Submission to Leveson Inquiry, November 2011

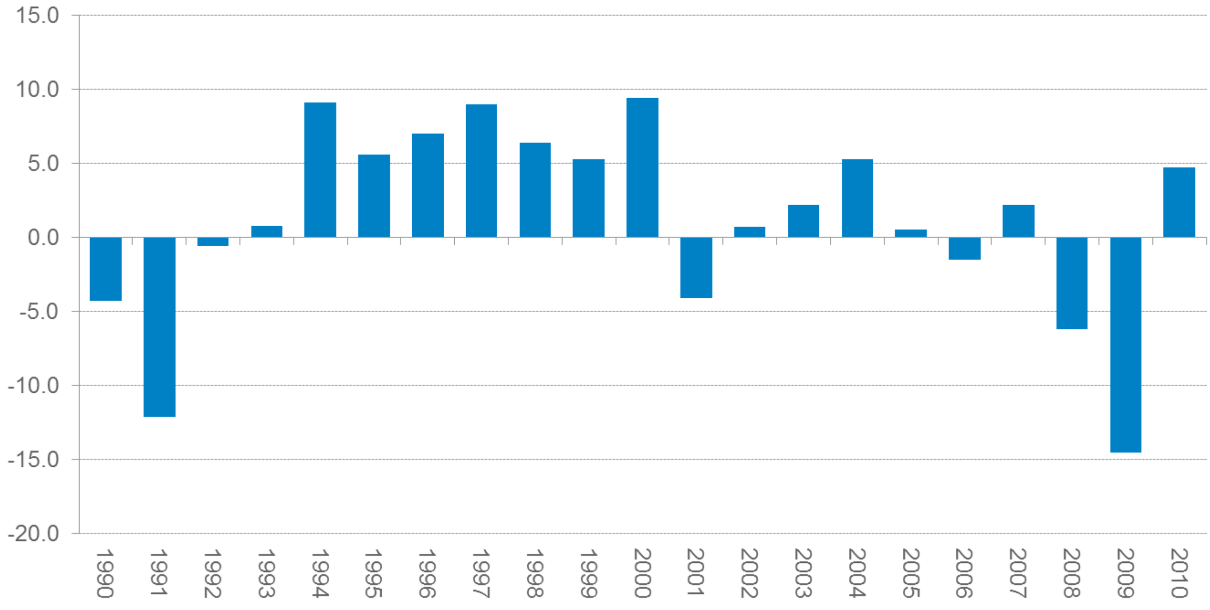
Dr Des Freedman, Goldsmiths, University of London and Coordinating Committee for Media Reform

Q2. Seminar debates have suggested that commercial pressures were not new, were not unique to the press, and did not impact adversely on standards of journalism or ethical behaviour.

Diane Coyle (Leveson seminar, 6 October 2011) was right to argue that the current financial pressures facing the press ‘are both long-standing, not specific to the UK and not specific to the [broadsheet] press or the tabloids’. This argument, however, must not be used to justify leaving unchanged current regulatory and funding models. Simply because commercial pressures are neither specific to news organisations nor without precedent does *not* mean that the system cannot be improved better to serve the public who, as the phone hacking scandal has demonstrated, have been severely let down by existing arrangements. Furthermore, the proposal that declining revenues, fewer staff and a more cut-throat competitive atmosphere does not have an impact on journalism standards and ethical behavior is simply wishful thinking (see Davies 2008, Fenton [ed] 2010). Finally, the argument that current economic difficulties *require* media organisations to cut back on their provision is not sustainable.

First, it is true, of course, that whole swathes of the media—and not just the news—have been affected by the recent downturn in advertising and wider economic instability. We can see, for example, that advertising has only just emerged from a sustained slump and managed to increase by 5 per cent in 2010 (see Figure 1).

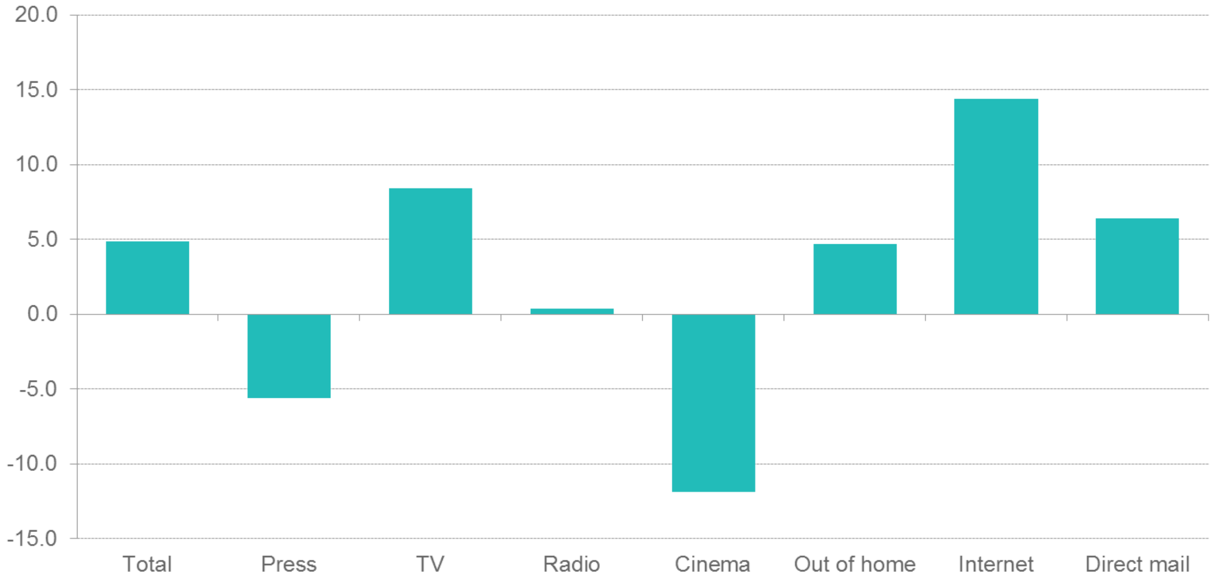
Figure 1: Total UK advertising expenditure annual % change (at constant prices)



Source: Advertising Association/WARC expenditure report (2011)

However, this increase was not shared equally across all media sectors with the press, in particular, facing a significant decrease—of 5 per cent—in the last year (see figure 2).

Figure 2: Annual percentage change in adspend, 12 months to June 2011 (at current prices)



Source: Advertising Association/WARC expenditure report (2011)

This is the situation referred to by Clare Enders in her presentation to the Leveson Inquiry (6 October 2011) when she noted that four leading regional publishers, Johnston Press, Trinity Mirror, Northcliffe and Newsquest, have all suffered huge falls in income, including the loss of £1 billion in classified revenue from 2008 to the present.

This disastrous drop is matched not simply by the slow but steady decline in print circulation but by a substantial decline in the numbers of people viewing news bulletins on the five existing public service channels, from 100 hours per year per viewer in 2005 to 88 hours per year in 2009 (Ofcom 2010: 10). This fall has then, in turn, been used to justify a 19 per cent cut in news and current affairs budgets across the PSB networks, from £363m in 2006 to £292m in 2009 (Ofcom 2010: 8).

So while the commercial pressures are neither new nor confined to the news sector alone, it is clear that there are *specific* concerns related to the online migration of advertising and audiences.

There are two main responses to this particular situation.

First, there is an attempt to search for additional revenue sources and, in particular, to monetise digital audiences through the creation of paywalls and digital subscriptions. It is too early to assess the success or otherwise of, for example, the *Times* in erecting a paywall for its online edition but it is notable that, unlike FT.com, it does not provide any specialist information. It seems unlikely that paywalls will be a successful model for 'generalist' news in the short-term. As long as there is at least one source of news that is free in a similar format, there will be little reason to pay and therefore little certainty that revenue from digital sales will compensate for lost advertising and print sales.

Second, there is the view, held by a large proportion of the news industry, that news organisations must do whatever it takes to ensure their survival. Cost-cutting, bureaux closures, the pursuit of multi-platform efficiencies and the intensification of competition within specific market segments are all justified by precarious economic conditions. Indeed, over the last few decades, news journalism has been forced steadily to become more productive, rational and market-oriented. Since the 1970s, the following trends can be observed with some consistency. There is substantially more news but also greater competition and fragmentation with fewer consumers per outlet (Tunstall 1996, Franklin 2005, Davies 2008). Global competition, market segmentation and entertainment alternatives have meant a steady decline of advertising revenues for most single, commercial news outlets. Consequently, national news producers have presided over a steady decline in audience figures over the period. In an effort to remain profitable, papers have raised prices well above inflation, increased outputs and news sections while simultaneously cutting back on staff. Tunstall (1996) estimated that, between the 1960s and 1990s individual output had at least doubled. Davis (2002) recorded that, between the mid 1980s and mid 1990s, the *Financial Times* and the *Sun* increased their pagination by just over 60 per cent but their journalist numbers by between 15 and 22 per cent. The Times increased in size by 125 per cent but added just 22 per cent to its editorial staff. More recently, Davies (2008) concluded that journalists now have to fill three times as much news space as they did in 1985.

The situation is particularly acute in regional and local news where conglomeration has seen a diverse ecology of media ownership now reduced to a handful of major media groups who have bought local and regional news businesses using leveraged debt finance. This has led to aggressive business plans that have undermined local news in the following ways:

- Costs have been cut whilst output increased, meaning fewer journalists work on more stories, with inevitable decline in quality and depth.

- The leveraging that has taken place to finance this conglomeration has led to groups requiring returns of around 30-40% each year to service debt and enable dividends to their shareholders.
- Local offices have been closed and production centred on regional editorial offices, leading to reporters being remote from the communities they serve – and seen as such by readers and viewers.

We are left, following this approach, with the prospect of a significant democratic deficit given that the sectors left most vulnerable—investigative journalism, foreign coverage, regional and local news—are precisely some of the areas most central to the ability of news to serve democracy: to hold power to account and to produce well resourced, innovative and relevant stories.

However, what these responses fail to make clear is that the highly challenging circumstances currently facing news organisations have not suddenly turned the whole news sector into a financial disaster. Indeed, profits in 2010 for the bulk of news providers and distributors in the UK were significantly *up* from 2009.

Company	**Profits in 2010 (£m)**	**Up or down from 2009**
Trinity Mirror	101.5	Up 39.6%
Daily Mail and General Trust	247	Up 22.9%
Telegraph Media Group	60	Up 53%
Northern and Shell	30.3	Up 240%
Archant	8.2	Up 157%
BSkyB	1170	Up 157%
ITV	321	Up 200%
Pearson	670	Up 28%
Press Association	5.7	Down 12.3%
Newsquest*	88.5	Down 52%

* figures from 2009 and 2008 respectively. All figures taken from company reports.

When it comes to Google, an increasingly powerful actor in the news industry, the situation is particularly encouraging. According to the *Evening Standard*:

> accounts for Google UK Limited, recently filed at Companies House, showed it made a pre-tax loss of £22 million with a turnover of £240 million. Yet the parent company, Google Inc reported to the American stock market in January that the UK had generated £2.15 billion in revenues. It should also be noted that the UK is Google's biggest overseas subsidiary. Google Inc's profit before tax was £6.98 billion in 2010. Analysts believe that on that basis, UK profits could or should be 10% of that figure. (Spanier 2011).

While Google, as well as some other companies listed in the table above, do not make the bulk of their profits from news, we can nevertheless conclude that some major organisations active in the British news and media industries continue to make substantial profits despite the volatility of the period.

This situation makes it possible to speak of a range of alternatives to how news is funded and organised in order to ensure that resources are made available to produce independent, quality journalism, to protect editorial standards and to promote ethical behaviour. This might include:

- Levies on the turnover of profitable communications companies to finance new news outlets with specific remits to serve communities and constituencies currently under-served by the news media.
- The extension of VAT exemptions to cover digital advertising and sales but only on condition that the recipients make a specific commitment to maintain sufficient resources for quality journalism or to support new public interest news ventures.
- Amending charity law so that local newspapers may be operated as charitable organisations.
- The introduction of tax incentives for community groups and co-operative bodies to fund takeovers and investment and to facilitate transfers.
- An increase in the Community Radio Fund to a level that has significant impact as a lever for other investment and as a driver of quality hyperlocal news and informational content.
- Matching local authority spending on communications and advertising to support new local or regional news ventures in areas which are currently under-served.

Many of these arguments are further developed in the ‘Funding Models’ briefing paper produced by the Coordinating Committee for Media Reform.

For more information, please go to www.mediareform.org.uk or contact the author of this paper, Des Freedman, at d.freedman@gold.ac.uk.

References

Advertising Association/Warc (2011) *Expenditure Report 2011*. London: Advertising Association. Available at: http://expenditurereport.warc.com/FreeTopLineData.aspx.

Davies, N. (2008) *Flat Earth News*, London: Chatto & Windus.

Davis, A. (2002) *Public Relations Democracy*, Manchester: MUP.

Fenton, N. (2010) *New Media, Old News: Journalism and Democracy in the Digital Age*. London: Sage.

Franklin, (2005) ‘McJournalism: the Local Press and the McDonaldization Thesis’, in S. Allan (ed.) *Journalism: Critical Issues*, Maidenhead: Open University Press.

Ofcom (2010) *Public Service Broadcasting Annual Report 2010*. London: Ofcom. Available at: http://stakeholders.ofcom.org.uk/binaries/broadcast/reviews-investigations/psb-review/psb2010/psbreport.pdf.

Spanier, G. (2011) Available at: http://www.thisislondon.co.uk/markets/article-23950352-googles-pound-6bn-of-uk-revenue-but-only-pound-8m-in-corporation-tax.do.

Tunstall, J (1996) *Newspaper Power: The National Press in Britain*, Oxford: Oxford University Press.