and the role of the different players involved in delivering them.

A print news industry continuing to sustain a wider range of titles than in most other major markets

Despite well-publicised challenges to the share of advertising available to the print media sector and a long-term progressive decline in print circulations, the UK print news sector continues to sustain a high number of national and local titles and is a world leader in plurality by international comparisons.

Figure 5: Comparison of published print news titles, selected markets, 2014

Source: ABZY News Database, Local Media Association, Oliver & Ohlbaum analysis

Investing an estimated £1.1bn¹ annually in providing news in the UK market, the vibrancy of the UK print news sector continues to be a major driver of the news agenda and of the degree of coverage present in the news market, increasingly with an eye to overseas markets as well. The UK's strength in printed news is also rapidly becoming a strength in online news and the UK's print news organisations are already long embarked on their journey to being combined print and digital organisations with the destination being that written journalism will eventually become 'digital first'.

A TV news industry anchored by the BBC, but also benefiting from continued commitment from other UK players

Led by the BBC, but supported by on-going commitments to news provision by ITV, Channel 4, Channel 5 and Sky, an estimated £430m per annum¹ is spent on TV news output at national and regional levels in the UK. This funds a mix of daily output across national network bulletins, regional news bulletins and rolling news channels plus a range of current affairs programmes.

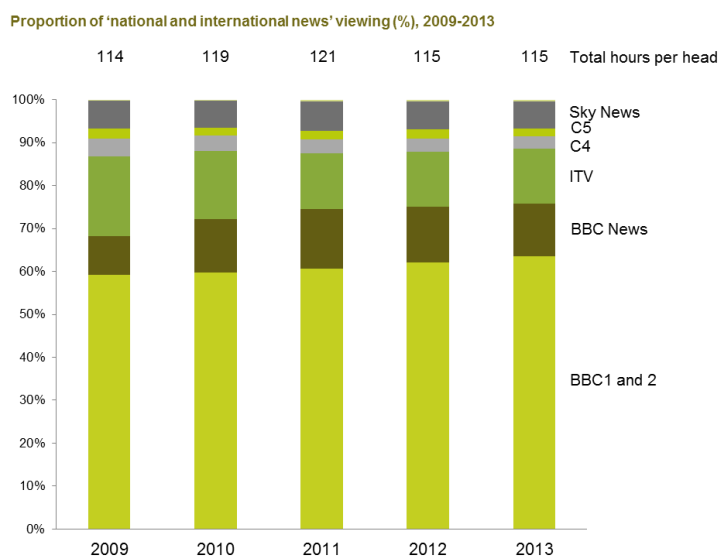
Both the BBC and ITV provide regional news coverage via dedicated bulletins (typically following the main national news programmes) and short regional 'opt-out' slots within breakfast programming. The BBC also makes weekly provision within its main network schedules for regional current affairs (Inside Out) and political (Sunday Politics) programming. Across the UK, the BBC provides its Nations and Regions TV news coverage via 18 different bulletins (12 covering the English Regions) while ITV provides its coverage across 14 bulletins (11 in the English Regions)².

Even where the TV news bulletins of the major broadcasters have similar style and content, they rarely go head to head for audiences, preferring to avoid scheduling bulletins directly in opposition to one another. Viewers therefore have a choice between regional bulletins (ITV and BBC) and national bulletins (all players) in the majority of cases. Some might see this as an example of how competition was managed under 'old media' rules, with industry participants avoiding head to head competition where possible.

¹ Mediatique analysis for the BBC, 2013 estimates

² Company websites (as at 10th April 2015)

Figure 6: Proportion of viewing of national and international news by TV channel, 2009-2013



Source: Ofcom, BARB (16+ adults)
 Note: New BARB panel introduced 1st Jan 2010

In-depth radio news coverage driven by the BBC’s annual investment in national networks and regional stations

In radio news the BBC remains the clearly dominant force, sponsoring news-led national stations (Radio 4, Radio 5 Live) and maintaining regular news bulletins across its other national news stations. Alongside this, the BBC operates 48 regional news stations³, all of which carry news output as part of their schedules. In total, the radio sector is estimated to spend around £150m per annum on news services⁴

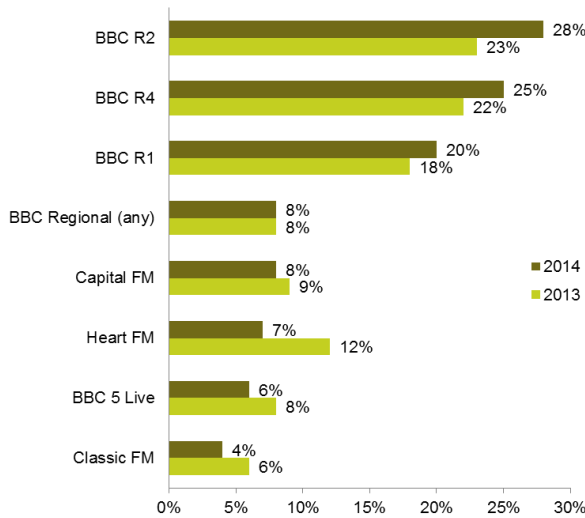
Research carried out by Ofcom demonstrates the extent to which the BBC dominates in the radio news market. In a recent study, c.36% of UK adults stated that they used radio for news and of that group the majority of the stations cited were BBC owned and operated. Interestingly, only 8% of those who used radio as a source of news stated that they used one (or more) of the BBC’s regional news station as part of their news media mix.

While radio remains an important part of the overall news media mix, its prominence and reach amongst UK citizens at a regional level is relatively low when compared with television. Arguably, this illustrates another traditional characteristic of ‘old media’ separations in the UK news industry, namely that the closer you get to genuinely local media markets, the more that overall news media consumption is made up from a range of commercially funded local players.

³ Company websites
⁴ Mediatique analysis for the BBC

Figure 7: Use of different radio stations for news content, 2014

Of those that listen to news on the radio (36% of UK adults), which stations do they tend to use?



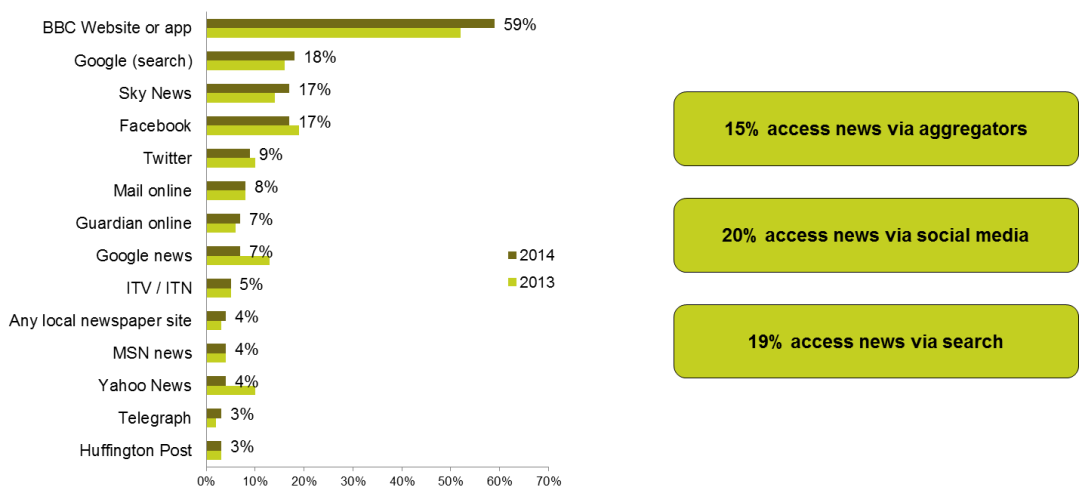
Source: Ofcom News Consumption Report 2014

A large and growing opportunity in online news provision – the place where all participants in the market come together

Representing an estimated £210m of the total spend on UK news provision in 2013⁵, the online news sector has been a major driver of growth in recent years, both in the volume and the scope of engagement that consumers have with news content. The provision of news-based services to consumers online is a much more fragmented picture than in other national media segments and includes a wider variety of business models, including social media, search and news aggregators.

Figure 8: Use of different internet services for news content, 2014

Proportion of those that use the internet for news (41% of UK adults)



Source: Ofcom

⁵ Mediatique for the BBC, 2013 estimates

Clearly, the value of original news content going into UK online news services is greater than the headline figure of £210m per annum suggests. With the online news market predominantly led by established news providers who are moving progressively into online services, the pre-existing newsgathering networks and editorial capabilities of these players brings a much wider set of news resources to bear on the online news market.

At a national level, the BBC is clearly a market leader in online news provision to UK consumers, operating the most popular news website in the market and offering consumers a range of free news ‘apps’ across an ever increasing range of devices. Alongside the BBC, some of the UK’s leading print news providers now operate market leading news websites, with the Mail Online and Guardian Online the most prominent of these in the ‘free’ (i.e. ad-funded) part of the market while others – for example The Times, The Telegraph and The Financial Times – are leading innovation around different types of paid-content models.

The growth of online news consumption is not just serving to amplify existing news brands. New entrants such as Huffington Post and new news services – increasingly driven by the growth of social media platforms - are providing many more ways for consumers to generate, distribute and access news content. Online news is also becoming more participatory in its nature - from comment to citizen journalism and bloggers - and the result is an increase in overall consumer engagement. However one of the major issues in online news is that it is driving genuine convergence across traditional news market silos and across long-established sources of differentiation in news coverage. This is increasingly likely to result in traditionally ‘separate’ news media having to find new ways to coexist with one another in a market where the previous barriers and separations no longer exist.

4.1.2 News services have always overlapped but online news is further eroding traditional points of differentiation

The UK news ecosystem has remained plural and diverse in part because there has been a high degree of differentiation in the market between news providers. In the era prior to mass adoption of the internet as a source for news content, TV, radio and printed news providers all overlapped to some degree in terms of their audience but all offered news products that were – for the most part – complementary within different segments of the news market.

Some of the traditional points of differentiation within the news market have included:

Media-based – The most basic traditional form of differentiation in traditional news markets was by media, with TV, radio and print all occupying different, often complementary roles in the news media mix. Partly this was a function of their structural limitations – for example a daily print run lends itself more naturally to reflective, more in-depth news coverage than a 5-minute radio bulletin – but also because of deliberate editorial choices and a need to differentiate to sustain audience reach.

Temporal / activity based – The UK news market has evolved a set of news offers that can co-exist through different parts of the day and alongside different activities. For example, radio news can be absorbed alongside other activities and throughout the day, TV news provides a few key daily appointments to view for news summaries and print / online compete for share of daily reading time.

Scope of coverage – A key form of differentiation, many different news media have evolved a different scope of coverage in terms of the time or word count devoted to specific stories and the range of stories covered in each news ‘product’. For example, the format of TV news tends to limit coverage to a sequence of short pre-recorded pieces and accompanying live interviews whereas a daily newspaper can give greater space and range of coverage to each story as required.

Geography – Though in principal the degree of geographic overlap between TV, print, radio and online news providers should be 100%, the practical reality is that geography remains a key differentiator. Depending on the size of each news organisation’s news ‘patch’, the nature of coverage and editorial priorities will vary widely.

Style / tone – Even where news outlets have the same scope of coverage (and a similar mix of stories), editorial style and tone can be a key differentiator. This is particularly true in the national press where the same stories tend to dominate the front pages of each titles, but whether the editorial ‘take’ on each story does much to distinguish one provider from another

Price – This has been a traditional competitive weapon in the mid-market and popular national press, but is increasingly a source of differentiation across the whole news sector.

Many in the industry would agree that growth in the proliferation and adoption of online, connected news services has significantly eroded many of these traditional points of differentiation in the market. Consumers expect news media to be constantly updated and widely available for free. Traditional geographical boundaries are now an editorial choice rather than a physical constraint and news media outlets themselves are more interconnected – for example by social media and aggregation services that link and refer across multiple sources of news.

These trends are making the news media market an increasingly competitive place to be. With many more news voices accessible over the internet and an increasing number of ways to promote and discover a story, there is a risk that the need to be first and with content that is instantly attention grabbing starts to supersede more traditional points of differentiation. In a competitive market for ‘clicks and eyeballs’ content certainly needs to be eye-catching – something that is driving new forms of news content and a renewed focus on ‘soft’ news subject matter (e.g. celebrity, list-based and lifestyle content).

The other upshot of this more connected news market is that traditional media outlets are forced closer together, both in terms of the style and format of their output and the platforms that they can compete on. This means that while the BBC’s TV news bulletins and radio reporting continue to be largely complementary to the press sector, the scope and consumer utility of its online news services are more likely to be seen as a substitute to other online news services.

Of course others would make the point that this can be a two-way argument – just as the advent of online news provision has brought the BBC’s news services into closer competition with commercially funded journalism, so the ‘substitutability’ of some of the BBC’s coverage by other news sources – at a regional and national level – has increased. This has historically been true in breaking news but is now also a feature in other areas of coverage such as sport where the local press can have as strong a coverage of major teams and events as the BBC can generate. However, the ‘winner’ in the battle for audiences online is often the player with the best ability to promote their content, either within a much larger online portfolio, via social media or via paid promotion – all of which favours larger players over smaller ones.

With news media converging, industry commentators have pointed out that one of the more contentious areas between the BBC and the wider UK news media sector is in the provision of ‘soft’ news. Soft news – also referred to by some as ‘market-centred journalism’ - is a journalistic style that blurs the line between information and entertainment, starting with feature stories but increasingly encompassing more personality-led news coverage. By contrast, ‘hard news’ is focused around the description of news events or incidents and is much more akin to traditional news bulletin content – i.e. what happened, where, to whom and what it means.

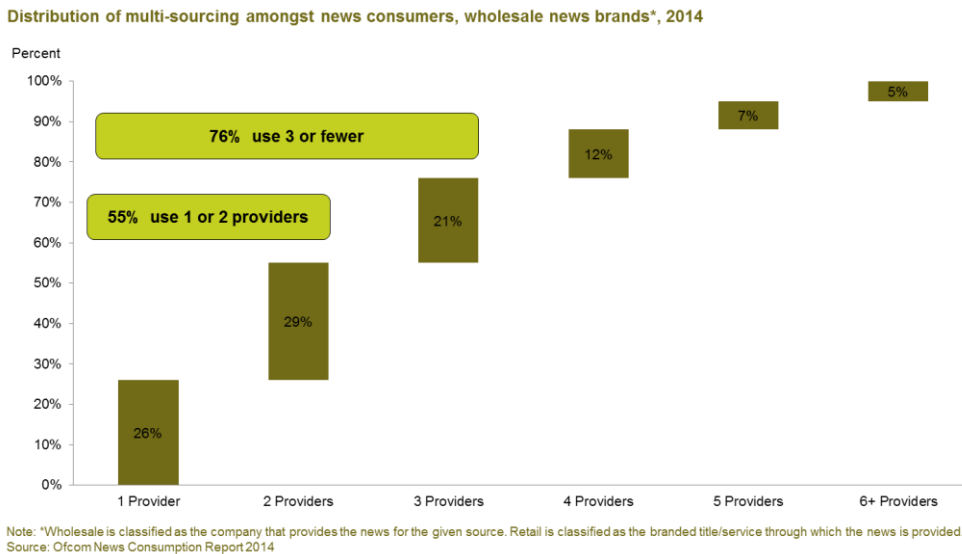
Again, historically the separation between different types of media made the distinction between whether an outlet was in the ‘soft’ news or ‘hard’ news business much clearer. For example, TV and radio bulletins predominantly only have space for hard news coverage (with some famously signing off with an ‘and finally...’ soft news story). With the structure imposed by a daily print run and hence more time to explore stories and more editorial space to ‘give room’ to a wide range of copy and pictures, traditional printed news outlets have traditionally spent more time on a mixture of ‘hard’ and ‘soft’ news stories – and even here the nature of coverage in hard news tended to be very different in style, tone and depth from TV and radio outlets.

In the converged, online news media market, many of these structural factors are removed, meaning that the positioning of news outlets along the ‘hard news’ / ‘soft news’ axis is much more of an editorial choice than a necessity. Further, the limitations of editorial ‘space’ being limited to a 30-minute TV bulletin or 5-minute radio update fall away, leaving room for expansion in editorial scope. The situation is therefore quite probably a two-way street – as the BBC’s online editorial remit expands, it is increasingly in competition with a traditional ‘print’ sector that has already moved in large part to a mixed print / online model and which also operates based on a 24 hour cycle for rolling news updates.

4.1.3 Plurality and diversity matters – and news consumers recognise this

Studies of news consumption have repeatedly found that consumers prefer to ‘multi-source’ their news content. In a recent study commissioned by Ofcom, only 26% of news consumers stated that they only used one source of news as part of their daily news consumption habits⁶.

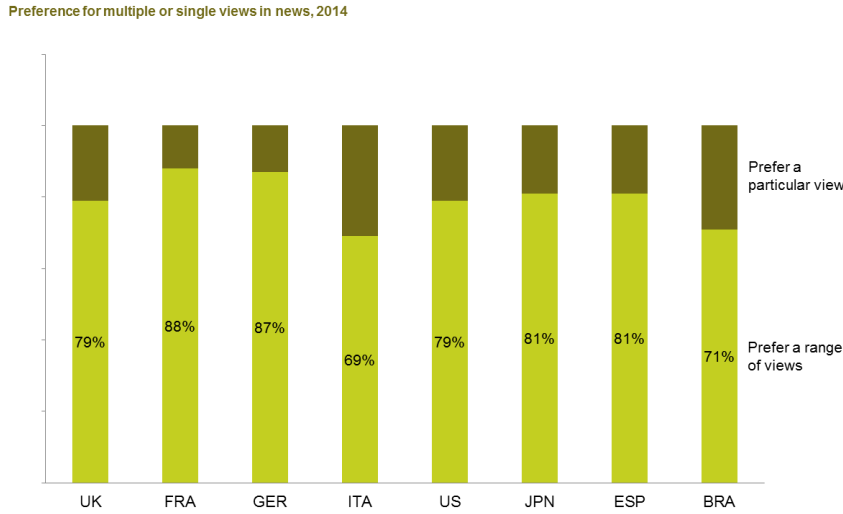
Figure 9: Multi-sourcing of news content by originating brand (wholesale level), 2014



Consumers in the UK and in other leading markets also consistently appear to express a preference for news that represents a range of views rather than a single, particular editorial line. However, the nature of the news media is such that this desire for an ‘open’ approach to coverage representing a range of views in one place can be hard to find and hence multi-sourcing news across a number of outlets can be more effective and is often a more practical alternative.

⁶ Ofcom News Consumption Report 2014

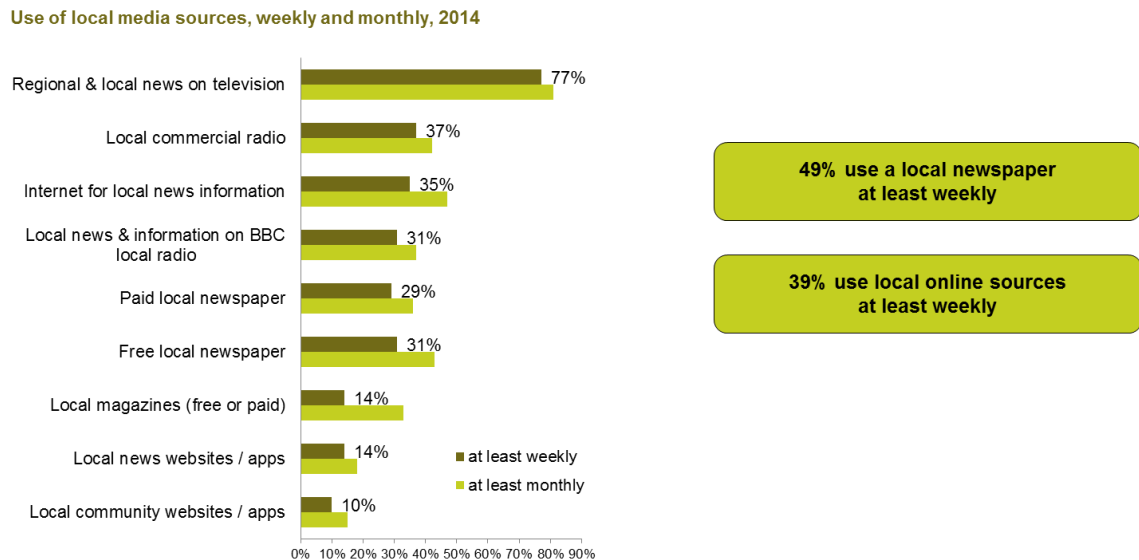
Figure 10: Stated preference for a range of views expressed in the news media, 2014



Source: Reuters 2014 – Digital News report

At both a local and regional level, market structures suggest that news plurality remains more about combining different types of news outlet across TV, radio and online than plurality within any one media sector. Here, the growth in online media consumption has given rise to a wider number of sources for local news from citizen journalism and bloggers to local events listings, local government news services and other local organisations publishing consumer content (e.g. sports clubs). Despite the growth in online local news and information services, traditional media outlets still dominate with c.50% of consumers engaging with local press and radio at least weekly versus c.10%-14% using websites and apps.

Figure 11: Use of local media sources, weekly and monthly, 2014



Source: Ofcom

Many would argue that plurality and diversity in the local news media mix is particularly important in supporting the role of journalism in holding public and community-based institutions to account and in ensuring that local coverage is not crowded out by other regional or national concerns that are judged to have stronger ‘news’ credentials (or a broader news ‘reach’) within an aggregated news service. In a world of finite resources for investment in news across the BBC and the wider news sector, ensuring that a ‘one size fits all’ service attempting to cover national, regional and local news with equal emphasis does not become the predominant model is important. As long as commercially funded and non-commercial news media have the space to co-exist in national and local media markets, the complex and valuable competitive tension that underpins the news industry should hopefully be sustained.

4.2 **A strong, independent commercially funded news media is an important part of the overall news landscape**

From time to time the net benefits to the UK of having a strong, commercially funded news media sector might be obscured by scandal or the divisive nature of opposing news ‘brands’ in the market. However, industry analysts still believe that commercially funded news services are critical to maintaining plurality of voice and driving issue-led campaigning journalism in the UK, helping to drive a greater overall level of coverage and engagement with news amongst UK citizens than might otherwise be the case. As such, a strong, sustainable and plural news sector, comprising both the BBC and commercially funded players, is likely to be in our collective long-term interest whatever an individual’s misgivings may be about press scandals or the tone of different news outlets.

One of the key roles of commercially funded news media is in breaking new stories via investigative and campaigning journalism. In this area, competitive market incentives are an essential part of what drives news organisations to take risks and invest in speculative leads. The drive to ‘out scoop’ rival news brands is an important part of the UK’s market success in news provision and its value in our democracy should not be underestimated.

Commercially funded news media break more stories on a daily basis, against a broader range of topics and in more depth than any single provider could likely hope to replicate alone. This is both a function of resources (the c.£1.4bn estimated to be spent annually by commercially funded news providers versus the BBC’s c.£460m) and incentives (the need to compete for newsstand sales and – increasingly – for audiences online drives a continual quest for the next big story). Occasionally this competition might go too far but more often than not it is the force that drives our news media to uncover corruption, campaign for reform and hold public office and institutions to account.

Maintaining market-driven plurality of the sort currently seen in the UK is critical to the functioning of our news market. Without a wide range of strong, independent news outlets investing in original journalism and taking risks, the motivating force for the whole news cycle might be lost. Further, at a time when news content availability, consumption and tastes are globalising, the strength and diversity of the UK news provider market is an important concern for the functioning of home democracy and for the perception of the UK in the world – without it, overseas news providers might come to dominate.

4.2.1 **Bringing more depth to news coverage**

One of the traditional strengths of the printed news media has been their greater scope to give editorial ‘space’ to exploring a given story or issue. This strength is being replicated in online news in the UK and it is predominantly the traditional press sector that is driving this.

This is for two main reasons:

- (1) the convergence of print and online news services means that online coverage of stories benefits from a ‘print’ mentality coupled with the lower cost of publishing afforded by online media – the result is a platform for proliferation of coverage and a wider array of news services;

- (2) many online ‘pure play’ news service providers have been attracted to short forms of news content, preferring a snappy ‘hit’ of news to drive traffic in preference to the more expensive (and hence potentially lower commercial yielding) long-form news content that converged print / online players produce – the consequence is that few online only players currently replicate the range and depth of coverage provided by traditional players in the news market.

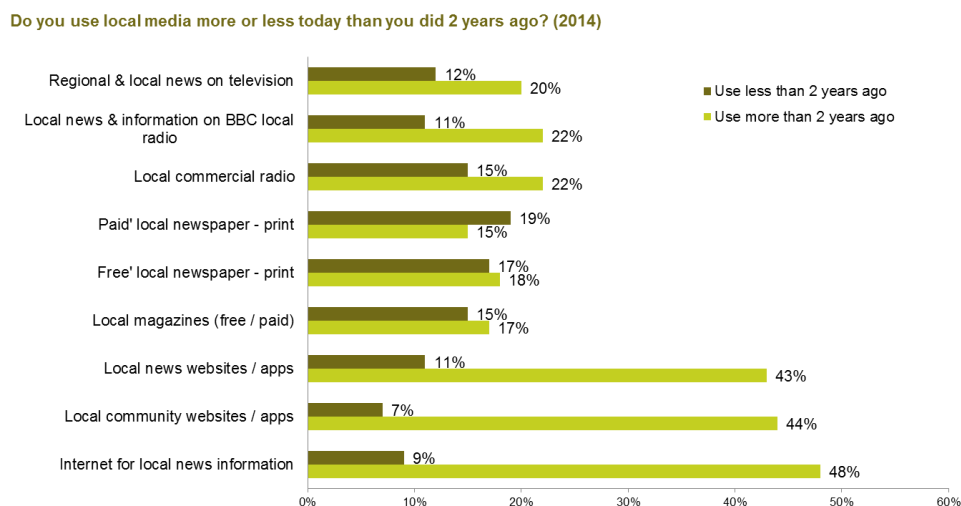
Overall, this suggests that the range and depth of online commercially-funded news services that we benefit from today may not have existed to the same extent if we were not starting from the basis of having strong traditional media brands coming from a print or TV media heritage. Ensuring that this advantage is not lost in the transition to online becoming the dominant delivery model for news will be important.

4.2.2 More focused on connecting with audiences at a local level

Despite well reported revenue pressures, the local and regional press in the UK continue to produce around 1,100 titles across the UK market. This is alongside a growing number of linked online news sites created and run by the traditional ‘press’ players in the UK market. By comparison, the BBC’s local news output provides regional news programming across 18 different TV regions (including English regional output split between 12 news services), 48 different regional radio services and 52 online news regions⁷.

In terms of coverage of local and regional news events, public institutions and other areas of local community interest, the print news sector produces much more in-depth coverage on a daily basis than the BBC is able to replicate. The daily reach of this coverage is being further supplemented by an increase in the use of local news websites, community forums and other new aggregators of local news who are adding to the local media mix. Overall, consumer interest in local news (as measured by readership and online traffic) is growing and a stronger ecosystem is beginning to emerge, driving greater engagement with the issues of the day across local communities.

Figure 12: Increasing use of online media at a local level, 2014



Source: Ofcom

⁷ O&O analysis of BBC news services, March 2015

4.2.3 Able to devote more resources to campaigning and risk taking journalism

Many commentators argue that the role played by the print news sector in driving campaigning and risk-taking journalism is a key benefit to UK citizens, holding institutions to account and delving into issues that might otherwise go unreported. The print news sector has a long history of investing in this type of journalism, helping to uncover scandals, force institutional change and bring important matters to the attention of politicians, the police and the public.

Examples of campaigning and engaged local news media

In 2014, the Yorkshire Evening Post appointed a campaigns reporter to ensure that they remain close to readers and communities. This resulted in initiatives including the training of 500 readers to become lifesavers in a partnership with St John's Ambulance, a Foodbank initiative and a fundraising appeal that raised £35,000 for two local hospices.

At the Eastern Daily Press, the local newspaper backed The Norfolk and Lowestoft Flood Appeal in 2014, raising £350,000 and helping more than 300 families in the aftermath of a tidal surge.

At the Southern Daily Echo, campaigns in 2014 included an on-going effort to expose serious car sales fraud operations in Southampton, a drive to expose the truth behind the deaths of four young boys in three separate incidents in Hampshire resulting in the re-opening of investigations by Hampshire Police and an effort to defeat so-called 'legal high' drugs in the city.

At the Express & Star in Wolverhampton, the newspaper collaborated with the University of Wolverhampton to set up the Green Shoots business growth fund, with the project expected to have created or safeguarded c.200 jobs by summer 2015.

This is precisely that kind of agenda driving journalism that the BBC would find hard to replicate. Above all, the culture of UK commercially funded journalism remains one of breaking a story rather than following the traffic and online trends.

The importance of independent commercially funded news outlets as a national resource should not be underestimated. In a news market increasingly open to global influences, our ability to retain a range of strong, well-funded and competitively motivated domestic news outlets is important for citizen engagement and democratic accountability. A future news market reduced to social media snippets and BuzzFeed-esque lists, is not likely to serve UK citizens as effectively and may not instinctively place UK issues at the heart of the daily news cycle. Our indigenous national and local press could therefore also be seen as an important resource in defending the UK news media mix and in continuing to place UK issues ahead of the latest global celebrity gossip.

4.2.4 A news product with global appeal

The UK press has always had sales to overseas territories, but the relatively high cost of international print distribution meant that these were often relatively small opportunities. The transition to online news consumption has transformed the nature of this opportunity, enabling some of the UK's traditional print brands to become global leaders in the provision of news content.

Today, UK-based online news services such as Mail Online and Guardian Online can be considered to be global leaders in attracting online audiences from around the world. The success of these brands in terms of traffic and consumer engagement compares favourably with the BBC's own operations and helps to reinforce the UK's position as a leading news voice within an increasingly competitive and crowded international news market.

Figure 13: Most visited online news services based on global traffic, March 2015

News Organisation	Monthly unique visitors (million)	Country of Origin	Media
 YAHOO! NEWS	175	USA	Aggregator
 Google	150	USA	Aggregator
 THE HUFFINGTON POST	110	USA	Online newspaper
 CNN	95	USA	TV Channel, online news
 The New York Times	70	USA	Newspaper, online news
 FOX NEWS	65	USA	TV Channel, online news
 NBC NEWS	63	USA	TV Channel, Online news
 Mail Online	53	UK	Newspaper, Online news
 The Washington Post	47	USA	Newspaper, online news
 theguardian	42	UK	Newspaper online news
 THE WALL STREET JOURNAL	40	USA	TV Channel, online news
 abc NEWS	36	USA	TV Channel, online news
 BBC NEWS	35	UK	Newspaper, online news
 USA TODAY	34	USA	Newspaper, online news
 Los Angeles Times	32.5	USA	Newspaper, online news

Source: ComScore, Oliver & Ohlbaum analysis

4.2.5 In aggregate, providing a greater scope of coverage than any single provider could hope to replicate

Taken together, the different parts of the UK's commercially funded news sector provide coverage of news and events that no single provider could reasonably be expected to replicate. This starts with the c.£1.1bn that traditional print news players are estimated to spend annually in the UK market on news provision and is spread across a market structure that provides a competitive ecosystem across national news brands and a strong group of local news brands that work largely as complements to the BBC, to local commercial radio and to other PSB's regional TV output.

The BBC's assessment of the future news market suggests that commercial market failure – at least in part – could become a major feature of the UK's future news provider landscape. Clearly there is uncertainty in some parts of the market as traditional business models for commercially funded news are slowly eroded and new business models compete for mass adoption. Despite the uncertainty, some basic truths about the UK news provider market are likely to remain, including:

1. Being able to sustain multiple and differentiated news 'voices' in the UK market is preferable to a market dominated by one single provider
2. That the scope of coverage provided in the market today is exceptional by most international comparisons – sustaining this situation can be a source of long-term value in a globalising news market
3. That the BBC could never significantly substitute for a major market failure in commercially funded news provision – in terms of spend, resources deployed and output delivered

While the BBC can play a role in 'gap filling' around the edges of the wider UK news market (e.g. where services might otherwise recede or have never existed), starting down this road (a) sets a precedent from which the BBC might find it difficult to extricate itself and (b) could start to become self-fulfilling as BBC expansion causes the commercially funded sector to retreat further. Knowing the point at which 'gap filling' becomes 'crowding out' is always extremely difficult to detect and manage. Explicit partnership working might help to avoid such a situation and help to maintain the strengths of both the BBC and the commercially funded news sector through open and well-structured co-operation.

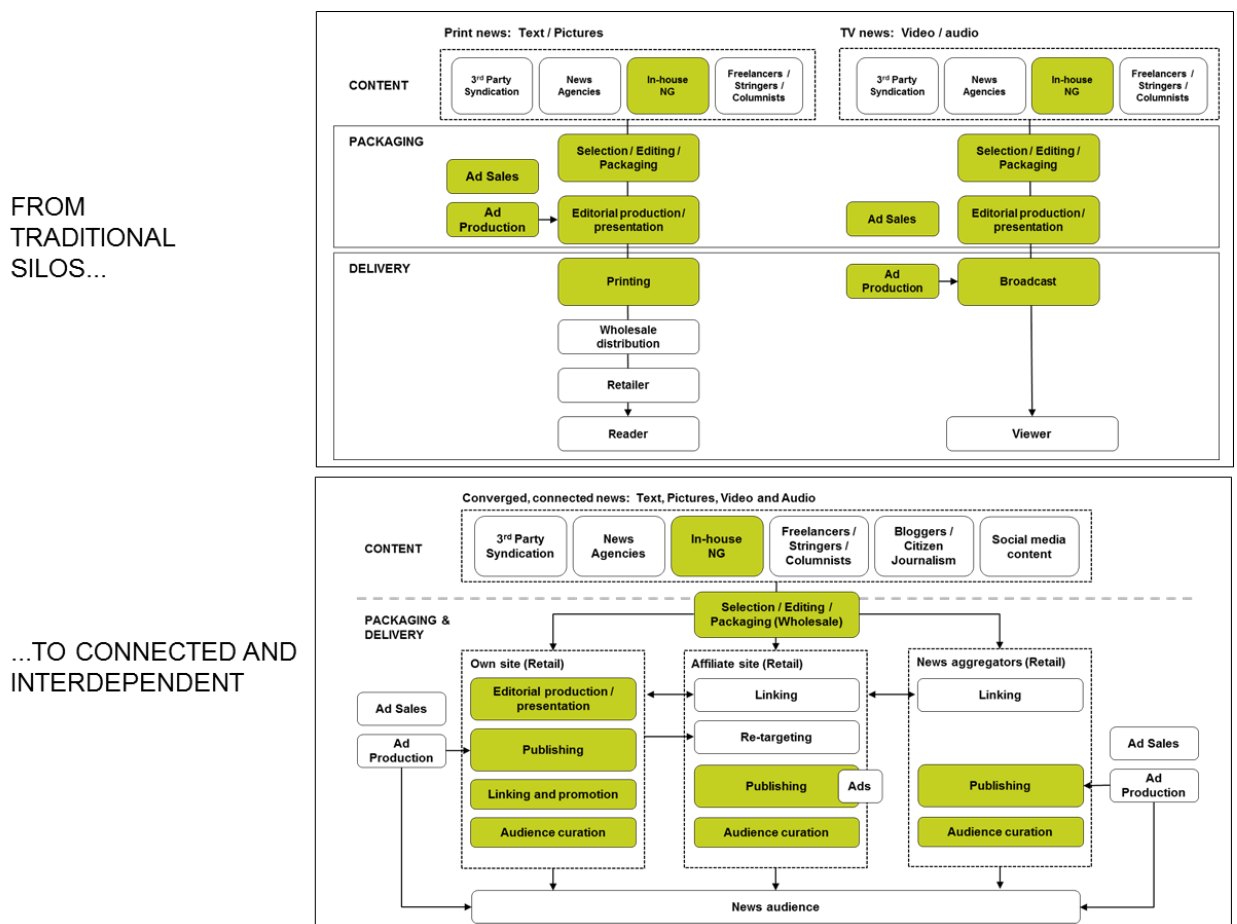
5 The market is currently in transition – from traditional to new news provision models

Most industry analysts have long accepted that digital disruption is a fact of life in media markets and news is no different in that respect. With sharp falls in advertising revenues and a long-term decline in circulation, the need to innovate and capture audiences in new ways as they move online and across connected media is strong. To date, the signs are encouraging that many traditional industry participants will be able to make this transition and that – along the way – overall levels of engagement in and around news media are increasing.

5.1 New media has always challenged old, but competition leads to innovation

There is now clear, long-standing evidence that the print news media in the UK have been hit hard by the growth in online consumption of news and the migration of advertising spend into online categories such as search. The scale of the impact is arguably one of the consequences of the UK being one of the leading ecommerce and connected media markets in the world. However, we are now almost 15 years past the first dot-com boom and the majority of commercially funded ‘traditional’ UK news media outlets are still present in the market today. Over the last 15 years, the print news sector has had to become leaner and has had to invest in creating a broad range of online services to capture shifting consumer demand for new news products and greater competition for their media time.

Figure 14: News media innovation – from traditional silos to connected models



Even arch sceptics of the durability of the print news business model in an online world are now recognising that predictions of the demise of the commercially funded print news media sector in the UK – and in other markets – have been premature. Today, local, regional and national UK news brands can enjoy a much broader reach and much higher levels of consumer engagement with their output than has been the case for many years. This growth in engagement has been enabled by the widespread availability of connectivity and connected devices, providing the platform for a wide proliferation in news services to come to market and a more open news ecosystem to emerge.

Responding to the dual challenge of a larger, but more fragmented audience for news content coupled with a need to compete for and replace traditional sources of commercial revenues, the news industry has been active in driving greater efficiency and effectiveness in how it operates in a number of important areas:

A leaner operating model

Facing a sharp downturn in advertising revenues and a long-term erosion in traditional print circulation, all of the leading print news organisations in the UK have had to respond by reducing operating costs to some degree. Though painful for those in the industry, the resulting integration of print and online operations and streamlining of editorial processes within and across titles in each organisation has enabled the industry to broadly maintain the number of titles being produced and – for the most part – the coverage that those titles contain.

There is no escaping the fact that cost reduction in the newspaper industry was - and remains - a necessary part of the evolution of traditional print businesses towards an 'digital first' future. However, there are signs that the sector is beginning to see a stabilisation in revenues and continued growth in combined online and offline audiences that suggests that continued rounds of cost cutting may not become an unshakeable feature of the UK news market.

Operating model innovation at Midland News Association

Publisher the Midland News Association was the first UK news publisher to introduce responsive designs for its websites in August 2012, ahead of roll-outs at the Guardian and the BBC. One of the key drivers was the expectation that traffic from mobile and tablet devices would grow significantly. The responsive designs also meant no extra resource would be needed to manage separate mobile sites.

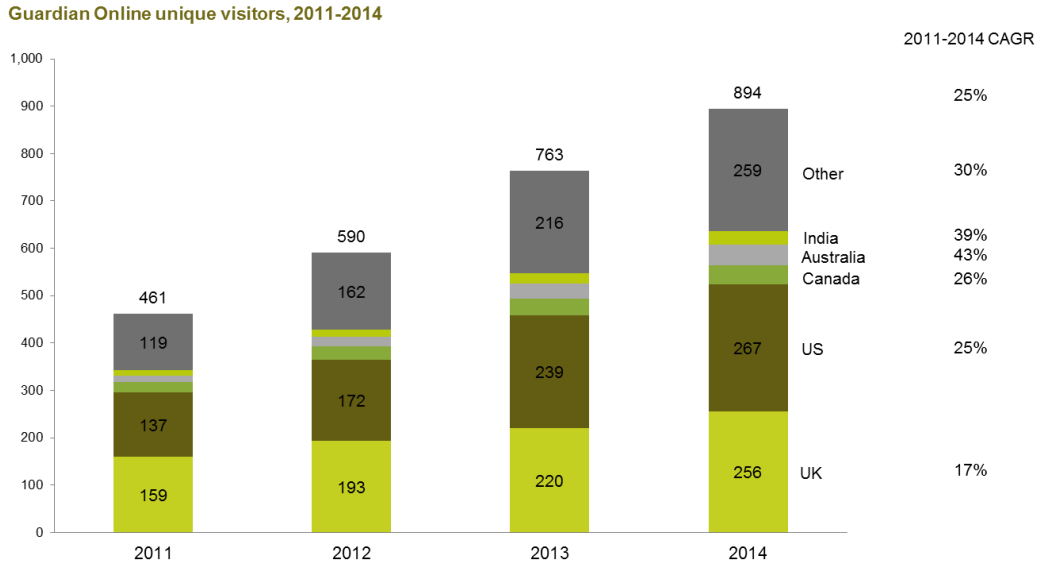
Amid revenue pressures from the decline in print circulations, efficiencies have also been introduced by replacing traditional, legacy separate editorial systems with a publishing solution called Knowledge, developed in-house by the MNA's sister company Press Computer Systems. Rather than content being moved manually between different software systems, it is written, edited and laid out on pages through one interface, before being sent to the website for simultaneous digital publishing. Breaking news can be transferred from reporter to publication, backed with social media promotion, within seconds.

The MNA went through a programme of renewal in 2014, making savings in its print operation while growing its online team. The headcount of the digital team, editorial and commercial, will grow from 20 to 40 to allow the publisher to maximise its revenues from the online growth. Continued investment has been made in the print offering, with extra editions introduced for the daily titles and enhancements made to the weekly titles. The company's purpose has been summed up in a single statement which is at the heart of its activity: "We'll build on profitable print and drive digital growth, to secure a stronger future together". The company is investing in digital apps and new online platforms such as Native Monster, a website for younger people interested in entertainment and leisure.

World-wide reach and world-class online news services

Another of the outcomes from the UK news sector’s response to the challenges of the online media age is that a number of our leading news brands are now international leaders in the provision of news services. The UK has always had a strong and diverse news media market and those traditional strengths are now being recognised by global audiences, helping to drive new content offerings and bring in new sources of commercial revenue to sustain the UK news market.

Figure 15: Guardian Online – global audience growth, 2011-2014



Source: GNM

Greater engagement in news and issues

Another important advantage of the move towards connected media is that the conversation can flow both ways – between publishers and consumers. This is enabling a renaissance in consumer engagement with news content and news topics, supported by the integration of news originators, social media and a wide range of other active parties, from citizen journalists to public affairs professionals and government institutions. UK consumers have never had greater access to information about matters that affect their lives and the role of professional journalism remains an integral part of this.

The opportunity in online and connected media – Express & Star, Wolverhampton

The Express & Star, Britain's biggest selling regional title, is reaching people in more ways than ever before. Building on a heritage of 140 years in local publishing, the traditional newspaper audience, both paid-for and free, is complemented by a growing online audience across web, digital apps and social media. The Express & Star plays a leading role in local life, standing up for readers through its campaigning and community work. It continues to set standards for local news and was crowned newspaper of the year award at the 2014 Regional Press Awards.

Express & Star in numbers

- 71,585 daily copies sold (July to Dec 2014); 176,032 daily readers (1/4/2015 JICREG)
- Five localised daily editions of the paper– Wolverhampton City Final, Walsall, Sandwell, Staffordshire and Dudley – plus two weekly free editions for Stafford and Kidderminster
- 90 editorial staff across five offices – more than any other media rival
- 102,921 daily unique users; 1,936,882 monthly unique users
- 55,500 Twitter followers; 47,000 Facebook likes
- Seven editions in the weekly free Chronicle series
- 291,099 average combined Chronicle weekly circulation (July to Dec 2014 ABC audit)
- 4,500 advertisers buy space within the MNA's titles each month
- In total, owner Midland News Association employs 565 employees

Having already taken many of the difficult decisions required to remain profitable and to fund some of the necessary investment in innovation to move towards a long-term sustainable future, the UK print media sector is now well positioned to capitalise on the opportunities presented by a more engaged audience and having fewer barriers to the distribution of its content.

5.2 The rise of connected media has the potential to be transformative for how news is gathered, processed and disseminated

One of the challenges and opportunities of the transition towards a new, connected value chain for the news content industry is that players have never before been presented with so many options for how news coverage can be sources, edited, packaged and distributed. News is being reinvented through the use of connected media.

“We have the Liverpool Echo, as you know, and everyone reads it. Whilst people might not necessarily buy it now in the numbers that they used to, what's in the Liverpool Echo is actually the thing that's the topic of conversation...that's where people gather their news from but it's different now because people will tweet out 'Have you seen the Echo?'”

Steve Rotherham, MP*

From a distance, this can give the impression of the proverbial '1000 flowers blooming' as new news services and new participants in the news value chain come to market. However, the truth is that traditional news media remains at the heart of the connected news revolution and that the news ecosystem would be very different without them.

*Quote sourced by the NMA

The changes brought about by connected news consumption can be grouped into two broad categories:

5.2.1 The removal of traditional barriers to entry

Traditional news media has a relatively high fixed cost of distribution, driven by the need to print and distribute hard-copy news or to own TV or radio studios and rent broadcast infrastructure. By contrast, the internet brings down the cost of distribution for text, audio and video media and has allowed a range of new entrants to develop 'online only' news services quickly and effectively.

The growth in 'online only' news services over the last few years is further testimony to the enduring consumer appetite for relevant and well delivered news content, and to the scope that remains within the market to fund that content via advertising and consumer pay models. This was first demonstrated by the growth of new B2B or business focused online news players during the first dot-com boom, but has more recently seen new consumer news services coming to market and gaining a large audience relatively quickly.

In Mediatique's analysis of the online news market for the BBC⁸, they estimated that across a sample of twelve of the leading 'online only' news providers, those businesses employed c.3,600 people and were expected to be generating c.\$1,355m in revenue by the end of 2014. Led by international players such as Vice Media, Huffington Post, BuzzFeed and Vox Media these new forms of news media are exploiting opportunities to target new consumer segments and to monetise traffic across a number of separate news markets.

Example: Vox Media

Vox Media originally named SportsBlogInc was originally launched in 2003 as a dedicated sports news portal. In 2011 it branched out into tech news with the launch of The Verge which focuses on science, developments in technology and gadget reviews. Since 2011 it has expanded into a further five content verticals, Eater focused on food culture and restaurant / recipe reviews; Polygon, centred on gaming; Racked a website dedicated to female fashion; Curbed focused on real estate and architecture, and its latest site, Vox.com an explanatory news website. All of these channels are targeted at a young affluent demographic.

Each of these is hosted and designed on its proprietary publishing technology with all video content self-hosted as well. The content varies for each channel with a variety of short and long form content on its thematic outlets. Vox, its news outlet, favours long form explanatory journalism with a strong use of infographics and other visual aids.

Unlike Vice, which also targets the same demographics, its focus is exclusively on the US with at present no foreign content or offices and it does not use cross-promotion across its different channel;. It offers similar banner inserts and pre-roll video ads but does not aggregate a wider network of third party websites. Its total monthly active user reach is 150m mainly in the US but with foreign overspill.

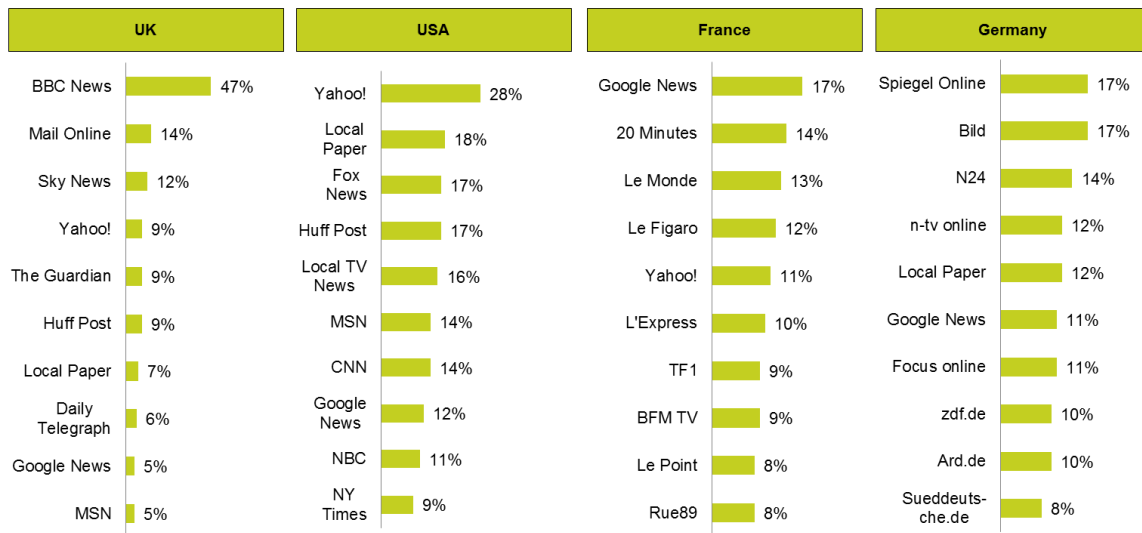
While a welcome addition to the range of news services available in the market, these online only players tend to have business models that focus on either national news markets (as opposed to local) or international communities of interest. Hence Vox Media's 'The Verge' brand focuses on media and technology, it's 'Curbed' brand focuses on real estate and design, etc. while Huffington Post and Vice tend to tailor their content to national news markets.

⁸ Mediatique – The provision and consumption of online news – current and future, December 2014

At the other end of the news industry is a democratisation of how local news and issues are discovered, reported and debated. Here, lower barriers to entry mean that bloggers and citizen journalists can become a part of the news mix alongside local press, TV and radio organisations and their online offerings. Social media is playing a stronger role in enabling debate and discussion to flourish and in allowing crowd-sourcing and recommendation to become new ways to discover and generate news and information content.

Figure 16: Comparison of top 10 news websites in selected markets

Top 10 news websites in target markets (% of internet users who visit website, 2014)

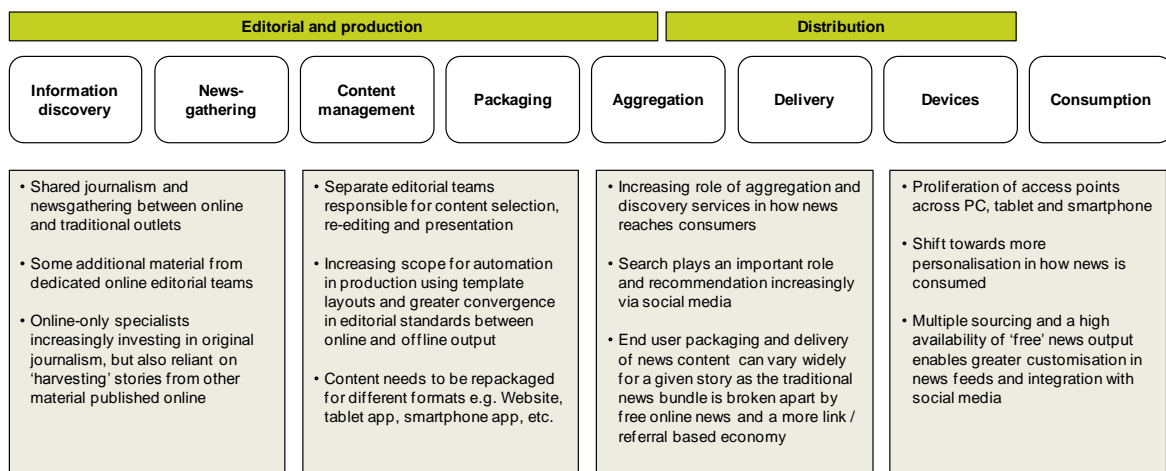


Source: Reuters Institute Digital News report 2014

5.2.2 The creation of a much more ‘open’ news value chain

The online news value chain is one that is much more open to new participants, whether as original sources of news content, new packagers and aggregators of content or providers of enabling technology platforms.

Figure 17: The online news value chain



Adapted from Mediatique – The provision and consumption of online news – current and future December 2014

This more open value chain is linked to three broader market trends:

i. Broadening the scope of what is considered to be news content

News services used to be broadly defined by their chosen medium. For example, TV bulletins have a structure and format that is well understood, packaging a series of stories in a familiar order and distributing them via long-standing appointment to view slots in the schedule. Radio news is similar in its structure. Due to their limited news inventory, both are models concerned with the prioritisation and packaging of news and have traditionally lent themselves to a vertically integrated approach to news sourcing, journalist coverage and media asset acquisition. In short, the broadcaster employs the journalist, owns the copy and takes the pictures that it requires.

In print news, the wider demands for daily story count and range of coverage to fill a newspaper have led to a slightly more networked approach to news sourcing. Here, agency feeds of news copy and images are a more important part of the daily input mix and services have grown around that need, providing alternative sources of content as a supplement to in-house written and picture journalism.

In digital news, the traditional definitions of what can be considered to be 'news content' are being challenged. News is becoming part of much wider information economy, linking through different forms of consumer interaction and tapping into a wider variety of consumer interests. At the heart of this is a competition for user traffic with online news and information services more likely to be editorially shaped by the need to grab attention and secure prominence in search and across social media.

Traditional distinctions between news brands are also being eroded by this more interlinked and converged news media landscape. TV news brands are now distributing video content via Twitter and Facebook alongside a wide range of competing news voices, some traditional and some new. To some extent this is giving the appearance that the news market is becoming more plural, but also increases the risk that well sourced, evaluated and high quality news content becomes increasingly drowned out by a blizzard of comment and opinion.

News services are also becoming more specialised or channel orientated to make the most of the commercial opportunities that exist around online communities of interest and 'vertical' advertising. For example, Vice Media operates a range of content channels alongside its news output, specialising in topics such as Music (Noisey), Technology (Motherboard) and Food (Munchies). This type of new digital news service is more of a magazine or multi-channel network than many 'pure' news brands have traditionally been.

Example: Vice Media

Vice Media, originally the Voice of Montreal, was founded as a punk magazine in 1994. Until 2006 its focus was mainly in print, where it expanded from its original base of Montreal, to 13 separate foreign editions.

In 2007, following a change in management, Vice expanded its footprint into other forms of media including a series of international digital channels, a creative agency, a TV and film production studio, a record label and a book publishing channel.

It owns and operates 9 different digital channels covering the following industry segments:

- Vice: Based on the original magazine, covers alternative youth culture
- Vice News: a global digital news channel, rich in original investigative video content
- Vice Sports: dedicated to US Sport
- Noisey: a music discovery channel
- Munchies: A website dedicated to food
- The Creators Project: dedicated to the arts and creativity
- Motherboard: covering cultural happenings in technology
- THUMP: focusing on global dance and electronic music; and
- Fightland a channel dedicated to the culture of MMA

A number of local versions with both locally originated content and translations exist for each of these channels with English, French, Dutch and Spanish at the core. Video content is heavily promoted on all of these channels and is central to its news, sport and tech propositions. Advertising is sold via the ADVICE network which aggregates Vice's own digital channels and 500 other separate digital publishers also focused on a 18 to 34 year old demographic. The network has a reach of 200 million monthly active users and offers traditional banner ads, page takeovers as well as pre-roll video inserts. In 2012, it also acquired British fashion publisher i-D and relaunched i-D.co as a video-centric website shortly afterwards.

Vice focuses mainly on long form content across all of its channels, both written and video, with a high degree of editorial freedom.

ii. Making news a more 'user-led' experience

One of the main trends in the internet age is that technology can have a transformative impact on traditional market structures and a democratising impact on market access. This is certainly true in the digital news market, with more scope for individuals and groups to source, package and publish their own take on the news than ever before.

In newsgathering and information discovery, first-person accounts of news stories – either submitted to traditional news outlets or published directly online – are an increasing part of the mix in breaking news. Blogs and social media feeds are now embedded as part of the daily news media mix for millions of consumers around the world. Self-publishing video apps such as Meerkat and Periscope are enabling live coverage of events to be streamed direct from the scene of events via social media platforms. The news consumer is becoming a larger part of the overall news media mix.

Twitter Periscope – enabling video newsgathering to go social

Earlier in 2015 Twitter launched an online streaming service called Periscope, providing users with means to broadcast direct to their Twitter followers over the internet. When a user starts streaming video (for example via their connected smartphone), a tweet with an attached link instantly alerts their followers that they are broadcasting. People browsing on Twitter can also see anybody who is streaming at a given moment, anywhere in the world.

Applications like Periscope have the potential to make online video news a social, user-generated experience, providing individuals with a broadcast platform. Whatever the dominant use of these types of tools becomes, their application for original newsgathering, video blogging and reporting is likely to gain in popularity, providing another source of news content into the daily news / social media mix.

iii. Altering the flow of funds into news origination

Many commentators have identified that one of the key issues in the move to a more 'open' digital news value chain is that it is increasingly difficult for news originators to capture the full economic value of their output. In a world where news aggregators can repackage original news content and where prominence and discoverability is increasingly controlled by a few global platforms such as Google, Facebook and Twitter, the number of participants in the economics value of news content is growing with each aiming to benefit from a share of the overall value created.

For free-to-access commercially funded news service providers, audience traffic is key but often dependent on other sources of referral and linking to content services that are exploiting their own commercial models and where promotion is rarely free. The growth of news apps has exacerbated this, with mobile ad networks taking a significant share of the value generated by news content through in-app advertising and hence limiting the returns to news service providers. This complex economic network around the provision of 'free' news content is one of the key challenges that news originators face as they attempt to capture sufficient value from online markets to remain sustainable in the long-term.

6 The opening up of the digital news market brings risks and opportunities – the next five years are likely to be critical to shaping the future

Many commentators have identified the next five years as being a critical period for the UK news industry. In that timeframe, we will get a much clearer view as to whether ad-funded quality news models in a mainly digital market can be sustainable at scale or whether paid content models will become the most attractive long-term solution for funding news origination. This will have broad consequences for the size, shape and nature of the UK news market. In this section we take a look at some of the challenges and opportunities being faced.

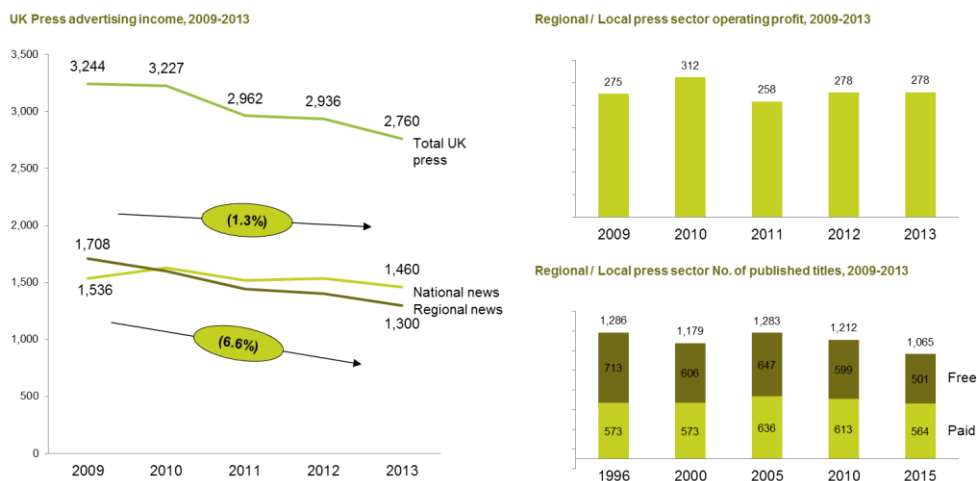
6.1 Despite strong headwinds, no immediate signs of market failure in news – players have been pro-active and continue to innovate

While it is an unavoidable truth that the growth of the internet has also coincided with a much more rapid erosion of commercial news advertising revenues, the industry has demonstrated that it is able to adapt to changing circumstances and that it can do so without a proportionate reduction in the scale or scope of news coverage produced. Rather, the commercially funded news sector has been forced to become more efficient in how it produces news output. This has led to staffing reductions across the sector and technological innovation but is yet to materially affect the sector's ability to continue its news coverage and quality of output.

6.1.1 Local and regional news media growing audience reach as they move towards a sustainable model

One of the views often put forward by sector analysts is that the local and regional commercially funded news sector is in terminal decline. Certainly print circulations continue to decline, exacerbating a broader shift in advertising that saw advertising income to the regional news sector fall by an average of 6.6% per annum over the period from 2009 to 2013. However, over the same period sector margins were held broadly flat through a programme of cost reduction aimed at finding a leaner operating model for the main participants in the sector.

Figure 18: Performance of local and regional press sector – advertising, margins and titles



Source: NMA members, Advertising Association

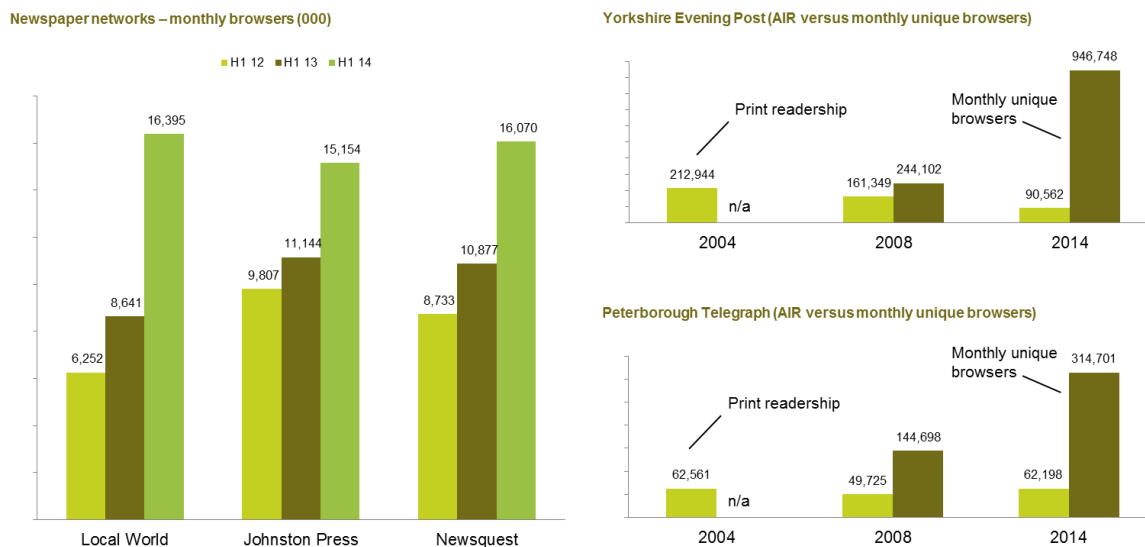
Looking at a longer time period, the number of titles published by the local and regional press has remained remarkably high and in contrast to the rate of decline in revenues. This suggests that in broad terms coverage is being maintained and that cost reductions have come more through efficiencies than scope reduction.

At the same time, local and regional press players have been leading a revolution in migrating their traditional audiences - and wider local communities – online. By being active participants in a broadening connected and social media landscape for local content, commercial news providers are benefiting from resurgence in local audience engagement with news content and local news brands. For example, the online websites of Local World, Johnston Press and Newsquest titles all saw online audiences grow substantially between 2012 and 2014 and for some leading titles the level of monthly browser now significantly exceeds the aggregate audiences that their sister print titles were able to attract, even 10 years ago.

The challenge for the news media sector is to capitalise on these strong upward trends for consumer interest and engagement within a more diverse ecosystem of local voices and enabling technology platforms, all with different access to advertising revenues via ad networks and revenue sharing deals. However, the prospects look encouraging, with research by the Pew Centre for Journalism in the US⁹ suggesting that local news organisations, reporters and commentators remain a stronger influence in social networks than public or other community institutions and that sharing local news stories was much more common than contributing new content or commenting. This suggests that established news brands can remain at the heart of the local and regional news content mix.

⁹ Pew Center – Local news in a digital age, March 2015

Figure 19: Local / Regional press growth in online reach, selected examples



Source: Enders Analysis review of ABC data; JICREG; ABC 6 monthly multi-platform report

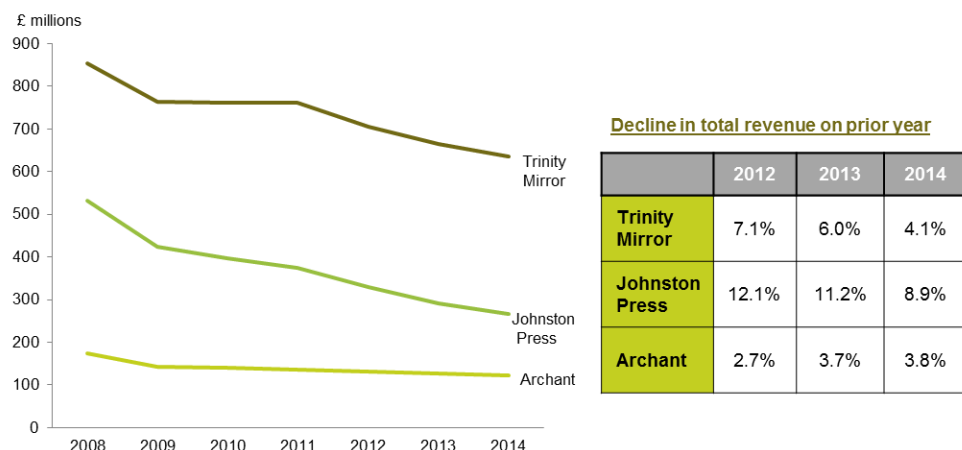
A more in-depth look at the financial prospects for local / regional media players

We reviewed the recent performance of the three largest publicly quoted regional press operations in the UK: Trinity Mirror, Johnston Press, and Archant. Trinity Mirror owns a mix of national and regional titles, while Johnston Press and Archant both own regional titles only, including newspapers, magazines, and increasingly, digital content. Our analysis of Trinity Mirror includes performance across the whole business, i.e. both national and regional titles, this is because Regionals’ performance is not separately reported in the Trinity Mirror annual report and accounts beyond 2011. In 2011, Regionals accounted for around 40 per cent of total revenue, and around 30 per cent of profit.

All three companies have faced challenges in recent years, with the advent of digital consumption putting pressure on their circulation and advertising revenues. The impact on revenues was particularly severe between 2008 and 2009, when regional press was hit by the global economic downturn; since then revenue decline has been more subdued, though the long term downward trend has remained. Between 2009 and 2011, there was a period of relative recovery, when the long term trend slowed as the advertising market recovered, though the decline picked up again in 2011.

However, **Figure 20** shows that since 2011, the rate of revenue decline has decreased for both Trinity Mirror and Johnston Press. Across all three companies, advertising revenue is the largest component of total revenue, and fell significantly between 2008 and 2014, but the rate of decline has slowed. In particular, the rate of decline in print advertising revenue has reduced, while digital advertising revenue has seen significant growth in some cases.

Figure 20: Revenues, largest regional press operations, 2008 to 2014

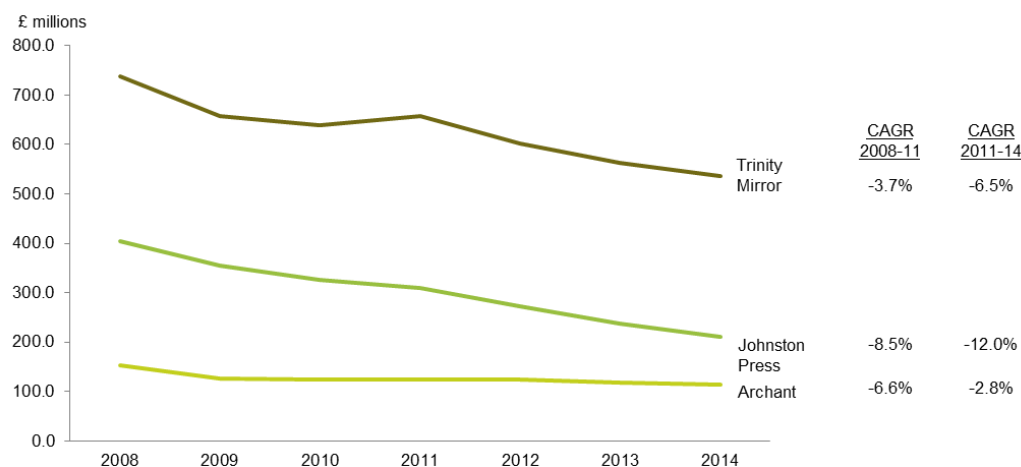


Note: Trinity Mirror numbers include both national and regional revenues, since these are not reported separately in recent years.
 Archant's 2014 results have not yet been published.
 Source: Oliver & Ohlbaum analysis

Press advertising income in the UK has been affected more significantly by the recession and more rapidly by digitalisation than in other markets, so slowing revenue decline is a potential sign that the majority of the impact on the traditional press sector may already have been felt. As circulation and print advertising revenues stabilise, continued growth in digital revenues could lead to some regional providers seeing revenues increase for the first time in years.

Broadly speaking, costs have followed a similar trend to revenues, with all three companies successfully taking out cost to protect their margins. **Figure 21** shows that in the first period, from 2008 to 2011, they were relatively slow to remove costs, but reduced spending more rapidly between 2011 and 2014.

Figure 21: Costs, largest regional press operations, 2008 to 2014



Note: Trinity Mirror numbers include both national and regional revenues, since these are not reported separately in recent years.
 Source: Oliver & Ohlbaum analysis

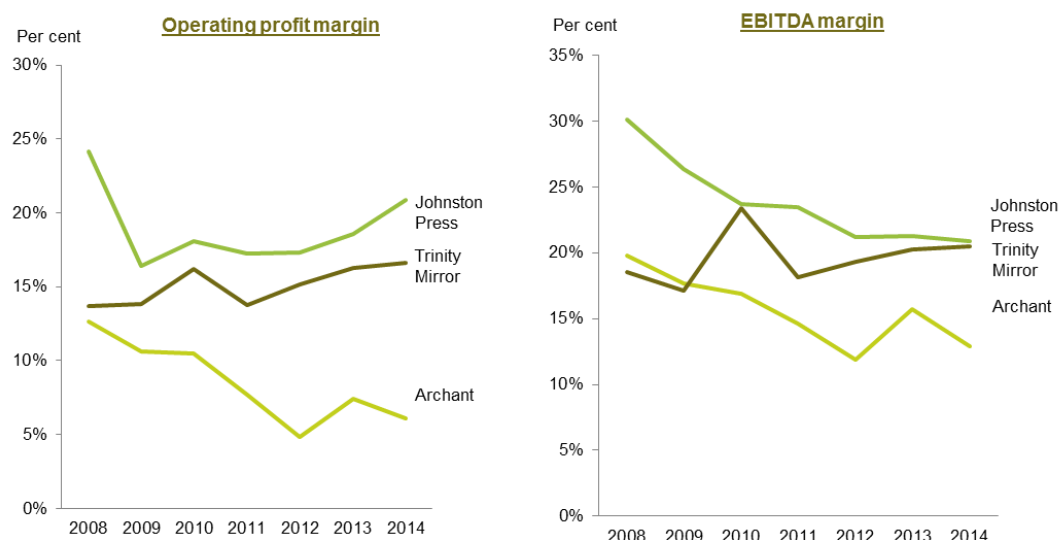
Perhaps unsurprisingly, for all three companies, staff is the most significant cost and reduced by between 5 and 8 per cent per year over the period. In 2008 staff costs accounted for between 39 and 49 per cent of total costs for these three companies; this remained broadly stable for Trinity Mirror (c.39 per cent) and Archant (c.44 per cent) over the period, though for Johnston Press staff accounted for 49 per cent of total costs in 2008 and 58 per cent in 2013, indicating that they successfully reduced other costs more rapidly than staff costs. These reductions in staff costs are driven by reduced numbers, with the total size of the workforce reducing by up to 47 per cent between 2008 and 2013 in the case of Trinity Mirror. Johnston Press saw a similar decline, cutting its workforce by 46 per cent between 2008 and 2014, while Archant reduced its staff numbers by 27 per cent between 2008 and 2013. These reductions in staff numbers came disproportionately from sales, distribution and administrative roles, indicating that these companies have been able to adjust to delivering titles through the use of more efficient working practices.

All three companies also achieved significant reductions in others costs, which include printing, distribution, property, plant and equipment. These reductions are expected to some extent; as circulation and printing revenues have reduced, so have the associated costs, though the fact that total costs have declined in line with revenues indicates that the companies have had the flexibility required to successfully downsize, reducing their fixed costs where appropriate to live in the digital world.

Indeed, through the effective management of costs, these companies have all succeeded in protecting their margins and, adjusting for non-recurring expenditure items (such as restructuring costs), all three companies have seen their operating profit margin and their EBITDA margin increase in recent years. **Figure 22** shows that operating profit margins generally declined in the first half of the period but have increased since then. In the case of Trinity Mirror, the operating profit margin has followed a broadly upwards trajectory for the whole period, perhaps in part due to it's a national titles being less affected than regionals. Of the three companies, Archant experienced the largest decline in operating profit margin with a decline from 12.7 per cent in 2008 to 4.8 per cent in 2012, though 2013 results were more positive, with margin improving to 7.4 per cent.

Considering EBITDA margin¹⁰, which controls for the impact of financing and accounting decisions, there has been a levelling off of profitability. The EBITDA margins of Johnston Press and Archant both declined over the period, but the decline has slowed or reversed in recent years, while Trinity Mirror's margin has stabilised at around 20 per cent.

Figure 22: Margins, largest regional press operations, 2008 to 2014



Note: Trinity Mirror numbers include both national and regional revenues, since these are not reported separately in recent years.
 Source: Oliver & Ohlbaum analysis

¹⁰ EBITDA stands of earnings before interest, tax, depreciation and amortisation.

The recent performance of these companies demonstrates that they have been able to successfully manage their finances to remain profitable despite declining revenues. Given that the UK advertising market has been affected more rapidly by digitalisation than other markets, the slowing rate of revenue decline for these large players could indicate that much of the pain has already been felt by the sector.

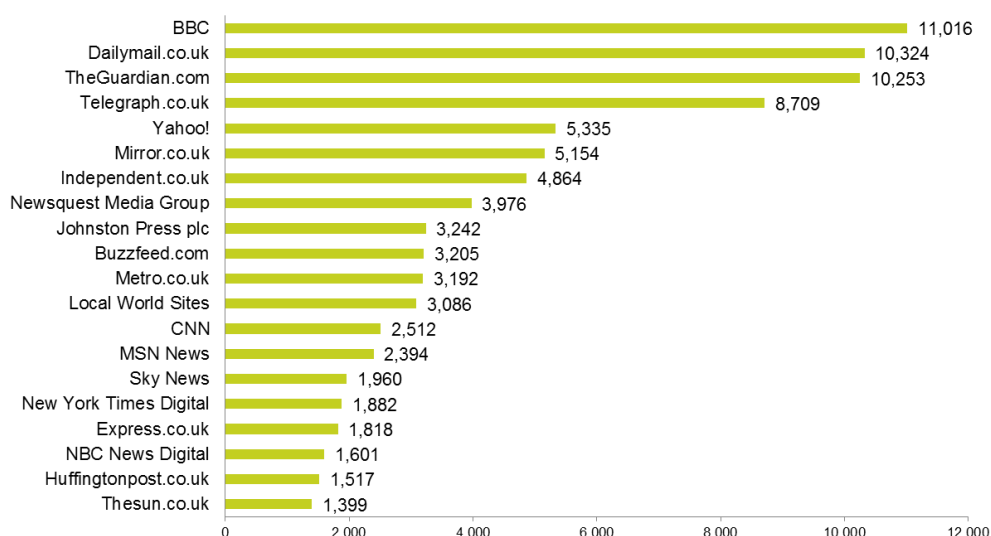
6.1.2 National news media experimenting with national pay and global free models (and all points in between)

In the national press, we remain in the middle of a period of experimentation, innovation and business model renewal. In the online news market, many of the traditional UK press brands retain their appeal, generating a high reach across online news audiences. Obviously players who choose to retain a ‘free’ news model will rank more highly in news traffic league tables, but the strength of commercially funded news services is also being demonstrated in the strong remaining willingness to pay being exhibited by an increasing subscription base and the growth in print / online product bundling and paid membership services.

The use of paywalls as a means to monetise news content can probably still be considered to be in the trial phase. Given the wide availability of news content that is free at the point of consumption in the UK market (both freesheets and online news), only a relatively small core of news consumers are choosing to take subscriptions. Here the success of the BBC’s online news services plays a contributory role alongside a number of advertising driven commercially funded online news services (e.g. Guardian Online, Mail Online, etc.) also making themselves available ‘free’ to consumers.

Figure 23: Unique audience for Top 20 selected news sites, UK March 2014

Unique audience for the top 20 selected news sites in the UK, March 2014 (Adults 15+)



Source: Comscore, Ofcom

The over-arching characteristic of the national news sector remains diversity – in voice, audience and business models. For commercially funded news media to survive in a complex and uncertain market, this experimentation and diversity of approaches and business models is to be welcomed and should aid the sustainability of the sector in the long term.

The fact that some media outlets have moved from a traditional paid print model to an online ‘free’ model is also a trend that is adding to UK media plurality, removing price as a barrier to consumer access and increasing overall reach of quality news content. However, it should also be recognised that the presence of wide ranging, well-funded, diverse and high quality online news output from the BBC – in the UK and internationally - does have an impact on the wider UK news sector, whether that is on consumer willingness to pay for online news or even potentially on the opportunity that other UK news brands have to generate international revenues as a cross-subsidy to their core UK operations.

6.2 Capitalising on the opportunity for global expansion

A digital news market with fewer traditional barriers to entry is a two-way street. While the UK is attracting more new news services from global players, the strength and quality of the UK’s domestic news services is also gaining wide appeal across international markets. This trend is more prominent – but not limited to – the UK news providers pursuing a ‘free’ consumer access model such as Guardian Online and Mail Online.

From a UK perspective, the opening up of overseas markets to UK originated news coverage has the potential to deliver a range of benefits. These include:

Recycling overseas revenues to support core operations in the UK

Advertising income generated from overseas traffic to UK originated news sites can be seen as a form of cross-subsidy to the continued provision of news services in the UK market. The benefits to the UK’s news economy from a growing international audience include supporting UK employment in journalism and helping to finance core UK newsgathering and editorial functions. Over the next 5-10 years, the growth of UK news brands in overseas markets will be inextricably linked to the success of the ad-funded model for national news services in the UK market as traditional news providers’ transition to a digital-only future.

Adding to the perception of the UK in overseas markets

The UK currently punches above its weight in terms for the international attractiveness of its news brands and levels of traffic generated by their daily publishing activities. This prominence of UK news in the global news market has benefits for our standing in the world as a leading democracy and is supportive of the ‘soft power’ objectives previously supported by the Foreign and Commonwealth Office and now directly by the BBC via its World Service and Global News output. Having more high quality, high reach UK news providers being successful in global markets should be recognised as a source of value to the UK’s international reputation and as a supporting mechanism to the BBC’s international objectives.

6.3 Maintaining diversity in original national news provision

At a national level, the UK news market remains strong and continues to support both a wide variety of daily and weekly print titles and a very strong online ecosystem across free, partial pay and full pay access models. The diversity of our national, news originating, commercially funded news providers is a key strength in the UK market. People who feel that their views are reflected in the media are more likely to be engaged as citizens and plurality of voice in news services is important in supporting that. A competitive national news market is also essential to citizens benefiting from the best of investigative and campaigning journalism, holding institutions and individuals to account and challenging the views distributed by an increasingly public relations led information media.

The BBC is a key part of this national news provider market, providing a free reference point for consumers interested in the latest breaking stories and topical issues. However the BBC will always be limited to a certain extent in how far it can go in its challenge to Governments and in the scope of its original investigative output. The range, diversity and willingness to challenge orthodoxies represented in the output of the UK’s commercially funded news sector therefore remains a critical part in the functioning of our democracy and should remain a necessary complement to the BBC’s news services.

6.4 Allowing local and regional media to innovate, experiment and develop the next generation of community focused news organisations

The local and regional news sector is arguably one of the most uniquely valuable parts of the overall UK news ecosystem (given its scale and scope) and one of the areas most under economic pressure. Generating news coverage across a national network of c.1,100 print titles and a larger number of associated websites requires a commitment to newsgathering resources and journalism that is hard for other parts of the UK news market to effectively replicate.

The main players in local and regional news have all had to respond to significant commercial headwinds over the last 10 years, but they continue to be profitable and continue to publish a wide range and diversity of output on a daily basis. Though print frequency might be under pressure, only a few titles have so far been moved from daily to weekly formats. Alongside this, local news providers are all very active in online news provision, where the model demands daily updates and regular refreshes.

Undoubtedly, the available resources for the local and regional press are more limited today than they have been in the past – advertising revenues have declined and print circulations continue to experience long-term decline. News providers have been forced to respond by innovating and finding lower cost ways to produce news output which has inevitably led to fewer jobs in the sector and pressure on some resource intensive and more functional aspects of local news coverage. However, while the model is under pressure it is not demonstrably broken. The number of published titles and scale of print paginations continue to be maintained, the number of online news sites has increased and consumers are more engaged with local news media than has been the case for a long time. The challenge is to find a sustainable ecosystem for local news that maintains all of its traditional strengths while recognising that the internet is creating a much more diverse and vibrant local market in news and information provision.

The opportunity here is to find a way of utilising the pre-existing strengths of the local and regional news market for the long-term rather than trying to replicate what they produce. This is both a practical point and a more philosophical one. The practical point is that no single organisation would likely choose – or would be able to fund – the scale of coverage required to replicate the news content generated by existing providers. The idea that the commercial funding of local news markets will fail and that they can be replaced by state-funded news publishing or by the BBC is unrealistic in the simple scope of what would need to be created. The more philosophical point is that local news audiences do not want to be dependent on a single source news market in coverage for ‘where they live’. The current market structure delivers benefits to citizens in that they can obtain a range of news output and views across BBC regional TV and radio services plus more locally focused commercially funded news outlets. To imagine that local news provision would fail is to imagine a much weaker overall news ecosystem and a BBC dominated set of local markets in news.

As a result, allowing existing local and regional news providers to have the competitive space and support to innovate, experiment and develop a new generation of community focused news services, organisational structures and business models for local markets represents a potential tipping point in the provision of original UK news coverage. Given every opportunity to succeed, local markets can continue to benefit from diversity in how they source news about local issues and concerns. Until a catastrophic market failure can be proved to be unavoidable, most analysts would agree that the benefits of this approach will always outweigh the merits of BBC expansion into trying to replicate local market coverage. These are not separate outcomes – the incentives for the commercially funded news market to invest in innovation need to be present to maximise the chances of success and the BBC should seek to avoid actions that might harm those incentives.

6.5 The risks from a dilution of news provision – increasing domination of overseas news, reduction in plurality and range of UK news voices

While the transition to a predominantly digital market for news content contains many opportunities, industry commentators also identify some broad risks to how the market operates, to the available revenues to news providers and to how much of the available revenues can continue to find their way to the funding of quality UK journalism. Range and diversity of UK news brands at national, regional and local levels remain key strengths of the UK news market and consumers remain loyal to their favoured news outlets. However, the growing influence of overseas news content providers in the UK market and the blurring of traditional lines around 'hard' and 'soft' news mean that a continuation of the status quo is by no means certain.

6.5.1 Globalisation of news provision is both an opportunity and a threat

While globalisation of the news market is creating new opportunities for some of the players in the UK news market it also brings increased competition along the news value chain. This is most obviously in two areas:

The growing prominence of overseas news providers in the UK market

The UK is increasingly open to new forms of news provision and to new news providers. This is a challenge to traditional UK media brands, particularly in attracting audiences amongst younger demographic groups where new media brands tend to focus and win over early adopters. Within this mix of new news providers, there is a split between those covering lifestyle verticals and communities of global interest (e.g. Vox Media) and those investing in creating UK specific output (e.g. Huffington Post, Vice Media). The risk in the long-term is that a growing proportion of news consumption is to non-UK sources and consumers become less engaged with UK affairs as a result.

The growing importance of international media platforms for the provision of news content

Global platforms have come to dominate the internet, whether it is in retail (Amazon), search (Google), social media (Facebook, Twitter) or underlying device ecosystems (Apple, Google). Some of these players now have a significant influence on the UK news market, whether it is across search and social media shaping news interest and demand or iOS and Android mobile ecosystems taking a share of revenues around the demand for mobile news services via apps and mobile sites. With news increasingly discovered and building its audience via these platforms, the potential for these global platforms to distort news interests (favouring paid promotion and popularity rankings over a curated news agenda) and to limit the flow of funds back to news originators is growing.

6.5.2 No single dominant provider of news can replace the benefits of maintaining a diverse news market

One of the principal concerns of any industry moving towards a digital, connected future is that the economics of the internet repeatedly and rapidly appear to favour single dominant service providers over a more plural market outcome. Once embedded, these services can be hard to dislodge. For example, in Search, Google has been able to become the default option for the majority of internet users in the majority of markets. Similarly, Facebook has quickly grown to global dominance in social media and other rivals – even those driven by Google's financial and technological might – have struggled to compete.

In the news market, the fear is that consumption will fragment further away from traditional UK news brands and that a few well-funded global news outlets can start to dominate. This fear is particularly relevant with respect to younger online audiences who exhibit both a lower stated interest in 'hard' news and are the main target demographic for many online pure play news and information brands. As with other media consumption, the risk here is that a cohort effect in news consumption creates a tipping point in the market where UK news brands no longer have resonance with key advertiser target groups and hence lose out in the battle for audience attention in favour of US-centric and international players.

For the UK news market to withstand these global competitive pressures, a multi-provider domestic news market needs to be able to survive and thrive, continuing to invest heavily in UK original news output. The prospects of a single UK news provider being able to substitute for what the commercial news sector produces **and** being able to see off an increasing array of non-UK global players are limited.

6.5.3 The BBC cannot take on the role of ‘provider of last resort’ for news coverage

All of the aforementioned factors suggest that the BBC cannot and should not come to be seen as the ‘provider of last resort’ in compensating for a shifting and dynamic UK news provider market. In particular, the BBC cannot be expected to effectively replace local and regional press coverage while simultaneously investing in new news services to chase a more fragmented audience and pushing its existing news services to extend their reach in the UK and deliver more revenue from overseas markets. With finite resources and many competing priorities, the BBC’s commercial and PSB interests should be more aligned with a strategy of supporting and complementing the existing commercially funded UK news sector as it adapts to the challenges of a digital future. Better this than becoming dragged into a cycle of diverting resources to a strategy that increasingly comes to replicate pre-existing local and national news services.

6.5.4 Three broad scenarios for the evolution of the UK news market

While there are many complex and rapidly moving parts in the evolving news market, the combination of recent historical precedents, current market situation and likely future challenges suggest three broad sets of scenarios for the development of UK news.

Scenario 1: *Commercial revenue decline from historical models is inexorable and new commercial models will be much smaller in scale*

In this view of the future, the UK’s commercially funded news sector would be progressively eroded by market forces, losing out to global players and leaving a deficit in news coverage that the BBC might be obliged to try and compensate for.

Scenario 2: *An extended period of uncertainty continues for the next 5-10 years as news media continues to converge and no dominant single model emerges*

Under this scenario, the commercially funded news market has to grapple with an extended period of uncertainty, making difficult decisions and investing in a wide range of initiatives to find the next set of sustainable business models.

Scenario 3: *A rapid transition to sustainability with commercial revenues stabilising*

In this view of the future, the current signs of a slowing of the erosion of traditional revenues coupled with strong online growth and monetisation would lead quickly to a stable future platform for commercially funded news services.

The BBC’s proposals in its ‘Future of News’ report suggest that it either believes in scenario 1 or 3 in terms of how the UK news market is likely to evolve. Under scenario 1, the BBC would expect to be asked to play a larger role in filling in the gaps in news coverage left behind by a fatally weakened and retreating set of players in the wider news media market. Under scenario 3, the BBC could take the same actions safe in the knowledge that in doing so the future sustainability of the UK’s commercially funded news sector was already assured.

Unfortunately, many in the industry believe that the evidence available in the market today suggests that scenario 2 – a period of extended uncertainty – is much more likely to be the case. As a result, the BBC’s role in the market should necessarily come under greater scrutiny as its potential to influence the long-term outcome for the UK news market is amplified by the uncertain commercial conditions and lack of clarity around where the new sustainability will come from in commercially funded news.

Figure 24: Three broad scenarios for news market evolution

Scenario 1: Commercial market failure	Scenario 2: Challenge & transformation	Scenario 3: Commercial market resurgence
<ul style="list-style-type: none"> ▪ Revenue decline resurgent ▪ International players dominate in global and national markets ▪ The BBC alone can compete due to its funding model 	<ul style="list-style-type: none"> ▪ A period of uncertainty and experimentation ▪ Commercial players need room to innovate and find new models ▪ Access to all available opportunities is important – early foreclosure could stifle change ▪ BBC positioning crucial to prospects for commercial providers 	<ul style="list-style-type: none"> ▪ The current softening of revenue decline will be followed by recovery ▪ Most of the existing news market ecosystem will remain and find sustainability ▪ Impact of BBC expansion limited as traditional commercial models endure

This market context will also make things difficult for the BBC, trying to balance a desire to bring high quality news content to the widest cross section of the UK population possible and a need to react to fragmentation in consumption and democratic institutions while also recognising – and controlling for – its impact on the wider news market, both in existing and potential future business models. Navigating this path will be challenging and, again, is probably best done in partnership with all of the affected stakeholders rather than separately.

7 The BBC's role and influence in the UK news market – a key asset but one that cannot be relied on exclusively

The BBC's remit in news starts from some very broad obligations within the BBC Royal Charter (2006), which sets out six 'public purposes for the Corporation that guide what it does. These are:

- (a) Sustaining citizenship and civil society;
- (b) Promoting education and learning;
- (c) Stimulating creativity and cultural excellence;
- (d) Representing the UK, its nations, regions and communities;
- (e) Bringing the UK to the world and the world to the UK;
- (f) In promoting its other purposes, helping to deliver to the public the benefit of emerging communications technologies and services and, in addition, taking a leading role in the switchover to digital television

The BBC's main activities are then defined as being 'the promotion of its Public Purposes through the provision of output which consists of information, education and entertainment, supplied by means of television, radio and online services'. This forms the basis of the oft quoted mission of the BBC to 'inform, educate and entertain'.

The BBC's governance challenge is therefore to take these broad purposes and define what they should mean for the scope of the services that it should strive to deliver against the funds from the licence fee. The provision of news content is clearly at the centre of delivering against the BBC's Public Purposes, but the Purposes themselves provide little guidance as to what that output should – and should not – contain.

7.1 How the BBC defines its news remit

The BBC's news remit is not defined in one place, but rather is effectively the sum of individual output requirements enshrined within the BBC's system of service licences. A service licence is defined for each individual 'service' that the BBC delivers – for example, BBC One, Radio 4, BBC Online are all defined as separate services (though they may all draw on the same broadcast journalists for presentation and the same newsgathering resources for original coverage). Clearly given the scale of the BBC's activities this leads to a complex matrix organisation between individual services, their demand for news resources and the management of BBC News as a functional group.

Traditionally, news output for each service has been reasonably easy to quantify due to the limitations on form and structure that linear TV and radio impose. As a result, 'traditional' media presentation of news has evolved largely as a complementary set of services – TV news bulletins in defined broadcast slots, short radio bulletins on the hour, etc. In the old world, the BBC's news output was easy to define and easy to control – the form of output was limited and the structure dictated its scope (e.g. you can only fit so many video packages and interviews into a 30 minute news bulletin).

Online news provision is much harder to define. For a start, the media has fewer natural limits or boundaries – audio, text, pictures and video can all coexist in the same service and there is no time factor imposing a limit on output scope. As a result, the relative lack of detail present in BBC service licences leaves a very broad scope for interpretation by management in how they translate the terms of the service licence into practice.

For example, the BBC Online service licence (April 2014) set out a range of aims and purposes as follows:

BBC Online service licence (extracts – April 2014)

“Comprehensive provision of impartial, accurate and independent news and analysis should be at the heart of the service. It should offer news and other content for the nations and regions of the UK”

“The BBC’s online content may be syndicated to other providers in line with the BBC’s syndication policy”

“The Service should commission a minimum level of content and services from external suppliers. It should actively seek to form partnerships with external organisations, particularly where these can help to promote the BBC’s public purposes more effectively”

Under section 5.5 Stimulating creativity and cultural excellence, the service licence goes on to set specific conditions that:

“The service should:

- Commission at least 25% (by value) of eligible content and services from external suppliers
- Aim to increase the volume of click-throughs to external sites from all parts of BBC Online year-on-year”

Source: BBC Online service licence, April 2014

This illustrates the mixture of broad definitions and specific obligations that can make the scope of the BBC’s online services hard to manage. Together, the relatively unlimited nature of online media and a nebulous brief from the BBC Online service licence are both contributory factors in the ongoing expansion of the BBC’s online news presence.

It is worth noting that, in setting out its remit for online news, the BBC has already identified that partnership principles and external sourcing should be founding ideas for how it approaches the market. Here the issue appears to be more in management’s desire to build in-house services rather than partner or source from the external market and in the BBC’s public service divisions having a relatively poor track record in delivering long-term partnerships with the wider commercial sector. This could suggest that any long-term solution to delivering partnership in the wider news sector needs to include a structure that (1) places internal responsibility for partnerships outside of the BBC News management structure and (2) that joint venture structures with clear funding commitments, triggers and controls are preferable to approaches where the BBC retain control of funding allocations on a discretionary basis.

7.2 How the BBC’s online news service scope overlaps with other players in the UK news sector

As outlined earlier in this report, the BBC’s desire to follow shifting consumption patterns have meant that it building a strong position in online news provision was inevitable. However, many in the wider news industry have argued that its decision to build a predominantly text-based online news service has placed it in much closer competition with the traditional ‘print’ news sector than was previously the case. Many believe that, in moving into online news provision, the BBC is being pulled in three directions and that in practice this means that its output increasingly overlaps with content traditionally provided by other, commercially funded players in the UK news market.

The first two of these directions are:

1. The migration from broadcast video and audio news to the written word – effectively becoming a major publisher of news as well as a broadcaster, and

2. A broadening of the BBC's online news scope into areas of 'soft' news and short-form content. This simple change of emphasis takes the BBC across traditional news market boundaries and into more direct competition with the 'print' industry (now heavily invested in an online future themselves). While the BBC is not responsible for the challenging trends in print advertising or in paid-for circulations, its presence online does shape UK habits in the consumption of online news and therefore influences the levels of traffic available to commercially funded players.

The third direction is in looking to overseas markets as an increasing opportunity to monetise the BBC's news assets. The BBC has long had commercially funded overseas news operations where public service newsgathering mixes with commercial news services. In the globalising news industry, the BBC is no longer alone in seeking to capitalise on overseas revenue opportunities as a means of cross-subsidising its UK news operations.

Ventures like the Guardian's news venture in Australia are intended to capitalise on the opportunities that UK news providers have to generate profits from overseas markets in support of their overall 'free' business model. Here, the BBC's increasing commercial scope might threaten to limit the market potential for other UK players. This could have long-term consequences in partially crowding out the opportunity for a variety of 'free' news models to exist in the UK outside of the BBC (e.g. limiting the incremental growth opportunity for The Guardian to cross-subsidise UK coverage from international revenues by competing with one another in specific markets like Australia).

7.2.1 From broadcast news to becoming a major publisher of written journalism

The BBC has traditionally operated at arm's length from the print news sector by virtue of its position as a broadcaster, not a publisher. However, as print publishing has moved online, the presence of the BBC as a major online publisher places it more directly in competition with a greater proportion of the rest of the UK news media. The nature of this competition is complex but has a direct effect on some of the commercial models being trialled by local and national news media providers – either where advertiser funding remains important or in the penetration of direct pay models.

As long as the BBC focuses its resources on a news agenda anchored in 'hard' news (i.e. reporting on the events of the day - breaking stories and providing updates) then the consequential impact on others of its move into written journalism might be limited. However, with the BBC's scope seemingly growing in 'soft' news (e.g. features, celebrity, etc.) this is not proving to be the case.

7.2.2 From 'hard' news to 'soft' news, features and magazine content

As it has focused more resources on delivering its online news output, the BBC has also tended towards an expansion of its news agenda into areas of written journalism that are more traditionally 'commercial' and hence more important to the value proposition that commercially funded news providers are trying to sell to consumers. The most obvious area of overlap is in the BBC's move into features, magazine and lifestyle content – areas that have long been the mainstay of commercial news media models.

An example of this issue can be seen in the changing relationship that the BBC has with what might traditionally have been referred to as commercial 'spin-off' content. Up until a few years ago, the BBC owned a portfolio of magazine titles through its commercial subsidiary BBC Worldwide (BBC WW). Via this trading relationship, BBC WW would take programme IP developed by the BBC's public service programme makers and package it in commercial magazines for sale on newsstands alongside other commercial titles. The key difference here is that the BBC's IP was packaged and sold on equal commercial terms to the wider print media sector. Today, much of it is also given away 'for free' via the BBC website.

Exacerbating this issue is the rapid growth in television of the formatted 'factual entertainment' programme. In a content category such as cookery, the age of the TV celebrity chef has led to many more cookery programmes on TV and in turn has led to much more cookery related content available for free on the BBC website. This has a direct impact on specialist magazine publishers and also on other commercial broadcasters who find it increasingly difficult to monetise spin-off content around their thematic channels.

When one considers the broad set of categories that the BBC’s output now covers - Cookery, Interior Design, Gardening, Travel, Property, Antiques, Music, Popular Science, etc. – it is apparent that the migration of the BBC’s content in some of these categories into its free online services has an impact on players attempting to sell access to content in the same categories via online services. At the very least it is likely to contribute to a reduced viability for paywalls across these categories of online content.

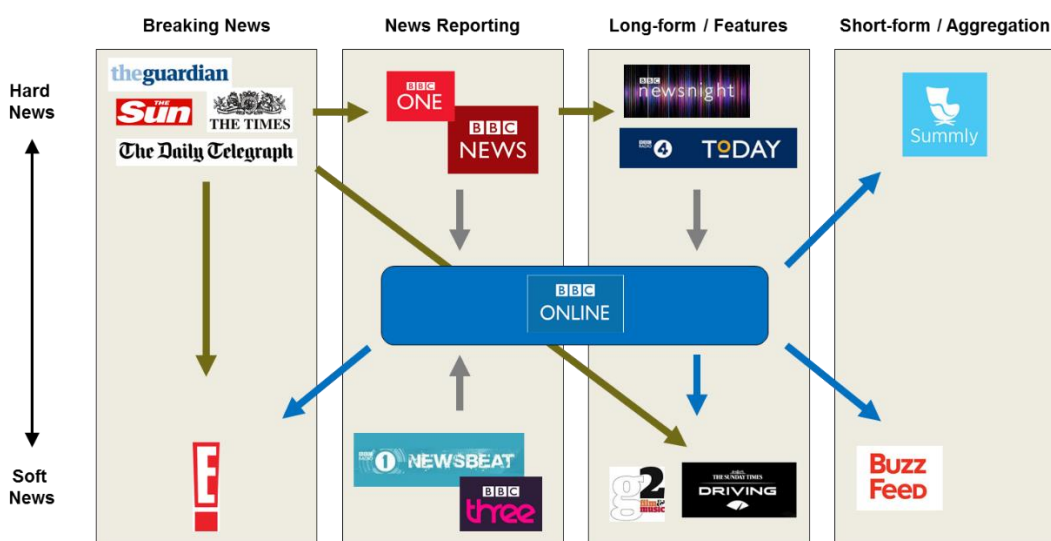
This is a key issue related to the broadening of the BBC’s online editorial scope in that it blurs the distinction between public service and commercial content. Whereas previously, the trading between a BBC public service programme brand and BBC Worldwide’s magazine division would have been relatively transparent, now the BBC is effectively giving more away for free. Absent this trading mechanism, which was effective in setting the rules for the BBC’s post-broadcast use of IP, a new means of setting the boundaries for – and policing – this type of activity is required.

More broadly, bringing together all of the BBC’s existing services online – either directly through online sub-brands or indirectly by reusing or repurposing content from other output – while competing for a share of online audiences against other news and commercial content services in the market creates its own expansionary pressures. The BBC has traditionally anchored its news output in TV and radio around a mixture of news reporting (i.e. aggregating the events of the day into bulletins) and long-form / features content (i.e. more in-depth reporting of news events). In this second area, the BBC’s output has traditionally focused on ‘hard’ news, following up the key stories of the day with more detailed reporting of the issues.

While there have always been some areas of overlap between the BBC’s ‘news’ portfolio and that from the commercially funded news sector in so called ‘soft’ news (e.g. the BBC’s supply of celebrity news via services such as Radio 1’s Newsbeat and BBC Three’s 60 second bulletins), this has historically been relatively limited. Today, it can be argued that the growth of BBC Online is pushing the BBC into more competition with the commercially funded news sector, both with traditional print businesses going online and with new online start-ups who find the BBC increasingly colonising areas of opportunity such as short-form ‘hard’ and ‘soft’ news via its apps and platform partnerships (e.g. Facebook Instant Articles).

At the same time, the shift to online is breaking apart the traditional newspaper content bundle and, with that, is creating an environment where ‘hard’ and ‘soft’ news categories need to survive on their own merits rather than travel together in a paid-for news ‘bundle’ (as they previously did in print). This removes one of the main traditional strengths of the print news sector – their aggregation power – and makes areas such as celebrity gossip, sport and news features much harder to monetise on their own. Intentionally or not, the BBC has become a source of content in a much wider set of news categories and hence is an attractor of news audiences that might otherwise look to commercial providers.

Figure 25: Example – BBC moving into more areas of news provision



As the previous diagram illustrates, there are many different and relatively distinct areas within the broad definition of ‘news’ provision, spanning from ‘hard’ to ‘soft’ news and across the breaking of new news stories, the reporting of the events of the day and the adaptation of news coverage – either going into more depth or providing more ‘bite-sized’ access. Today, many would suggest that the BBC is progressively moving into all of these areas in the online news market, in some instances translating historical BBC services into their online equivalents, in others using apps and online innovations to colonise new distribution and format opportunities.

Where this overlaps with commercial services outside of the provision of ‘hard’ news, the justification for this expansion may need to be revisited and should at least be subject to regular scrutiny. Certainly, the press industry would argue that this constitutes incremental competition from the BBC in areas that would have been historically much more the provenance of the commercially funded news sector.

7.2.3 A renewed drive towards international expansion

Facing the prospect of one or more of (a) a limited licence fee settlement and / or (b) increased direct funding obligations (e.g. the funding of the licence fee for the over-75s), the BBC is likely to look to overseas markets as a source of incremental funding for its operations. This already includes news operations as the BBC currently operates Global News on a commercial basis in many markets around the world. With the potential for more vigorous growth targets in this area, the BBC may seek to expand its commercial news services further, with the most obvious next step being to develop local market news aggregation services where the brand has strong resonance (e.g. in Australia and the USA).

In doing so, the BBC will need to recognise that it is increasingly competing with UK-based global news brands such as The Guardian and Mail Online. To the extent that the BBC is able to take advertising revenues from these markets – and remains outside broader industry revenue pooling arrangements such as the Pangaea Alliance – it may be, to some extent, taking revenues from other UK news organisations (assuming a finite demand for UK sourced news in those markets).

7.3 A natural tendency to portfolio expansion as UK institutions become more ‘local’ in nature and audiences fragment

Given the relatively broad way in which the BBC defines its news services, many believe that it is relatively hard for the organisation to resist market forces that drive it towards an expanding online portfolio. For example, the need to ‘offer news and other content for the nations and regions of the UK’ within the context of greater political and institutional devolution could lead to a natural drive towards more local coverage. To date, the BBC Trust has resisted this (see the Trust’s findings in relation to the BBC’s Local Video proposals in 2009), but the pressure to ‘do more’ is persistent.

Similarly, as audiences fragment across different media types and modes of consumption (e.g. short-form, list based and more ‘soft’ news stories), the BBC is seemingly following these trends as part of its interpretation of its universality obligations. Here another choice is faced between an ever expanding requirement to chase audiences with increasingly ‘commercial’ looking content or to find new partners that can help the BBC to extend its reach.

With the BBC’s ability to fund its core UK news services already stretched by the need to take on funding of big ticket items such as the World Service and S4C output from the licence fee, the pressure to innovate and further extend the scope of the BBC’s UK news services risks dilution of its core output. Facing an expanding agenda for coverage, the BBC needs to view partnerships as a viable and essential way by which it can continue to reach fragmenting audiences and address fragmenting interests cost effectively.

The BBC is undoubtedly at its best when devoting its resources to hard news and covering the most important national and international events of the day in a trusted and impartial manner. Many believe that this should remain the core purpose of the BBC’s News services and the priority for future funding. In responding to expansionary pressures on its coverage in other areas, the BBC’s first instinct should be to look for the most cost effective means of delivering on objectives, working with others where that offers the best return for a given level of BBC investment.

One additional change that is likely to support this focus on the most cost effective means of delivering objectives would be to significantly tighten some of the service definitions and specifications that are provided to BBC management by the BBC Trust in its service licences.

7.4 Strategic partnerships and JVs likely to be a better solution

The challenge in finding ways of effective collaboration with the wider news sector is not a trivial one. In order to maintain the benefits of having a market-driven plurality in UK news provision, the BBC and commercially funded news organisations cannot become too close, nor can one side be allowed to hold an absolute monopoly on certain aspects of news provision. Partnerships need to be based on mutual or joint venture structures rather than demarcating specific news reporting duties to different parts of the market.

As an example, one of the areas that has attracted scrutiny as the resources available to the local and regional news media in the UK have shrunk in recent years is the sustainability of local court reporting. This is an important public service, traditionally undertaken by the local press, but perceived to be under pressure as local media juggle priorities with fewer staff. In practice, the local court reporting sponsored by the local media appears relatively robust and the BBC moving into this area of reporting would be highly duplicative of the role already played by independent local news outlets.

If the BBC wishes to play a direct role in court reporting a better and more sustainable approach is likely to be via forming a joint venture between local media organisations, the BBC and – potentially – existing news agency organisations to resource local court reporting via a mutual organisation. In general, joint venture structures that bring the BBC and the wider news sector together are likely to be more effective and efficient than discretionary funding relationships (e.g. ad-hoc spot purchasing) or duplication of effort and more attractive to other participants in the wider news market.

7.5 More transparent and accountable governance structures may be required

With the BBC's demand for news services defined through its service licences and then interpreted by service Controllers in conjunction with BBC News management, the accountability for delivering services within the organisation is relatively clear. However, many believe that the accountability to regularly define and monitor the scope and impact of services as they evolve is less clear and in depth reviews along these lines only tend to be triggered by a change in a given service licence that triggers the BBC Trust's public value and market impact test procedures.

With a natural pressure for portfolio expansion and service innovation within individuals' line roles and as an organisation, there is arguably a need for an additional governance role to pro-actively look at how the BBC's services might be impacting on dynamic, rapidly evolving sectors and how the BBC can best respond to that evolution, including where there might be more cost-effective and innovative forms of partnership and cooperation with the private sector that can make the licence fee go further. The BBC's signals to the wider news industry about partnership working, content sharing and attribution already demonstrate that there is already an interest in forging closer ties with the wider news sector. However, in order to drive real change in how the BBC and commercially funded news sector work together, clear commitments will also need clear accountability and a delivery framework that can be monitored, reported on and improved in the interests of all parties over time.

Given experience in areas such as local TV, most in the print news industry believe that the BBC being left in control of how it dispenses discretionary funding to the wider news sector is not likely to be a sufficient or effective mechanism for news partnerships. As many involved in delivering local TV franchises have observed, requiring the BBC to set aside funds for content acquisition is not the same as awarding those the funds and seems inevitably to lead to disputes based on differing expectations around the timing and allocation of monies.

Example: BBC funding of Local TV franchise development

As part of the previous Government's plans for the creation of local TV franchises across the UK market, the BBC was given two specific funding obligations to support the development of this new sector. These were:

- A £25m commitment to fund the capital expenditure required to build the local TV multiplex and associated infrastructure
- A £15m fund through which the BBC would acquire content from local TV services between 2014/15 and 2016/17 to provide operational funding to new franchises

In practice, these arrangements have proved difficult to manage to the satisfaction of all participants. The BBC Trust launched an investigation in 2014 into the use of funds around the building of the local TV multiplexes which, while ultimately finding no impropriety, has again raised issues about whether some of the spend contravenes EU state aid regulations.

At the same time, the £15m content fund has been an area of dispute between the BBC (who want to spend the money on editorial merit) and local TV franchises (who see the BBC's funding as a way to improve their output while commercial revenues remain weak). A joint initiative, administering the total of £40m of public funds against clear market outcome objectives might have been a better approach, providing for greater flexibility as well as clearer overall responsibilities and target outcomes. Without clear external oversight, the resulting standoff does not appear to serve anyone's interests particularly well.

In order to give the wider UK news market confidence that the BBC can be an effective and reliable partner in news content joint ventures, a few basic factors need to be considered:

1. *Setting clear guiding principles for news partnerships*

These could be enshrined in the BBC's service licences or in the BBC Charter, setting out how the BBC should view sector partnerships as a key supporting element of its strategy and how in doing so it will maintain its editorial independence (and ensure the editorial independence of others).

2. *Being clear on the benefits of mutual trade and cooperation*

In order for partnerships to be durable, their value proposition to both parties needs to be clear. This issue is explored further in the following section, where we set out some ideas on potential areas of cooperation between the BBC and the wider UK news sector, including areas where reporting can be mutualised between the BBC and other news providers via joint ventures, areas where the BBC can be more open in trading its content assets with others in the market and in using other news providers as paid-for sources of news content.

3. *Establishing a structure of governance that provides for recourse outside of the BBC's management*

One of the lessons from the establishment of the UK independent television production sector is that having regulatory recourse via an independent third-party is an important back-stop arrangement when seeking to change long-standing behaviours. In the case of the UK independent TV production sector, this came in 2003 when the Communications Act introduced 'Codes of Practice' that required broadcasters and producers to agree the basic 'terms of trade' for the industry. A key part of this regulatory change was that if the parties failed to agree on terms, Ofcom would have powers to intervene. In practice, they have not yet been called upon to do so.

A similar approach is likely to be necessary in the case of forging sustainable news partnerships. This requires the BBC and other news providers to embrace a cultural change as well as potentially pooling monies and resources into joint ventures. While these can be directly negotiated, an external motivating force is likely to be required to ensure that initiatives are identified, agreed and delivered.

The question of where this adjudicating or back-stop power should sit is complicated, not least by the expected replacement of the BBC Trust in the next BBC charter period. Certainly any oversight role should sit outside of BBC management, but depending on the incoming governance structure for the BBC the most likely recipients of this role could be either a new Public Service oversight body or Ofcom. Ofcom already has a role in reviewing whether news plurality is being sustained in the UK market – a news partnerships oversight role could be seen as an extension of this position.

To be clear, what this proposes is a role to oversee the definition and delivery of effective news partnerships where both sides believe there is merit or where there is a clear issue of the BBC's scope affecting commercially-funded news activities. The role would have no influence over editorial decisions within the scope of pre-defined BBC news services. However, given the close alignment between issues of BBC news online scope and of delivering news sector partnerships, it is likely to be preferable that any such oversight role is placed within a body that is: (a) external to the BBC's operational management, and; (b) has some influence over service scope in news as well as news partnerships.

8 Maximising the value of the UK's news assets – a more co-operative vision of UK news provision in a globalising world

The BBC clearly faces many choices about how it responds to a growing news remit given limited resources and an increasingly competitive news media landscape. The BBC has tremendous strengths and enormous value to UK citizens as part of the news media mix. However, given the challenges described, many feel that the Corporation could benefit from taking a more cooperative approach to delivering on its news-related PSB objectives in future, utilising the strengths of other news providers alongside its own. In this section we explore some of the options.

8.1 The choices facing the BBC about its role in the market

The period in the run up to renewal of its Royal Charter is always a difficult time for the BBC. The Corporation needs to set out a vision for why the BBC remains a critical part of the UK media landscape, why its funding mechanisms need to be maintained and why that should be at a similar or greater level to previous Charter periods. However, given the pressures present in the market – from increasing devolution of political powers and operational responsibilities in the public sector to fragmenting audience tastes and consumption patterns – the BBC is also facing a broader set of questions around how it best prioritises its activities to maintain the universality and relevance of its services in a shifting market context.

The BBC's provision of news services is one of the issues at the centre of this changing market landscape. However, as the BBC responds to pressures to broaden its news agenda and news coverage some believe that it needs to consider alternative approaches to maximising its impact and extending the scope of its current news services. This is particularly relevant in three areas of expansion:

1. How the BBC can participate in and support local and regional journalism in response to greater localism in UK citizen's lives
2. How the BBC can maintain its reach as a news brand across fragmenting national news consumption
3. How the BBC's international plans for growth can be achieved without impacting on the international growth also helping to support news plurality in the wider UK news market

In each of these areas the BBC is faced with a decision to either 'go it alone' in building new news services or to find new ways of working with other news services and platforms, utilising the pre-existing strengths of the BBC and the commercial market to deliver outcomes at a lower incremental cost and impact. Where these potential cooperation strategies can exist between the BBC and the wider UK news sector, the benefits to the UK could be in both helping to sustain news media plurality and diversity at the same time as lowering the incremental cost of delivering new services to the BBC. As a result, the choices that the BBC makes will have a significant bearing on the future of the UK news market.

One key factor to consider in the rationale for news partnerships that help to sustain plurality in news provision is that a market-driven plurality is a much better outcome than a single provider being plural through its own range of news output. In simple terms, the BBC getting bigger and creating more news services while the rest of the UK news provider market gets smaller is not likely to represent the preferred answer to the plurality question. As mentioned earlier in this report, the competitive tension that exists between news providers in the commercially-funded sector is a critical element in the functioning of the overall UK news market. Without this basic motivating force to outcompete other news outlets, the drive to break new stories and campaign for change will be weakened and the effectiveness of the news media harmed. For all its ills, a less aggressive fourth estate serves no-one and the BBC cannot be relied upon to challenge public institutions or take on libel risks to the same degree as the competitive, commercially funded news sector does.

8.2 How the BBC can help others to adapt to the changing market landscape and more efficiently deliver on its broadening news remit

The BBC can find areas of mutual benefit in working more collaboratively with commercially funded players at local, regional, national and international levels. This should be based on a clear, evidence based need and should not be used as a means to justify encroachment on commercial news provision in areas where the BBC has traditionally not played a role (e.g. in local news markets). Rather, the BBC should seek to make the most of alternative forms of news coverage that already exist before expanding its own newsgathering services – cooperation rather than competition. While the detailed operation of any cooperative initiatives will likely vary by area, some general principles should include (1) being more open to linking and providing referral traffic, (2) working with other parties in editorial and commercial areas where the cost and / or revenue benefits of cooperation are clear, and (3) finding new ways to boost the reach of BBC news assets without the continual need to develop new news services independently.

8.2.1 A more collaborative approach in local and regional markets

The future coverage of the UK's local and regional news markets is an area where the BBC's interests and those of the commercial news media sector are more aligned than divergent. Both are concerned that the quality, range and depth of local and regional coverage is maintained and that UK consumers continue to enjoy the benefits that this brings to the functioning of local communities and democracy. However, both sides are also likely to be persuaded that both the BBC and commercially funded news media outlets should remain functionally separate, editorially distinct and with clear differences between their activities in the minds of consumers. Areas of collaboration and co-operation should be based on activities where there is agreement around mutual interest, clear functional scope and activities that add value to both sides.

Bearing these points in mind, the BBC and local / regional print news sector still have many potential areas where cooperation rather than competition in the provision of online news could bring benefits to both. These could potentially include:

1. *Sharing the costs of functional reporting of local public institutions*

One of the potential areas of collaboration between the BBC and the wider news sector is in the coverage of local public institutions. Today, this function is mainly sponsored by the UK's commercially funded news sector, including court reporting, coverage of local council affairs and the local apparatus of national institutions such as the Police, Fire Service and NHS. However, where this type of local reporting is more diary-based and functional in its nature, there is potential scope for coverage to be co-sponsored by both the commercially funded news sector and the BBC jointly, reducing the costs to both parties versus a situation where they end up duplicating this coverage for their own services.

How might this work?

There are a number of practical options for cooperating in this type of local reporting. These include:

- BBC direct funding of local media organisations to guarantee a quality and frequency of output from coverage of local institutions (shared by all parties)
- Both groups of parties funding an independent local reporting service (e.g. run by an institution such as PA) with a remit to ensure that all such UK bodies are attended and reported on a regular basis and with output timed to meet the requirements of partner publication deadlines
- The BBC taking direct responsibility for this type of local reporting with a commitment to share content with the local commercial media sector to an agreed quality and timetable

In practical terms both the BBC and local commercial media brands participating in the funding of a 3rd party joint venture coverage service is likely to represent the best way forward, placing any venture on an equal and transparent footing and dealing with any conflicts of interest via its constitution.

2. *The BBC as an affiliate for local news brands*

One of the potential distortions in the UK news market is that the BBC operates by far the highest traffic news website but has no commercial interest – or scope to monetise – that traffic. The ability to direct this large daily audience towards commercially funded online news sites is therefore highly valuable given the fragmentation in the market generally, the challenges that smaller media brands face around national discoverability and the BBC's leading role as a high reach news provider within the market.

In seeking to make its own services appear more relevant to local news audiences, one of the key things that the BBC could do is make more effort to explicitly link to local media brands. This has already been trialled on BBC Online with some limited success and could be adopted as one of the key principles by which the BBC links consumers with local news and information. In a largely ad-funded online local news media market, traffic is king and the BBC's contribution to boosting traffic flows to local news brands could be explicitly recognised as one of its sources of value to the wider UK economy

How might this work?

In practical terms, linking can be either automated or done on a push or pull basis.

- In an automated model, software would review the published content on designated partner local news websites and automatically embed links to this content in relevant BBC local news posts.
- In a push model, local news providers would publish a sub-set of their top stories each day to become links within the most relevant BBC website content
- In a pull model, the BBC would decide on which stories and from which outlets BBC Online copy should link to other stories from local news media providers

The decisions around the best linking model to adopt are mainly concerned with differing degrees of editorial control. In the long-term, an automated linking service is more likely to be attractive due to its lower management costs and more transparent, rules-based attribution.

BBC News Online to feature strongest stories from local newspapers across England

Press release – 21st April 2015

“The BBC has announced plans to roll out an improved method for linking to the best stories provided by local newspapers across the country, from BBC website Local Live streams.

This follows successful pilots in West Yorkshire and the North East where local newspapers send a link to their strongest stories, which then feature on the BBC News website.

The announcement is part of a BBC commitment to contribute to a healthy local journalism sector. A working party made up of representatives of many local news organisations have discussed a number of cross-industry initiatives over the last nine months. A national rollout will now take place region by region starting in Birmingham, with the aim of having the new system up and running across England by the middle of 2016.

BBC Local Live streams provide short form updates and will now incorporate local press and ‘hyperlocal’ links into a feed allowing users to choose onward online journeys to external media, original BBC journalism and user-generated content. In the pilot areas up to a quarter of the daily news content on the BBC's Local Live streams are curated links to other local news providers.

By enabling publishers to freely choose the links they want to promote on the BBC and using clear branding this approach is enabling audiences to find the best local stories and point BBC users to external news sites”

3. Ensuring that the BBC fully attributes local media in the sourcing of stories

In addition to a commitment to open and meritocratic linking of BBC copy to local commercial news coverage, the BBC should also consider a more consistent commitment to attribution of local media outlets in the stories that are represented to its audience each day across TV, radio and online outlets. The BBC has huge cross-promotional power but tends to use this across its own services rather than to the good of other UK media sectors. The clearer attribution of other news brands where relevant to how the BBC has sourced or checked a story could be a powerful boost for awareness of local news output.

How might it work?

The BBC could set clear editorial guidelines as to the on-air or published attribution of source content used in the creation of local news stories. This would provide clear recognition as to where a story was originated and / or where additional elements of a story were sourced from.

4. Being open to acquiring local news content where it offers something unique

Going beyond linking, attribution and sharing areas of mutual local coverage, the BBC could also be more open to the acquisition of local news content where there is a clear efficiency benefit to the Corporation. For example, in local sports reporting the scope of coverage that is available from the local news media sector is much greater than the BBC should reasonably hope to replicate. Where this forms part of the BBC's overall desire to represent more of local communities via its own news services, copy and pictures from local media outlets could form a more regular part of the BBC's own news content mix.

In practical terms, this is unlikely to yield a 'one-size fits all' approach to local news and sports content sourcing. However a series of bilateral content sourcing agreements between the major local press groups and the BBC could serve to reduce the barriers to this type of content trade and create the right conditions for experimentation and trial services. In addition, some groups – notably the Culture, Media and Sport select committee in their 2014 report – have gone on to suggest that the BBC should have an independent production quota for local news to the same degree as is currently in place for other TV programme supply (a 25% independent production quota exists across the BBC's TV programme commissioning activities).

5. Sharing national and international media assets with the local news sector

One of the more important philosophical choices that the BBC faces is in how it maximises the reach of its newsgathering output in a market where audiences are fragmenting away from traditional news services and into a much more diverse digital news market (where audiences are much harder to corral). Given that the BBC's news output is essentially a UK public asset, one option would be to make a greater proportion of this original BBC content available to other UK news services. While this might be seen as conflicting or competitive versus some - but not all - national and international news models, this could be a significant area of value added in the battle for online audiences between UK local / regional players and other news brands.

The re-use of BBC content is something that the Corporation has tended to shy away from, citing issues of editorial control and brand attribution that have traditionally been stumbling blocks to a more open distribution of the BBC's content. However, sharing of reporters and overlapping media brands within news coverage is nothing new (for example, Reuters journalists regularly appear in partner branded news bulletins) and is well understood by UK news consumers. As long as the BBC's content was not edited to give an altered message and brand attribution was maintained, the BBC's output could find a wider audience and help to boost traffic and engagement across a wide variety of partner news sites.

With clear attribution of traffic and mutual linking across news stories between partners taking BBC content feeds and the BBC's own online sites, this need not be damaging to the overall reach of BBC content and could serve to boost engagement overall.

How might it work?

While the opening up of BBC content to UK commercially funded news providers could be attractive to all parties, it also raises a range of practical issues that would need to be dealt with, including:

- What the rules around acceptable use should be for partner organisations?
- How an organisation would qualify as a BBC content partner and what the cut off should be?
- What the appropriate level of content sharing should be (e.g. top 5 stories only, embedded video or text / pictures, etc.)?
- How acceptable usage is monitored and tracked (and what the penalties are for transgression)?

However, these are clearly manageable issues and ones addressed in each current agency contract entered into by local, national and international news media outlets. For example, acceptable use can be defined in terms of BBC brand prominence, prohibition of the 3rd party editing of video or audio packages, and an undertaking that content will be used in the appropriate context. Any UK-based news organisation willing to be bound by the acceptable use terms could then be granted access, with compliance monitored and partner status withheld if they transgress the agreed rules for content sharing. In practice, a limited ‘top 5 stories’ service made available by the BBC – along the lines of the BBC’s current ‘most read’ and ‘most watched’ lists could be a good starting point for this type of cooperation.

8.2.2 Creating a different content sourcing and distribution economy in national online news

In the national news market, some of the same principles of linking and media asset sharing could apply, but the nature of their provision might be different. For example, while the value of linking from a BBC story to alternative national news outlets would still apply, the likelihood is that most national news providers would be covering the top stories on any given day. In this situation, a sensitive creative approach to how all relevant news providers are given linking space on a page and an agreed, meritocratic method for their ranking (and hence prominence) would need to be agreeable to all participating parties.

Some of the main options for greater cooperation between the national commercially funded news sector and the BBC include:

1. *Linking between the BBC and national news providers to maximise the reach of UK news*

As discussed above, the potential exists for the BBC to make more explicit efforts to link its news stories to relevant articles from other UK news providers, favouring UK news originators over other aggregators and international news providers. This would help to reinforce the traffic shared between the UK news origination community and support UK news providers in the face of increasing global competition (subject to appropriate state aid considerations).

There are inevitable complexities in this approach, not least the practical issues around how many providers can be linked to a story, what prominence is given to each and how to treat those news providers who have chosen to place content behind a full or partial pay-wall. However, all of these issues are manageable and the potential benefits to the UK news sector could help to reinforce the value of UK news providers over other competitors.

2. *Being open to acquiring features, magazine content and investigative journalism from other news providers*

One of the clear trends in the global news market is that the amount of ‘soft’ news is growing rapidly. In this context, the BBC is facing a challenge in how it effectively competes with national and global news providers across a broadening scope of news content into more magazine, list-based and features based content. Some of this is more the traditional strength of the commercially funded news sector than it is a traditional strength of BBC News online.

As the pressure on the BBC to pursue younger news audiences across the internet increases, the Corporation should review what the most cost effective options for the sourcing of this content are likely to be. With a longer lead-time to features and investigative journalism this type of content might be more practical to source – at least in part – from other news organisations rather than building new in-house teams. This also applies to the BBC's moves to follow the trend into list-based and short-form online content. Where other providers have pre-existing skills and resources, a more effective way to address these audiences could be via 3rd party content sourcing and linking to partner organisations for material that helps the BBC meet its PSB objectives (including universality).

How might this work?

In practice, the acquisition of 3rd party news and features content might best start within an obviously separate section of the BBC online site. For example, creating a 'best of other UK news' label for acquired content would help to ensure that there was – initially at least – a clear editorial separation between BBC original content and additional acquired content. The same type of 'zone' could be created to represent the best of UK investigative journalism, etc. and serving to promote UK national news brands for the quality of the content that they provide and providing a showcase for UK journalism.

3. Making the BBC's media assets available to other UK news providers on an agency basis

For similar reasons to those explored in the previous section, the BBC has always stopped short of allowing its original news assets to be traded to 3rd party news services on an agency basis. However, this should be re-examined as a potential incremental source of income to the BBC as well as a means of enhancing the UK reach and public benefit associated with the BBC's global newsgathering operations.

Again, there are likely to be practical issues to consider such as operating a differential rate card for UK news providers at different levels of the market and whether any content sharing / agency deals should be limited to the UK only. In the first instance it would make sense to define this as a UK public benefit from the BBC and to confine any content sharing agreements to news services in the UK only.

8.2.3 Supporting a more plural future for UK output in global news markets

The BBC is one of the leading players in the global news market, but it is not the only UK-based player active in this area nor is it the largest in terms of global traffic statistics. However, the BBC does enjoy a unique position in that its commercial Global News services benefit from its wider licence fee funded investment in international newsgathering. As a result, the BBC is a strong competitor in international news markets and is increasingly looking to its commercial potential overseas as a means of bringing in new revenues via its commercial arm, BBC Worldwide.

The BBC's impact on other news providers from its international operations is complex, but may be crystallised in one particular area. Where a UK commercially funded news provider is seeking to grow their international revenues as part of their overall business plan to retain a 'free' news provision model in the UK any actions from the BBC that directly challenge that overseas market opportunity are likely to have an economic impact on the total profit pool available to the rest of the news sector in a given overseas market and hence limits the overall pot of money that can be recycled into sustaining 'free' UK news output.

Many believe that this is fair competition and that the BBC should be able to compete for revenues in international markets alongside other news providers. However, the commercial trade and transfer pricing between BBC PSB and licence fee funded assets and the content used by BBC commercial news services to underpin this competition needs to be fair and transparent. A situation where the BBC is able to use its publicly funded UK news assets to compete with other UK news outlets in international markets is at best a 'grey area' of competition and one that some believe should be more openly and transparently evaluated.

Some of the factors that could help in the transparency of these operations could include:

1. *Making sure that there is a fair and transparent trade between the BBC's PSB funded and commercially funded news assets and / or services*

As the BBC focuses more on its ability to earn a commercial surplus on activities outside the UK market, clearer evaluation processes would be helpful that recognise that the BBC gains a significant advantage from its licence fee funded international newsgathering deployments. While competition between the BBC and other news providers in a given market should be accepted, the BBC needs to be careful to ensure that there is a clear, level playing field in the transfer pricing of its news assets between UK PSB and commercial news services.

The best way to ensure that this transfer pricing is fair would be to open up the trade in BBC licence fee funded content assets to all international news providers on an agency basis. Absent this market-based transparency, the BBC should take care to regularly review whether its commercial services are paying a fair price for UK PSB content.

2. *Recognising that there is a UK market impact related to the BBC's moves to tailor commercial news services for specific overseas markets*

In addition to the competitive impact of the BBC's international commercial news services, the BBC should recognise that its operations in overseas territories can have a market impact in the UK. This is most obvious in the business models of Guardian Online and Mail Online where global traffic and ad sales are critical to the overall funding model and the sustainability of the main journalist-led operations in the UK market. While the BBC does not necessarily need an ever increasing commercial news revenue stream to sustain its core services, the UK ad-funded news sector increasingly does.

Having an evaluation process for new, market-specific news services supported by BBC newsgathering resources that recognises this fact would help to better represent the trade-off that is being made in the share of global news advertising revenues that flow back to the UK market via either the BBC or other UK commercially funded news brands. It should also be recognised that, in the long-term, how this situation evolves will have an impact on news plurality in the 'free' segment of the UK national news market.

3. *Being open to participation in broader industry co-operation ventures where interests are aligned*

The challenges and opportunities of competing in the international news market are shared by the BBC and other news providers. However, where commercially funded providers are increasingly participating in joint ventures – particularly around advertising networks – the BBC still largely stands alone. In an increasingly network based international news market and with large groups coming together to maximise their value to advertisers, the risk is that the BBC finds its commercial position in international news eroded over time. While each initiative needs to be evaluated on its merits, the BBC should be open-minded about whether broader international cooperation agreements with other news providers can better help it to meet its objectives about global reach and profitability.

One practical example of this type of activity is the recently announced Pangaea Alliance, where the Guardian is pooling its programmatic inventory alongside CNN International, Reuters, the Financial Times and The Economist in an advertising network that aims to boost realised CPMs by giving advertisers access to high quality news sites within a premium ad network. As private marketplaces grow in popularity and demonstrate a strong value proposition to international and local market advertisers, the BBC might need to consider whether its financial interests would be better served by membership or these types of cross-industry ventures rather than an independent approach.

9 The BBC's Future of News report – an alternative vision

The BBC's Future of News report, released in January 2015, starts to prepare the ground for more detailed proposals being drafted as part of the BBC's Charter renewal discussions (expected in autumn 2015). Though the report contains few concrete proposals, its tone and overarching conclusions, including that the BBC will need to do more in local and global news markets in order to remain relevant in the future, have sparked concerns across the wider news media sector. In this section, we look at some of the specific issues raised and set out an alternative - but compatible - vision for the future of news, recognising the shift towards more connected digital media and that the future of digital is moving more towards partnerships and collaboration models than traditional silo-based institutions and operations.

9.1 The BBC's Future of News report – some observations and practical issues

In some areas, the BBC Future of News report is a welcome addition to the growing body of work that looks at the drivers of change in the news industry. Certainly, its assessment of technological change, shifts in consumer behaviour and an increasingly competitive global market all chime with research produced elsewhere on the major issues being faced by commercially funded and publicly funded news media alike. The challenge is in deciding what to do in response to that assessment – put simply, in a fragmented and complex set of news media markets at local, regional, national and international levels how much can the BBC practically do on its own and how much is desirable? Here, the inference in the Future of News report is that the BBC will need to 'do more', especially in local and global news provision markets to tackle what it sees as either market failure (local) or the possibility of being outcompeted (global).

On some of the key points raised, it is certainly possible to take a different view from the available evidence discussed earlier in this report. For example:

(1) *The ability of the local and regional press to cover news has not been fatally undermined despite the need to reduce costs*

As examined in the previous sections of this report, while employment in print journalism has fallen significantly in response to reduced sector revenues, the daily scope of print output remains largely unchanged and most organisations now combine print and digital operations, moving from a need to deliver single daily or weekly 'snapshots' of news in print to delivering constantly updated online news to consumers via a wide range of connected devices.

The fact that the UK commercially funded news sector can respond to such significant commercial headwinds **and** increase its net output across more routes to market should be seen as a success for UK citizens rather than failure. While no-one should seek to minimise the many painful decisions that media owners have had to make in response to market conditions, the strength of what remains across the UK's local, regional and national 'print' news outlets should not be discounted.

(2) *Greater devolution in UK politics and public sector institutions is a big opportunity for local and regional media creating scope issues for the BBC that need to be carefully considered*

The BBC's report puts together observations on increasing devolution in the UK political and public service arena and a 'declining' regional press and concludes that this means that the BBC will need to do more 'to provide local news that properly serves all parts of the UK'. An alternative view would be that while devolution represents an opportunity for democratic renewal in the UK it also presents an enormous opportunity to the commercially funded news media sector for growth.

In Scotland, the levels of engagement in politics around the independent referendum has supported a reinvigorated readerships for print and online news. For example, The Sunday Herald saw a 34.7% increase in year-on-year print circulation in the period from July-December 2014 and a similar increase in unique monthly users at its sister website HeraldScotland.com¹¹ As more forms of institutional and political devolution are introduced in the UK, the demand for local content and engagement around local issues will be driven further and provide a stronger platform for commercially funded news media.

(3) *The switch of emphasis by commercially funded news providers from print to digital is not a form of market failure and will be the key driver of future success*

The BBC report specifically cites instances of local and regional press moving daily print titles to weekly while introducing companion news websites as evidence of the ‘market failure’ in the commercial press model. However, at the same time the BBC recognises that its own services in TV and radio need to be complemented by a need to ‘do more’ in digital news services as well.

Most in the news industry would recognise that digital is the future of news, but that the market is also in the middle of a difficult transition between legacy distribution methods (print, radio, TV) and connected, online services. Given the evidence for growing online engagement with online news services and a slowing of the rate of decline in traditional sources of revenue, the durability of the mixed model and of a market in the middle of transition should be seen as a further indication of strength rather than a wholesale market failure.

(4) *Despite its undoubted strengths, the BBC is not the only UK news provider able to compete in international markets*

The BBC’s assessment that it is competing globally with state-funded news outlets that enjoy substantial funding advantages (e.g. Russia Today, CCTV, Al-Jazeera, etc.) is certainly true in the provision of news via traditional TV distribution but is not yet replicated in other areas. In particular, the data suggests that the leading online news destinations globally are more likely to come from a print heritage than as a spin-off from 24 hour rolling news channels.

The evidence of the global news market today is that the BBC is not the only UK news provider who can boast international reach or market leadership. As the 60% of the world’s population¹² who currently do not have access to the internet find new ways to be connected, encouraging the UK’s commercially funded news media to thrive in international markets - and a view that a more plural projection of the UK’s news values is more preferable to a BBC-only vision of the future – should be desirable market outcomes.

(5) *The idea that the BBC can continue to ‘do more’ on its own while maintaining the quality of ‘legacy’ news services is unrealistic*

Part of the vision set out in the BBC report is that the BBC has a clear challenge (and hence mandate) to ‘do more’ in news provision for UK and global audiences. While recognising that its main focus in ‘doing more’ is likely to be in digital news services there is also a prediction that traditional news output will endure in its importance to audiences. In its own words, this will ‘force the BBC to rethink its allocation of resources’.

¹¹ Holdthefrontpage.co.uk – Sunday paper tops regional ABCs with 34pc year-on-year rise, 25th February 2015

¹² From BBC Future of News report – original cited source is United Nations International Telecommunications Union at end of 2014

The BBC already faces its own challenges in sustaining its range and quality of news output in the context of falling income. Under the ‘Delivering Quality First’ (DQF) initiative launched in BBC News in 2012, the division has a target to deliver £60m of savings a year by 2016/17 and anticipates a reduction of around 620 posts in order to achieve that.¹³

The idea that the BBC can directly fund a broad push into providing more targeted local news coverage in the UK market while at the same time maintaining its pre-existing UK TV, radio and online services and funding innovation and growth in its World Service radio, World News TV and news online activities – all within the context of limited potential for large increases in licence fee income – might be seen by many as being too much of a stretch.

If the BBC’s core services today are to be maintained in ‘rude health’ in ten years’ time, the BBC will need to find much more innovative ways of working with others to make its spending go further in the markets that it chooses to operate in.

“...the TV news and radio bulletins; the long-form TV and radio current affairs documentary that explains and investigates...all will be in rude health in 10 years’ time”

BBC Future of News p44

9.2 An alternative approach to addressing perceived areas of deficit or risk in the provision of news services

In a world of limited resources and facing a constant pressure to ‘do more’ on all fronts, the viability of a strategy that requires BBC News to directly fund a broad range of new activities while maintaining the quality of its existing news output for UK audiences feels at best questionable. Like many in the wider news media sector, the BBC has demonstrated that it can be more efficient in its operations and can take costs out without a direct impact on service scope, but it is also clear that this cannot continue indefinitely and that further cuts will eventually have to come at the expense of service scope in future.

So called ‘salami-slicing’ is clearly not the BBC management’s preferred way forward. The resulting question therefore needs to be interrogated – are there alternative models for both increasing the reach of BBC content and addressing perceived areas of deficit in UK news provision that do not result in the BBC bearing all of the costs?

The more open and interconnected digital news value chain clearly has scope to enable some new avenues for co-operation between the BBC, the commercially funded news sector and other partners. Specialist news aggregators and news media asset providers have long been part of the market, exploiting different ways to trade in and repackage content to reach different consumer segments and news audiences. News stories are increasingly becoming things that are linked, shared, commented on and multi-sourced across an interconnected set of platforms and services, bringing together traditional media voices, new news media packagers, different types of original commentary and mass participation via social media. The opportunity for the BBC is to embrace this co-dependent and interrelated news media landscape rather than to stand apart from it.

So what might that mean for the BBC News services of the future? As the BBC’s Future of News report states, the starting assumption should be that the existing suite of news services that the BBC operates across TV and radio will continue to exist. Though change in the digital media arena can be very rapid, the BBC’s need to maintain reach across all audiences will make it difficult to exit from any of its current commitments. However, in seeking to extend the BBC’s news services in local / regional markets and to strengthen its international news offer, the BBC can work much more closely with other news providers whose interests are aligned with the BBC and where there are mutually reinforcing strengths in the generation, provision and commercial exploitation of news content that can be brought to bear in securing future success for all.

¹³ BBC Media Centre: BBC News announces plans to save £48m and invest in digital transformation – 17th July 2014

For example, instead of moving into local markets the BBC can become the shop window for the best of UK local and regional journalism whether from freelance journalists or large news media organisations. The aim should be to support the sources of high quality local journalism where they already exist via commercial agreements with local media organisations and to find new, cooperative models to support the growth of new journalism ventures where there is a coverage deficit. In working with the existing local media sector, the BBC gains in the quality and depth of the local journalism at its disposal. The benefits to making this more open, collaborative model of local news provision work in practice could be substantial, including:

- Improving the relevance of the BBC’s news services to local communities via aggregation of existing content (rather than through a costly duplication of effort)
- Enabling the BBC to remain inclusive in a more polarising news media market by giving air to a range of views through aggregation of professional and citizen-based news media outlets
- Using the strength of the BBC’s online operations to drive traffic to commercially funded news partners and in doing so helping to sustain their future commercial models
- Developing a proven set of supporting mechanisms between the BBC and other news media ventures that encourage new UK-focused start-ups to emerge

Similarly, across international news markets, the BBC should recognise that the direction of travel is towards greater commercial scale and scope. This is exemplified by cooperation initiatives such as The Pangaea Alliance which brings together commercial inventory from the online offerings of CNN International, the Financial Times, Reuters, The Guardian and The Economist with the aim of increasing the value captured across their individual sites via a programmatic advertising network. Faced with state-backed global news organisations who receive significant subsidies to promote their news output around the world, the BBC is again presented with a choice around whether it should take on the challenge alone or whether specific partnerships can better help it to deliver on its objectives to grow its reach in the provision of news content to overseas markets.

In both areas, a partnership approach clearly offers practical advantages – both to the BBC and its potential partners. The aspiration should be that in working more closely with the commercially funded news sector, the BBC’s strengths can be taken further – and at lower direct cost – than would otherwise be the case. Clearly there are long-standing antipathies between parts of the print media sector and the BBC. However, the mutual incentives to cooperate are growing and the potential in getting this right could be to the benefit of all parties in helping to sustain new digital commercial models and support the plurality and diversity of our news media ecosystem.

9.3 What a ‘more open’ BBC could mean in practice

This is not something new to the BBC or necessarily at odds with the BBC’s own thinking. The BBC Future of News report sets out that the BBC will need to be more open in future, stating:

“The internet age is going to require the BBC to be more open. We will need to be open to providing access to our news content on other media platforms. We should open up to the active participation of our audiences. We should look to open some of our platforms to other news providers. And we need to ensure we are open to the full spectrum of ideas, that we give a voice to all points of view”

BBC Future of News report, January 2015

In order to deliver on this aspiration, the BBC need to become systematically more open to new forms of trade with the wider news sector. Many of these have been discussed earlier in this report, leading to a few conclusions about the BBC's potential future role in local, national and global news markets:

1. *Participating in a linked news economy with local media outlets*

This sounds more complicated than it is. In practical terms this idea is about the BBC using the best of existing local journalism to make its own news services more relevant and, by linking and attributing stories back to the originating media outlet, becoming a stronger source of referral traffic to other news providers.

Plans are already in train in this area. Following pilots in West Yorkshire and the North East where local newspapers were given the opportunity to choose stories that would be linked to on the BBC News website, the BBC has announced plans to extend this to the rest of England with a target date for completion of mid-2016.¹⁴ Under this scheme, local media outlets will have the opportunity to select a number of stories that the BBC's Local Live streams will link to on a daily basis. This offers the potential that the BBC will help to promote local commercial media brands and to drive traffic to their sites.

This does not mean that the BBC will not also invest in increasing the prominence of its own original local news coverage over time. However, the initiative is welcome and, harnessed correctly, should allow the BBC to represent what is going on in local news markets without the need to replicate coverage or build its own local newsgathering infrastructure in competition with the local press.

2. *Utilising local news media outlets to boost the reach of BBC content*

Alongside being more open to representing links to external media organisations, many feel that the BBC should also be more open to the value that other media platforms bring in reaching different audience segments. This is increasingly important in the digital media environment where audiences are fragmented by time, service, platform and devices. Maintaining the BBC's desire to offer 'universal' services has never been harder.

Once again, taking a more networked approach to news delivery should offer clear benefits. By offering pre-packaged BBC news assets to other news media providers, the BBC can extend its reach in informing UK citizens and do so at a low incremental cost. Clearly there are issues of editorial trust and control to be considered, but these can be addressed via operating clear rules for partners and sanctions for any participants seeking to abuse the privilege of gaining access to the BBC's content.

This type of syndication activity for BBC content on local media outlets has been the subject of another pilot scheme run in the North-East of England. While the BBC cannot force other media organisations to take its content – even if provided for free – that does not mean that it should not make it available on a fair and open basis to those that do want to use it. As much of the BBC's news content is already repackaged for its own online services, the incremental cost of making these assets available to suitable commercial media partners should be relatively low and the benefits in the incremental reach of BBC content could be substantial over time.

3. *Paying for content from other news media outlets where interests are aligned*

While creating a system for trade in news links and pre-packaged BBC content should be relatively low cost to deliver, the BBC should also consider ways by which its sourcing of news is more open to paying for contributions from the wider news sector. This should not be on the basis of the BBC's licence fee funding being used to artificially support other news media outlets, but rather should be on the merits of avoiding duplication of effort and recognising where other UK news media organisations have pre-existing strengths that can be capitalised on.

¹⁴ BBC News Online to feature strongest stories from local newspapers across England, BBC press release 21st April 2015

For example:

Sourcing the best of original news content rather than duplicating effort

As a general principle, the BBC should be more open to paying for original news content – either commissioned or re-purposed – from other news providers. This should be where there is a clear editorial need from the BBC and where other organisations are equally, or in some cases better, equipped to provide coverage of topics. For example:

- In the coverage of local sporting events, where the local and regional press have traditional strengths and relationships
- In the provision of features and longer-lead time investigative pieces where the BBC could commission external parties to conduct work on its behalf (and to its editorial standards)

Purchasing copy and pictures from news syndication markets and agency feeds is already commonplace in the news industry. By being open to further use of existing lines of supply for some news content, the BBC could again access the best of existing types of coverage and skills available in the marketplace rather than building its own newsgathering and editorial efforts in areas that compete directly with commercially funded media outlets.

Co-funding mutual ventures in functional areas of reporting

Similarly, there are areas of more ‘functional’ news reporting in the UK market where the BBC’s interests in maintaining levels of coverage are aligned with the interests of local media organisations. This is most notably in the coverage of local institutions – local government, courts, etc. – where there is a clear role in supporting the functioning of our democracy. In these areas, the BBC could lead in trying to structure mutual partnerships, funded by all interested parties, to support coverage of political and public sector institutions across the UK.

4. *Being more of a shop window for the best of UK journalism in national and international markets*

Finally, many believe that the BBC has the potential to utilise the strength of its national and international news services to promote the best of UK journalism to its audiences. This can be achieved via linking, but also via creating dedicated areas within the BBC’s online services where users can be introduced to a curated set of stories from the UK’s wider news media market. In the UK, this could be done at little direct cost to the BBC and would help to position the BBC as both an independent news brand and trusted aggregators of news – something that many would prefer over other global news aggregators who invest little in UK news origination.

In overseas markets, the nature of this aggregation role might be more complicated as the BBC and other news media organisations would be involved in a two-way trade of commercial value between – and within – each party’s respective news services. However, this is more a question of formalising the ‘rules of the game’ rather than a reason not to promote UK news outlets in a way that is mutually reinforcing of the UK’s position in an increasingly crowded, noisy and competitive global news market. This could also apply to any local market commercial ventures that the BBC is planning in other territories, making the best of UK news provision a feature of the BBC’s role to promote the UK in overseas.

Overall, the BBC’s vision for the future of news needs to be both ‘open’ and ‘inclusive’ if it is to capitalise on the opportunities presented by the shift to connected media and make the most of the enduring strengths of the UK’s wider news sector in a globalising news market. By taking a lead role in supporting established and new news models at local, regional, national and international levels rather than seeking to replace them (or come to dominate them), the BBC could move from the current ‘forced marriage’ with the commercial sector towards a genuinely reinforcing set of partnerships. The opportunity to sustain the combined strengths and benefits that a strong BBC and commercially funded news media sector could deliver for UK citizens alongside one another should mean that this is a more preferable option for the ‘future of news’.