

Agenda – Culture, Welsh Language and Communications Committee

Meeting Venue:

Committee Room 2 – Senedd

Meeting date: Wednesday, 14 June
2017

Meeting time: 09.15

For further information contact:

Steve George

Committee Clerk

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Informal pre-meeting

(09:15 – 09:30)

1 Introductions, apologies, substitutions and declarations of interest

2 News Journalism in Wales: Evidence Session 4

(9:30 – 10:30)

(Pages 1 – 10)

Professor Elin Haf Gruffydd-Jones, Professor of Media and Creative Industries,
Aberystwyth University

Ifan Morgan Jones, Lecturer in Journalism, Bangor University

3 Paper(s) to note

Funding for and access to music education: Lewis School Pengam Visit Summary

(Pages 11 – 26)

The Future of S4C: Additional evidence from S4C

(Pages 27 – 38)

Following the oral evidence session from Huw Jones, Chairman, S4C Authority and
Ian Jones, Chief Executive, S4C.



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

News Journalism in Wales: Additional written evidence from Enders Analysis

(Pages 39 – 83)

Evidence from Douglas McCabe, CEO, Enders Analysis.

News Journalism in Wales: Additional Evidence from Dr Andy Williams and Emma Meese, Cardiff University

(Pages 84 – 85)

Correspondence from the Chair of the Petitions Committee: Petitions within Committee Remit

(Pages 86 – 87)

4 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of the meeting

5 Private debrief

(10:30 – 10:50)

6 Consideration of Draft Research Brief: Tony Hall, BBC Director General

(10:50 – 11:10)

(Pages 88 – 102)

7 The Future of S4C: Consideration of Key Issues Paper

(11:10 – 11:30)

(Pages 103 – 112)

Agenda Item 2

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Cynulliad Cenedlaethol Cymru / National Assembly for Wales
Pwyllgor Diwylliant, y Gymraeg a Chyfathrebu / The Culture, Welsh Language and
Communications Committee
Newyddiaduraeth Newyddion yng Nghymru / News Journalism in Wales
CWLC(5) NJW01
Ymateb gan Ifan Morgan Jones, Prifysgol Bangor / Evidence from Ifan Morgan
Jones, Bangor University

Tackling the ‘democratic deficit’ in Wales is essential if our devolved institutions are to continue to thrive. We only need to look at Brexit to see what can happen when electors do not receive a regular diet of factual, high quality information about a political institution – they become estranged from it, and are ready to see it abolished when an anti-establishment mood takes hold. Unfortunately, Wales will not have a thriving commercial press soon. A commercial press is dependent on advertising, and within the context of the UK, Wales has a comparatively poor and small population that is not as attractive to them. Furthermore, the UK remains a very centralised state, and the press will continue to favour London over Cardiff because that is where the largest and most influential political institutions are located,

Since devolution, an already fragmented Welsh media has continued to weaken and retrench, with ownership and editorial decisions centralising outside of Wales’ borders. The Western Mail has seen its circulation fall from above 55,000 in 1999 to 16,754 in 2016. The Daily Post, the Wales-based newspaper with the highest sales figures at 23,645, decided in 2016 to no longer send a reporter to the National Assembly cover devolved matters. A survey conducted in 2016 by Cushion & Scully found that the people of Wales were not regularly exposed to news about the Welsh Assembly, with only 4% reading the Western Mail, and 2.5% the Daily Post. In comparison, 16% read the Daily Mail. A survey by the BBC/ICM in 2014 found that there was widespread confusion about what powers were devolved to the Welsh Assembly, with only 48% correctly identifying that health was a devolved matter, and 42% wrongly believing they had control over policing.

There are two alternatives to a weak commercial press. The first is a voluntary press run by those who have a passionate interest in Welsh current events. The Nation.Cymru project is an example. However, a voluntary project will never have the resources to provide a daily stream of current events and in-depth investigative reporting that is required in order that Wales has its own public sphere. There is also little incentive for volunteers to provide politically neutral reporting.

The second option is a media that receives a public subsidy from the Welsh Government or Welsh Assembly. My research over this last year has been into publicly funded online Welsh-language journalism in Wales. This research included in-depth interviews with journalists and a statistical analysis of a website user data. Welsh-language digital news media is particularly well-developed, with two publicly funded news organisations, Golwg 360 and BBC Cymru Fyw, offering daily online news coverage. There are three other sites, O'r Pedwar Gwynt, Y Cymro and Barn, which offer a steady supply on original content. My research suggests that publicly funded Welsh-language media does go some way mitigate the 'democratic deficit' in Wales.

Because of public funding, Welsh-language journalism is enjoying something of a golden age. BBC Cymru Fyw and Golwg360 attract over 57,000 unique weekly visitors between them. Around half this audience is below 40 years of age. They have been effective in using social media as a means of attracting a new, and younger, audience that would not traditionally have turned to Welsh-language print publications such as Golwg or TV and radio programmes such as Newyddion 9 and Taro'r Post.

An analysis of Golwg 360's website data suggested that news about Welsh politics and Welsh political institutions is very popular amongst its users. Of the 200 most accessed stories on the website over a year-long period, 37 were about politics at the Welsh Assembly or the Welsh Assembly Government. Most of the stories had some link to the Welsh Assembly's devolved responsibilities – 82 directly concerned the survival of the Welsh language, 44 were about the Welsh arts, and 30 concerned the Welsh media.

It is perhaps too simplistic to suggest that a publicly funded English language media in Wales would lead to an upsurge in interest in these topics. The research found that the audience for these Welsh-language online news sites also made good use of BBC's English-language services, The Guardian, Wales Online, and The Daily Post. They tended to turn to English-language news sites for news about British politics, international news and sport, and accessed BBC Cymru Fyw, Golwg 360 and other Welsh-language sites in search of topics that are little discussed, or often discussed with limited understanding, in the English-language media. So, while the huge interest in these topics on Welsh-language news sites may not be indicative of a wider public appetite for news about Wales, it does suggest that

there is an appetite that is not now being sated by English-language media in Wales.

The success of these publicly-funded Welsh-language news sites suggest that there is little reason why publicly-funded English-language news sites would not also be a viable option. Journalists confirmed in interviews that they had never felt under pressure to censor their work or write favourable content about any party or political institution because of their dependence on public funding.

Resource limitations within Welsh-language media

However, perceived resource limitations mean that Welsh-language journalists are sceptical of their effectiveness as a means of holding a nascent Welsh democracy to account. Interviews with journalists at Golwg 360, Barn and O'r Pedwar Gwynt revealed that they struggled to find the time and resources to carry out in-depth, investigatory journalism. This problem was exacerbated by an increasing demand for resource intensive multimedia news, such as video interviews, which many Welsh-language journalists did not feel they had the time, the resources or the technological capability to deliver. This suggests that while the number of sources for Welsh-language news online is impressive, there may in fact be a lack of plurality, as news sites cover much the same topics, without the resources to investigate in more depth. These media organisations also lacked the time and resources to attract advertisers, which created something of a vicious circle of dependency on meagre resources. An inability to focus on attracting advertisers is particularly concerning as companies such as Facebook and Google become more adept at targeting Welsh-speaking audiences.

A related problem is that many of the publications funded by the Welsh Book Council do not have any online presence and have a limited understanding of how to promote themselves on social media. Their success is still measured by the Welsh Assembly Government on their ability to sell copies of print publications rather than to reach as wide an audience as possible.

The solution to both problems is that sites outside the BBC work together, pooling online content on one central news hub rather than spending money maintaining separate news sites. *Y Cymro*, *Barn* and *O'r Pedwar Gwynt's* websites are secondary to their print publications, and many other publications have no web presence at all. Publishing most or all of the content financed by the Welsh Book Council on a single Welsh-language news hub, such as the already popular *Golwg 360*, could

attract a larger (and younger) audience for these magazines' and newspapers' content while also strengthening and diversifying *Golwg360's* output. It would also ensure that all the magazines funded by the Welsh books council had a strong social media presence through which they could attract a new, younger audience ignorant of their print publications. Freeing up editor's time spent on producing online content and grappling with social media would also give them more time to pursue advertisers and grow their media organisations beyond what public funding allows.

Inquiry: Funding for and access to music education

Committee Visit to Lewis School Pengam

| | |
|---|---|
| <p>Assembly Members in attendance:</p> <p>Bethan Jenkins (Chair)</p> <p>Dawn Bowden</p> <p>Dai Lloyd</p> <p>Neil Hamilton</p> | <p>Officials in attendance:</p> <p>Sian Hughes, Research Advisor</p> <p>Adam Vaughan, Second Clerk</p> <p>Lowri Harries, Deputy Clerk</p> <p>Rhea James, Team Support</p> |
|---|---|

Following the Committee meeting on 18 May 2017 Members attended Lewis School Pengam as part of their inquiry. The Committee were met by the Head Teacher, Chris Parry and the Head of Music, Beth Jenkins.

Members visited the Music Department and were given a series of performances by the school's pupils, playing and recording a variety of different instruments.

After these performances/discussions the Head of Music delivered a presentation to the Committee. Beth informed Members of the variety of techniques taught at the school and gave some examples of the pupils who have progressed to lead very successful careers due to the skills they acquired at Lewis School Pengam.

A copy of the presentation is attached for Members who were unable to attend. Beth Jenkins highlighted some of the key issues facing Music Education within her presentation which the Members found very interesting.

Some of the topics covered in the presentation included:

- Young Vision, a collective of six form students, collaborated to produce an EP in order to raise funds for the Teenage Cancer Trust;
- The Amy Wadge Scholarship allowed the school's students to be taught song writing skills and was facilitated by the equipment provided to the school by Caerphilly Arts, a local authority music service;



- Lewis School Pengam has benefitted greatly from the (not genre specific) Forte Project, a project set up by the (UK wide) PRS Foundation and part funded by the Arts Council for Wales:

“Brought to you by the minds behind the Young Promoters Network, in co-ordination with SONIG Youth Music, Arts Connect and Arts Council of Wales, the Forté Project aims to take ten emerging artists from regions which span across the areas of Rhondda Cynon Taff, Caerphilly, Merthyr Tydfil, Bridgend and the Vale of Glamorgan, collectively known as Arts Connect.”¹

- The school runs song writing workshops for the more able and talented (MAT) pupils in years 9, 10 and 11;
- The BBC’s Ten Pieces Initiative, an initiative which “aims to open up classical music to a new generation of children and inspire them to develop their own creative responses to music through a range of art forms”² has been used by the school as a collaborative venture between them and their feeder primary school, Ystrad Mynach.

“The results were outstanding and they were picked up by the BBC and now feature on the BBC’s Ten Pieces homepage.”³

- Artists from Lewis School Pengam have performed, and had much success, in competitions such as:

Caerphilly Contemporary Young Musician (an annual competition held at the Caerphilly Music Service’s Performing Arts Studio in Pontllanfraith); and

Bath and Mid Somerset Festival (the Festival is a registered charity and is administered entirely by volunteers);

The Music for Youth Festival – “Music for Youth is a national youth music charity working to provide young people aged 21 and under across the UK with free, life-changing performance and progression opportunities, regardless of background or musical style.”⁴

¹ <http://www.forteproject.co.uk/about/>

² <http://www.bbc.co.uk/programmes/p01vs08w>

³ Annexe

⁴ <http://www.mfy.org.uk/about/our-work/>



– The school’s visions for the future, which include:

“Academy for Rock and Pop pupils for 11+ that matches the tuition offered at RWCMD for classical musicians;

National ensembles/songwriting opportunities in Rock and Pop;

Competitions to match classical competitions;

Ability for pupils to trace careers and jobs in the Rock and Pop Industries – Creative Scotland.”⁵

– Here are some photos from the visit.



⁵ Annexe

LEWIS SCHOOL PENGAM
YSGOL LEWIS PENGAM

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LEWIS SCHOOL

PENGAM

Music Department



2012 - YOUNG

VISION

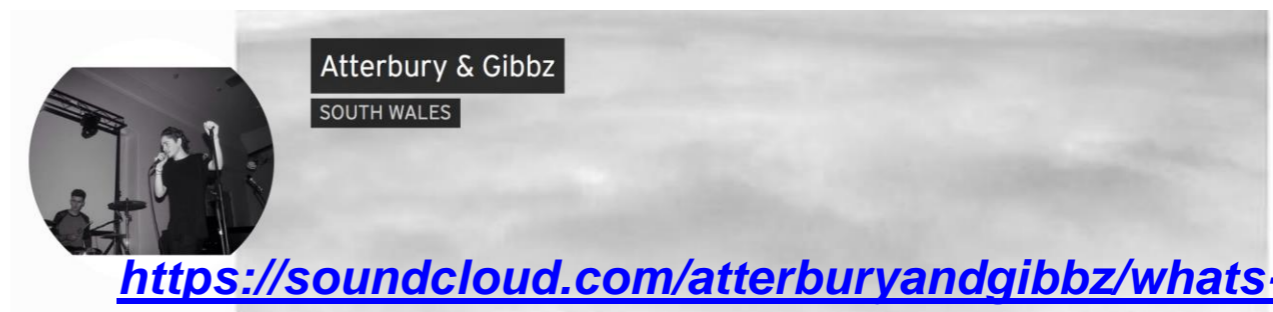
Young Vision was a collective of sixth form pupils who worked together to create an EP to raise money for the Teenage Cancer Trust.



2013/14 - AMY WADGE SCHOLARSHIP

Amy joined the staff at LSP to deliver a Songwriting Scholarship Scheme. Pupils were given free songwriting lessons alongside equipment purchased by Caerphilly Arts. This enabled pupils to create their own music at home.

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ALEX STACEY

Alex was part of the Amy Wadge Scholarship Scheme. He has achieved:

- * Forte Artist 2016
- * BBC Radio Wales Artist of the Week March 2016
- * Signed by Covert Management October 2016
- * Signed by APG Publishing 2017

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Aleex Stacey

Alex Stacey

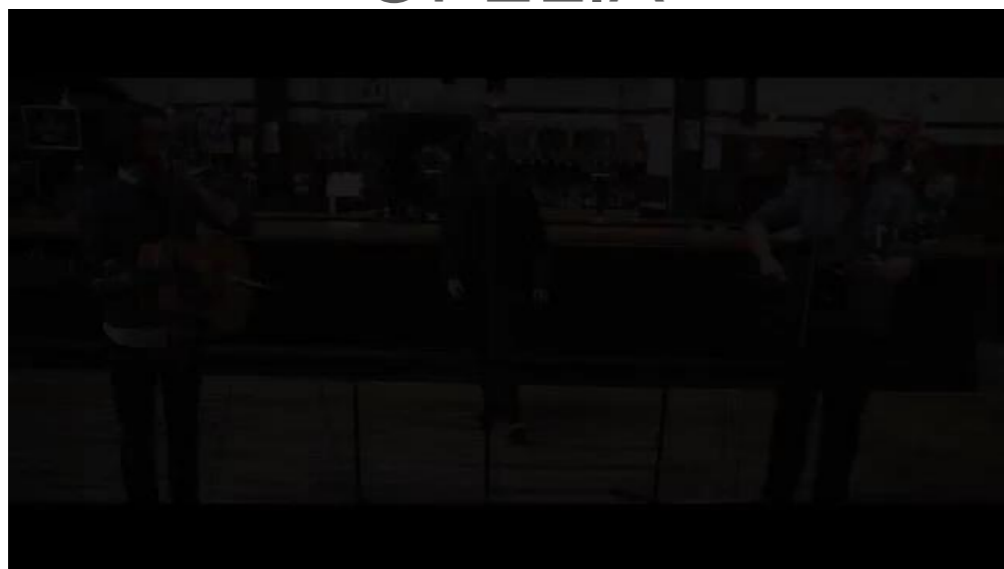
ALEX STACEY

<https://soundcloud.com/alex-stacey-4/the-only-heart>

<https://soundcloud.com/thisishight/runway>

FORTE PROJECT

OFELIA



10 ACT : 10 TAITH
10 ACTS : 10 JOURNEYS

LSP has been very successful in the Forte Project

3 out of 4 acts on this scheme from Caerphilly County Borough have been from Pengam.



<https://soundcloud.com/official-lsp-music>



Songwriting workshops for MAT pupils in Years
9, 10 and 11

BBC RADIO WALES/RADIO 1 AIRPLAY

Here are musicians from Lewis School Pengam who have received Airplay on BBC Radio Wales and BBC Radio 1.



Bodhi 
Bookings: darren@fmly.agency
<https://soundcloud.com/bodhi-music/sets/bodhi-outlook-ep-no>



The Moon Birds
Merthyr Tydfil / Cardiff, United Kingdom
<https://soundcloud.com/the-moon-birds/frank>

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Castro_uk 
United Kingdom
https://soundcloud.com/castro_uk/castro-mzur



Tracy Island
<https://soundcloud.com/racysland/tracy-island-out-for-the-night-extended-v>




Frasier Banks
Frasier Banks
London




Maddie Jones (Band) 
Maddie Jones
Cardiff
<https://soundcloud.com/maddiejonesband/sets/dis-ar>



Lead Coloured River
<https://soundcloud.com/user-663442155/footprint>



Kids In Glass Houses 
<https://soundcloud.com/kids-in-glass-houses/undercover-lover-feat>

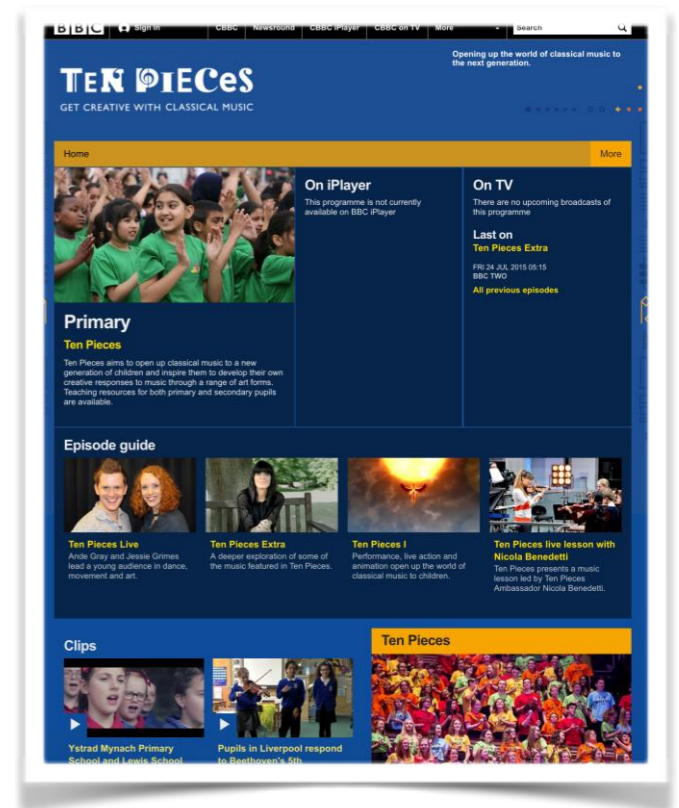
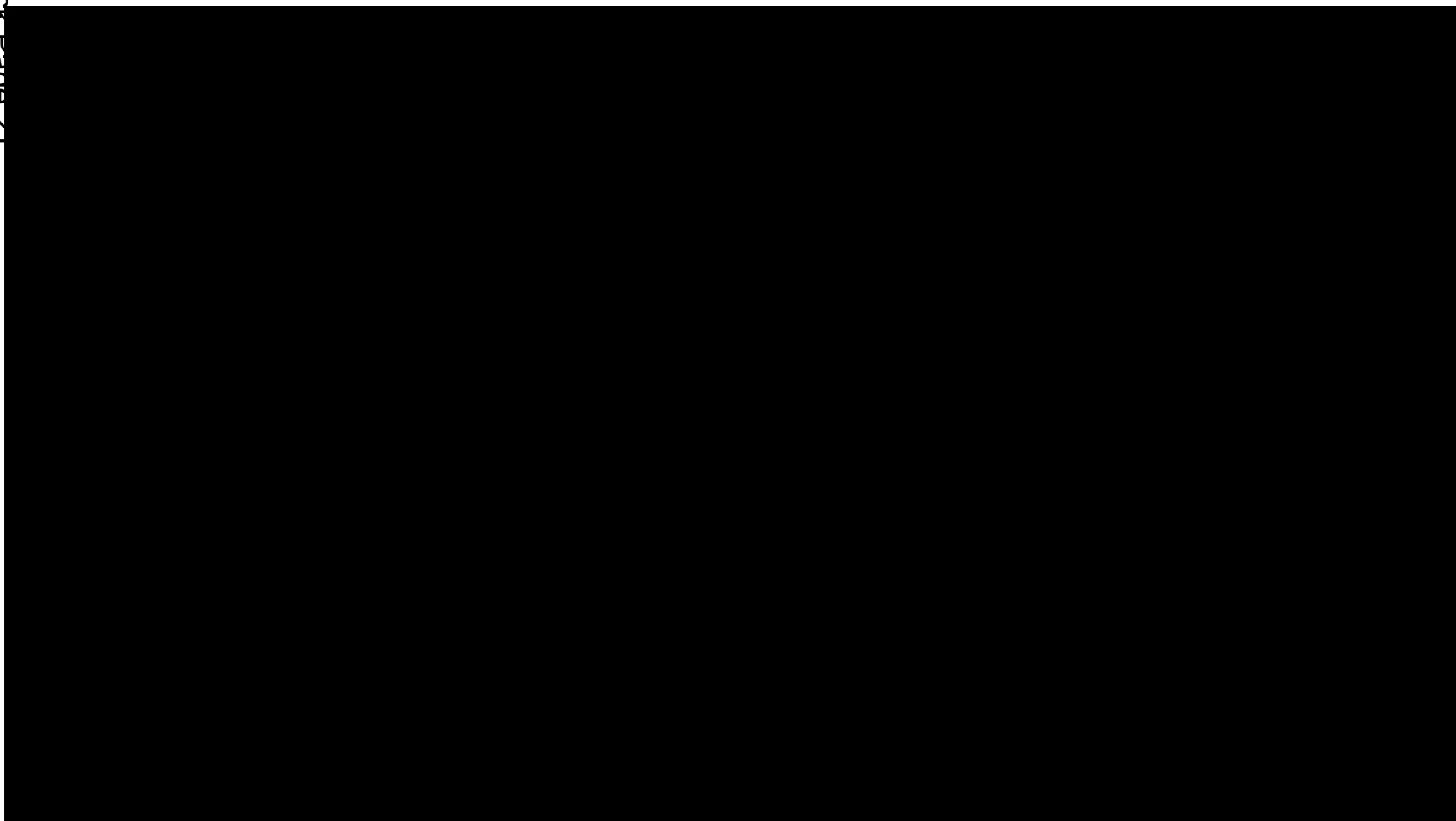
TEN PIECES



The Ten Pieces is a BBC initiative to introduce pupils ages 10-14 to classical music. We used this project in Pengam as a collaborative venture between ourselves and our feeder primary, Ystrad Mynach.

The results were outstanding and they were picked up by the BBC and now feature on the BBC's Ten Pieces homepage.

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OTHER SUCCESS

LSP has also been successful in competitions and supporting artistes in large scale events.

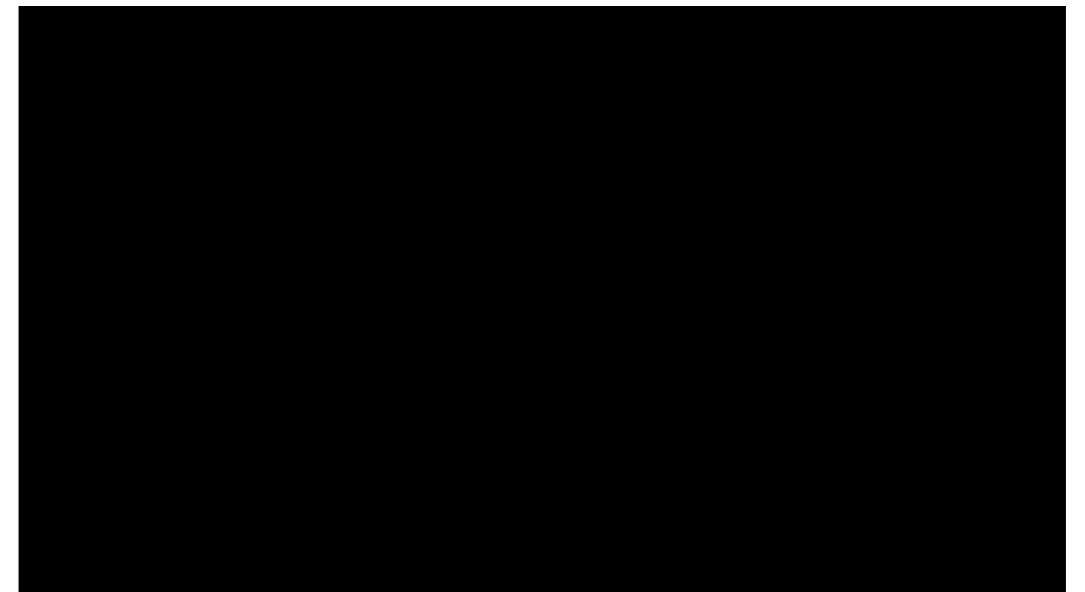
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Bath and Mid Somerset Festival -
Overall Winner of Rock and Pop Class



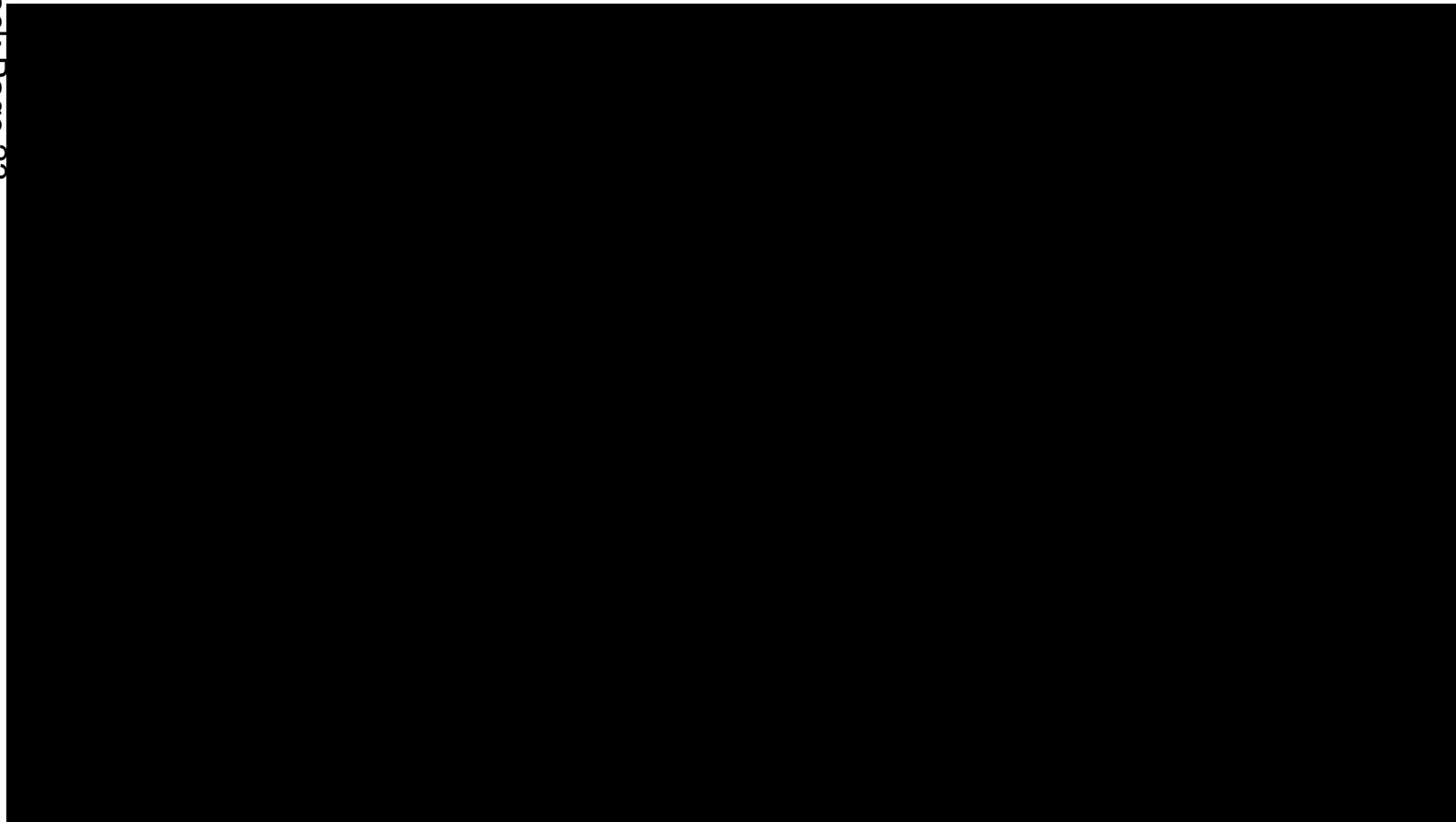
Caerphilly Contemporary Young Musician 2016



Morgan supports winner of X Factor, Sam Bailey

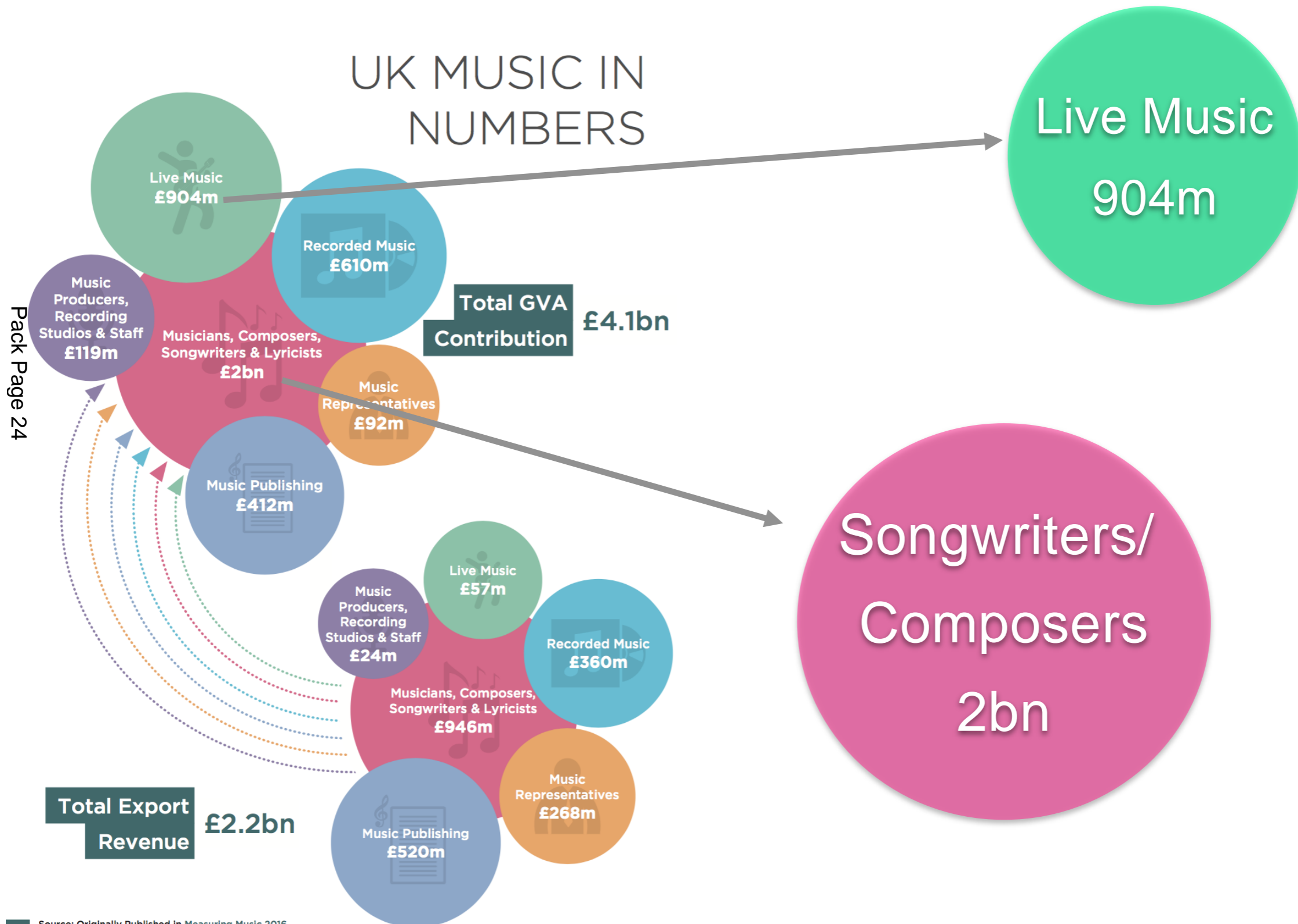
SCHOOLS PROM 2013

Lewis and the Ukes were successful in the Music for Youth Festival and were given the opportunity to perform at the MFY Proms at the Royal Albert Hall, London.



MUSIC AND OUR ECONOMY IN THE UK

UK MUSIC IN NUMBERS



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MUSIC AND OUR ECONOMY IN THE UK

Employment

119,020

Musicians, Composers,
Songwriters & Lyricists

70,700

Music Representatives

2,320

Music Producers,
Recording Studios &
Staff

11,100

Music Publishing

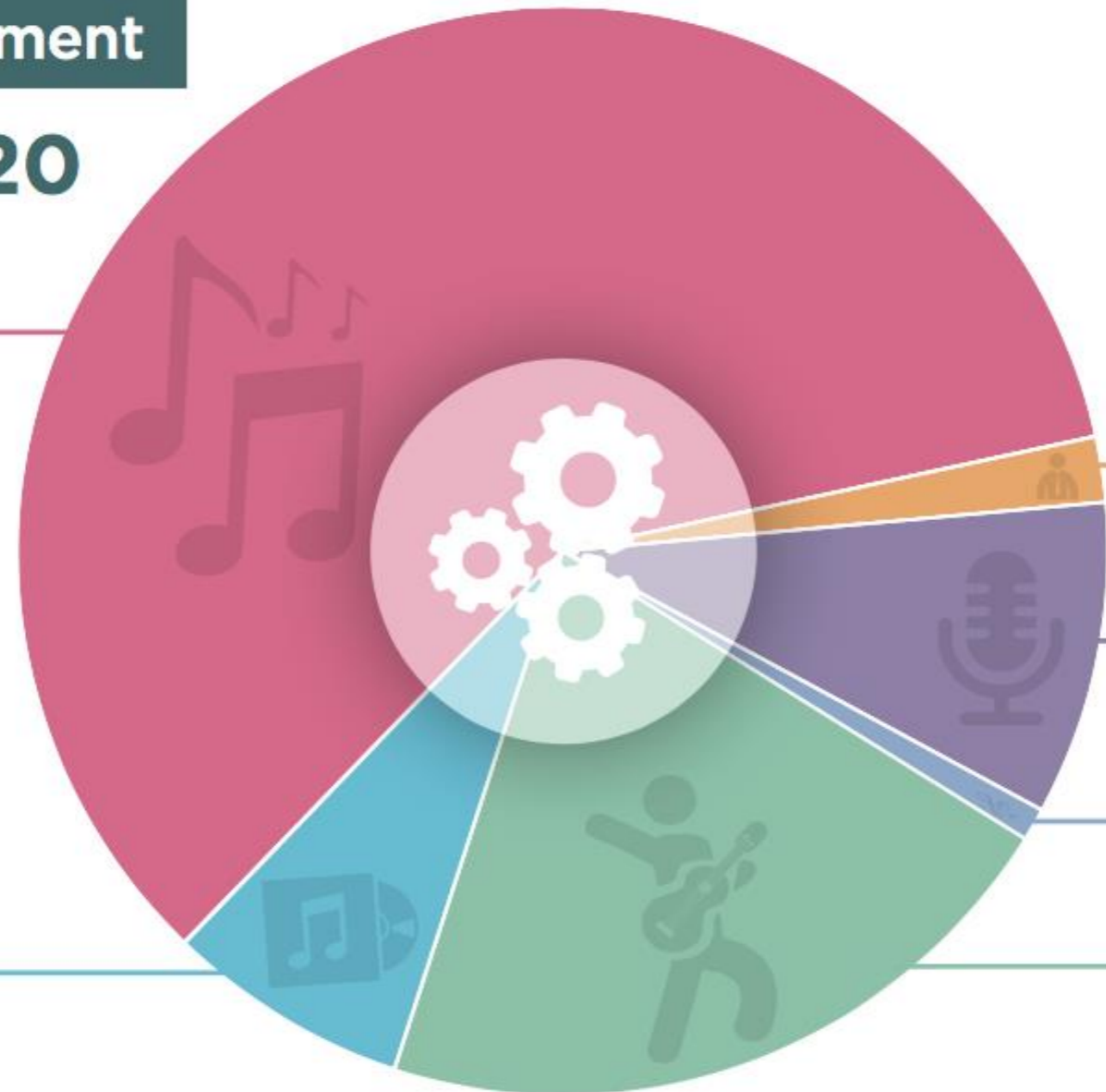
1,150

Live Music

25,150

Recorded Music

8,600



VISION FOR THE FUTURE

- ★ **Academy for Rock and Pop pupils for 11+ that matches the tuition offered at RWCMD for classical musicians**
- ★ **National ensembles/songwriting opportunities in Rock and Pop**
- ★ **Competitions to match classical competitions**
- ★ **Ability for pupils to trace careers and jobs in the Rock and Pop Industries - Creative Scotland**

01.06.2017

Bethan Jenkins AC
Cadeirydd
Pwyllgor Diwylliant, y Gymraeg a Chyfathrebu
Cynulliad Cenedlaethol Cymru
Bae Caerdydd
Caerdydd
CF99 1NA

Annwyl Bethan Jenkins

Diolch yn fawr eto am y cyfle i ddod i roi tystiolaeth i'ch pwyllgor am ddyfodol S4C. O ran y cwestiynau na chawsoch chi amser i'w gofyn yn ystod y sesiwn, rydym yn amlinellu'n hymatebion isod.

- 1. A allwch chi nodi i ni sut y gallai gweledigaeth S4C ar gyfer y dyfodol ddatblygu amcanion polisi cyhoeddus yng Nghymru, gan gynnwys nod Llywodraeth Cymru ar gyfer 1 filiwn o siaradwyr Cymraeg erbyn 2050? A allai Llywodraeth Cymru wneud mwy i gefnogi'r sianel yn hyn o beth?*

Nid mewn gwagle diwylliannol y bydd siaradwyr newydd y Gymraeg yn cael eu creu. Mae diwylliant cyfoes, deniadol, aml-gyfyngol yn rhan o'r hinsawdd sy'n gallu creu'r awydd i ddysgu yn y lle cyntaf. Felly mae llwyddiant S4C fel darparwr cynnwys cyfyngol ar bob llwyfan, yn unol â'r weledigaeth yn "S4C: Gwthio'r Ffiniau", yn greiddiol i ffyniant y Gymraeg yn y dyfodol. Y gymwynas fwyaf y gall Llywodraeth Cymru ei gwneud yn hyn o beth yw cefnogi'r ymdrechion i adnewyddu cylch gorchwyl statudol S4C a sicrhau proses dryloyw i sicrhau arian digonol i gyflawni anghenion gwasanaeth o'r math.

Mae defnydd o'r cyfyngau yn rhan allweddol o fywyd pob dydd pob carfan o gymdeithas. Mae sicrhau cyfleoedd i ddefnyddio'r iaith Gymraeg ar y llwyfannau hyn yn hollbwysig ar gyfer datblygiad yr iaith. Mae hyn yn wir ar gyfer y rhai sy'n siarad yr iaith heddiw ac ar gyfer cyfoethogi'r diwylliant y mae dysgwyr, o bob oed, yn cael mynediad iddo wrth ddilyn eu taith i ruglder. Mae dymuniad S4C i fod yn flaenllaw yn y broses o greu, dosbarthu a marchnata cynnwys Cymraeg ar y llwyfannau digidol mwyaf poblogaidd yn arwydd clir o barodrwydd S4C i ddatblygu ei swyddogaeth i gyfarfod â gofynion siaradwyr Cymraeg yn ystod y degawdau sy'n dod.

Un o amcanion craidd ein gweledigaeth ar gyfer y dyfodol yw ceisio sicrhau bod modd i'r cyhoedd gael mynediad i holl gyfoeth archif S4C. Fel adnodd i ddysgwyr, bydd hyn yn amhrisiadwy.

Yn ogystal â hynny, mae yna weithgareddau amrywiol fydd yn cyfrannu at gyrraedd y nod, sydd yn hollol gyson ag amcanion a deisyfiadau S4C ei hun. Mwyaf y byd o siaradwyr sydd, a mwyaf y byd y maen' nhw'n ymwneud â'r cyfyngau Cymraeg, mwyaf llwyddiannus fydd S4C fel corff cyfyngol.

Dyma pam rydym eisoes wedi creu nifer sylweddol o bartneriaethau gyda chyrff eraill, nifer ohonynt yn gyrff a noddir gan Lywodraeth Cymru, sydd â swyddogaeth benodol o gyfrannu at ffyniant yr iaith Gymraeg ac at gyfleoedd i bobl ddefnyddio'r iaith.

Mae'r partneriaethau hyn yn anelu at ddeilliannau penodol, defnyddiol, a phriodol i'r cyrff dan sylw, er enghraifft - cydweithio gyda'r Ganolfan Dysgu Cymraeg Genedlaethol er mwyn sicrhau fod cynnwys cyfredol S4C yn gallu cael ei ddefnyddio i greu deunydd addysg i'w ddefnyddio ar lefel cenedlaethol. O ganlyniad i hyn, mae gwera wedi ei chreu yn seiliedig ar drydedd gyfres Y Gwyll. Mae trafodaethau yn parhau rhwng yr adran gynnwys a'r ganolfan er mwyn sicrhau bod cynnig S4C i siaradwyr Cymraeg newydd yn berthnasol.

Y llynedd cydweithiodd S4C gyda'r Cyd Bwyllgor Addysg. Cytunwyd y byddai S4C yn caniatáu iddynt gynnwys pennod o Rownd a Rownd (Rondo) a Pobol Port Talbot (Telesgop) yn destunau gosod ar gyfer arholiadau TGAU a Lefel A ar gyfer pwnc Y Cyfryngau. Y llynedd hefyd, lansiodd partneriaeth archif S4C gyda'r Coleg Cymraeg ac mae dros 300 o raglenni unigol ar gael i fyfyrwyr y Coleg hyd yma. O ran cyfleoedd i blant cynradd ddefnyddio'r iaith, ynghyd â'r Urdd, Llywodraeth Cymru a'r Cyngor Llyfrau, mae S4C wedi bod yn bartner yng nghynllun Bardd Plant Cymru.

Wrth i gyrff eraill gynyddu eu hymdrechion i gyflawni amcanion y polisi "Miliwn o Siaradwyr", byddwn ninnau'n dyblu ein hymdrechion i adnabod cyfleoedd tebyg.

Er hyn, mae angen gofal gyda'r cysyniad y dylai S4C yn ffurfiol fod â chenhadaeth i hyrwyddo amcan penodol gan unrhyw lywodraeth. Mae annibyniaeth darlledwyr cyhoeddus oddi wrth ddylanwad gwleidyddol - pa mor glodwiw bynnag fo'r nod - yn egwyddor sylfaenol yn nhraddodiad darlledu cyhoeddus y Gorllewin, ac mae S4C yn falch o fod yn rhan o'r traddodiad hwn. Yn achos S4C, y cylch gorchwyl statudol a osodwyd yn fwyaf diweddar yn Neddf Cyfathrebiadau 2003, sy'n diffinio yr hyn y caiff S4C ei wneud gyda'r arian cyhoeddus y mae'n ei dderbyn, o bob ffynhonnell. Gobeithio bod y sylwadau uchod yn dangos, er hynny, i ba raddau y mae gweithgarwch S4C, o fewn cylch gorchwyl statudol adolygedig, yn allweddol i lwyddiant yr amcan o gynyddu nifer y siaradwyr Cymraeg.

2. *Mae S4C wedi nodi bod ei gweithgarwch i hybu dysgu gydol oes wedi bod yn "dameidiog", ac yn y dyfodol y bydd yn "defnyddio dull mwy cyfannol a bwriadol". A allwch ymhelaethu ar ba newidiadau y bydd y dull newydd hwn yn ei olygu?*

Ein bwriad yw bod yn fwy rhagweithiol yn ein cefnogaeth i'r system addysg trwy adnabod ymlaen llaw gyfleoedd i gomisiynu cynnwys sy'n adlewyrchu'r themâu sy'n cael eu nodi yn y cwricwlwm. Mae trafodaeth wedi'i chychwyn eisoes gyda swyddogion Adran Addysg Llywodraeth Cymru gyda'r bwriad o alinio ein huchelgais gyda datblygiad cwricwlwm newydd Cymru. Byddwn yn agored i'r math hwn o gydweithio ar gyfer cynnwys addysgiadol ar gyfer pob oedran neu lefel o brofiad. Rhoddir blaenoriaeth i gomisiynu cynnwys newydd sy'n adlewyrchu heriau bywyd cyfoes ac i sicrhau mynediad i gynnwys addysg o'n harchif. Yn ychwanegol, rydym am barhau i gyfrannu i ddatblygiad sgiliau yn y sector creadigol yng Nghymru.

3. *Dywedodd Gweinidog y Gymraeg a Dysgu Gydol Oes wrth y Pwyllgor y gallai S4C "wneud mwy" i gefnogi datblygu sgiliau. A oes gennych unrhyw gynlluniau yn hyn o beth?*

Yn y sesiwn dystiolaeth fe amlinellodd Ian Jones fod S4C ar hyn o bryd yn cydweithio gyda TAC i sefydlu cynllun a fydd yn darparu hyfforddiant i'r sector, gan fynd i'r afael â hyfforddiant angenrheidiol i weithwyr presennol ac adnabod sgiliau allweddol i'r dyfodol sydd angen eu cyflenwi i'r sector. Mae gan S4C hanes o gefnogi hyfforddiant yn y sector a gwnaeth S4C gyfraniad ariannol sylweddol i hyfforddiant yn y sector cynhyrchu pan oedd strwythurau ar gael i weinyddu hyn a denu ffynonellau arian ychwanegol. Derbyniodd bron i 1,000 o bobl hyfforddiant dan y cynllun Sgiliau i'r Economi Ddigidol a ariannwyd gan S4C, TAC, a'r ESF drwy Lywodraeth Cymru, a'r rhagolygon yw y bydd hyfforddiant y cynllun yn cyfrannu at ardrawiad economaidd o £9.3m erbyn 2020 [http://creativeskillset.org/cy/latest/news/3434_digital_skills_generate_more_than_9m_boost_for_welsh_economy].

Mae darpariaeth sgiliau ar gyfer darlledu yn dibynnu ar gydweithio effeithiol rhwng darlledwyr, cynhyrchwyr (a chyrrff creadigol eraill) a'r llywodraeth a'i hasiantaethau, megis colegau a phrifysgolion. Yn y gorffennol mae cyrrff megis Creative Skillset Cymru a Cyfle wedi sicrhau bod yna gydweithio pwrpasol yn digwydd rhwng y tair elfen o'r gadwyn. Er hynny, mae diflaniad y ddau gorff yn dangos pa mor anodd yw hi i gynnal strwythurau, ar lefel Cymru, sy'n ddigon cryf i ddod â'r elfennau oll ynghyd. Mae disgwyl i weithwyr y diwydiant heddiw fod yn fwy hyblyg ac aml-sgiliog na'u rhagflaenwyr. Ar yr un pryd mae angen sgiliau proffesiynol o'r lefel uchaf os yw cynnwys S4C i gystadlu yn effeithiol gyda chynnwys gorau'r byd.

Rydym yn edrych ymlaen at gydlynu ein hymdrechion gyda pholisïau'r Llywodraeth ar gyfer datblygu sgiliau pan fydd hyn yn briodol. Yn y cyfamser mae S4C yn y broses o greu trefniant newydd gyda TAC i ail-gychwyn buddsoddi mewn hyfforddiant sy'n bwrpasol ac sy'n ateb y gofynion hyfforddi hynny sy'n cael eu hadnabod gan y cynhyrchwyr. Pwysleisiwn fod adnabod y galw, a chyflenwi'n briodol ar gyfer y galw hynny, yn elfen allweddol o bwysig yn y broses o ddarparu hyfforddiant.

4. *A allwch roi rhagor o wybodaeth am sut y mae S4C yn sicrhau bod manteision economaidd ei gomisiynau yn cael eu lledaenu'n deg ar draws y sector?*

Egwyddor sylfaenol S4C yw comisiynu'r syniadau gorau o ble bynnag y dônt o fewn y sector creadigol. Gofynion y gwasanaeth ei hun sy'n arwain y broses gomisiynu ac un o elfennau hanfodol y gwasanaeth hwn yw bod yr arlwy yn ei gyfanwydd yn adlewyrchu bywyd Cymru yn ei holl amrywiaeth - yn ddaearyddol, yn ddiwylliannol, yn fywyd dinesig a bywyd gwledig, de, gogledd a chanolbarth. Mae hyn ynddo'i hun yn sicr wedi cyfrannu at y ffaith bod y sector cynhyrchu annibynnol yn cynnwys cwmnïau o bob rhan o Gymru.

Rydym yn ymwybodol iawn o'r ffordd y mae clystyru yn gallu helpu'r diwydiannau creadigol i ymsefydlu mewn ardaloedd daearyddol penodol. Pan ddaw cyfleoedd felly, rydym yn awyddus i gyfrannu'n ymarferol at ymdrechion sy'n debygol o arwain at gryfhau effaith clystyru'r diwydiant mewn ardaloedd penodol, ond heb i hynny ddylanwadu ar y broses gomisiynu ei hun ac ar flaenoriaethau'r gwasanaeth.

Mae'r penderfyniad diweddar i symud ein pencadlys i Gaerfyrddin, sy'n golygu y bydd S4C fel corff yn gweithredu ar draws tri safle - Caerdydd, Caernarfon a Chaerfyrddin, yn enghraifft arbennig o hyn. Roedd ystyriaethau economaidd yn rhan o'r penderfyniad hwn, ynghyd â buddiannau ieithyddol a diwylliannol.

5. *Pa drafodaethau y mae S4C wedi'u cael â Llywodraeth Cymru am ran y sianel yng nghorff Cymru Greadigol Llywodraeth Cymru?*

Rydym yn ymwybodol o'r datblygiad yn sgil trafodaethau gyda Llywodraeth Cymru a'r agenda ehangach. Mae S4C yn amlwg yn gorff creadigol gweithredol pwysig yn y Gymru sydd ohoni. Byddai'n gwbl naturiol i ni ymateb yn gadarnhaol, mewn ysbryd o bartneriaeth, i'r hyn sydd gan Lywodraeth Cymru dan sylw wrth greu Cymru Greadigol. Edrychwn ymlaen at drafodaethau fydd yn help i adnabod y cyfleoedd ymarferol i gydweithio.

6. *A yw comisiynu ar gyfer byd digidol (fel yr awgrymodd TAC wrthym) yn gofyn am ailystyried materion hawliau?*
 7. *Beth yw eich ymateb i awgrym Ron Jones o Tinopolis y dylai S4C gadw hawliau ar gyfer cynnwys iaith Gymraeg a gomisiynir ganddi ac yna roi'r cynnwys hwnnw ar gael i bawb?*

Yn ddi-os, mae'r byd digidol yn codi cwestiynau newydd dyrys mewn perthynas â hawliau.

Y man cychwyn yw'r ffaith mai prynu trwydded i ddarlledu am gyfnod o bum mlynedd y mae darlledwyr y Deyrnas Unedig ar hyn o bryd, oddi wrth gynhyrchwyr annibynnol, yn unol â Deddf Gyfathrebiadau 2003.

Ar lawer ystyr, mae'r cysyniad fod gwerth ariannol cynnwys yn gallu cael ei fesur yn nhermau nifer penodol o ddangosiadau o fewn cyfnod penodol yn hen ffasiwn.

Ar ben hynny hefyd, rhaid, fel y mae Ron Jones yn ei awgrymu, gadw'n glir yn y meddwl fod yna ddwy ystyriaeth allweddol yma sy'n rhaid eu bodloni:

- a) Hawl cynhyrchwyr a chyfranwyr creadigol i dderbyn budd ariannol pan fydd eu gwaith yn cael ei ddefnyddio
- b) Pwysigrwydd sicrhau fod cynnwys Cymraeg prin, sy'n cael ei ariannu'n gyhoeddus, yn cyrraedd cymaint o'r cyhoedd â phosibl, yn unol â'u patrymau gwyllo a defnyddio

Mae'n naturiol y bydd S4C yn rhoi'r pwyslais ar sicrhau hawliau hyblyg fydd yn ein galluogi i wneud ein cynnwys ar gael ar draws yr holl lwyfannau traddodiadol a newydd, gyda'r pwyslais ar wneud hynny mewn ffordd sy'n gyson â dymuniadau'r gynulleidfa, wrth i rain newid. Er enghraifft, dyw'r duedd bresennol tuag at *binge viewing* ddim yn ffitio o fewn model presennol y diwydiant o gael "fffenest" ar-lein cyfyngedig ar ôl pob darllediad. Mae S4C hefyd yn awyddus iawn i sicrhau bod gwylwyr o bob cwr o'r byd, sydd am wyllo cynnwys Cymraeg, yn cael yr hawl i wneud hynny. Yn anffodus, nid ydym yn rhagweld bod modd i hynny gael ei ariannu trwy broses danysgrifio, felly'r unig ffordd o gyflawni'r amcan yw drwy negydu hawliau i wneud hynny, fel rydym yn ceisio'i wneud ar hyn o bryd, gyda sawl math o gynnyrch.

Rydym yn ymwybodol y bydd angen ymwneud yn y trafodaethau hyn gyda chwmnïau cynhyrchu, undebau sy'n cynrychioli talent megis actorion ac awduron, cymdeithasau sy'n trwyddedu cerddoriaeth a chyhoeddwyr cerddoriaeth, a hefyd Ofcom fel rheoleiddiwr a fydd yn cymeradwyo unrhyw newidiadau i'r Cod Ymarfer gyda'r sector gynhyrchu.

Ein safbwynt sylfaenol yw bod y gynulleidfa bellach wedi ei gwasgaru ar draws llwyfannau ac yn ddaearyddol, bod gwyllo yn digwydd yn unol â phatrymau unigolion yn hytrach nag ar amserau o ddewis darlledwyr a bod angen cydnabod y realiti hwn os yw darlledu cyhoeddus mewn iaith leiafrifol, sydd wedi wynebu toriadau ariannol, i gyflawni ei amcanion yn effeithiol.

Lle mae gan gynnwys y potensial i werthu'n rhyngwladol (ee Y Gwyll/Hinterland), mae S4C wrth gwrs yn awyddus fod cwmnïau yn achub ar bob cyfle posibl i gyd-gynhyrchu, neu werthu ar y farchnad ryngwladol. Mae hyn yn rhan bwysig o'r broses o greu cwmnïau masnachol hyfyw, hir dymor, nad ydynt yn llwyr ddibynnol ar gyllido gan ddarlledwr cyhoeddus.

O bosib fod yna achosion ar hyn o bryd lle nad yw'r holl botensial masnachol yn cael ei wireddu, a hynny am resymau dilys. Mae hyn yn her y gallai S4C a'r sector gynhyrchu elwa o'u datrys. Er enghraifft, gallai fod yn fuddiol i S4C a'r cyd-gynhyrchwyr i ganfod strwythur newydd o archwilio potensial masnachol a marchnata cynnwys ar y cyd gan rannu'r risg a'r buddiannau ariannol sy'n deillio o hynny. Mi fyddai angen cefnogaeth Ofcom i newid ein Cod Ymarfer a'r fframwaith hawliau fyddai'n galluogi hyn i ddigwydd.

Yn hyn oll, yr elfen bwysig fydd cyd-drafod adeiladol rhwng yr holl bartïon, gan barchu deisyfiadau a phwrpasau'r gwahanol garfannau, cwmnïau a sefydliadau fel ei gilydd.

Mae hi'n werth cofio fod S4C a TAC yn 2003, wedi llwyddo i ddod i gytundeb, er gwaethaf gofynion y ddeddf newydd, i ganiatáu i gomisiynau gwreiddiol rhaglenni plant Cymraeg gan S4C fedru cael eu defnyddio'n ddigyfyngiad ar wasanaeth plant S4C. Roedd y cytundeb hwn yn allweddol i allu S4C i sefydlu gwasanaeth Cyw yn 2008. Efallai fod hyn yn arwydd o'r ewylllys da sy'n bodoli yn y sector creadigol tuag at anghenion y Gymraeg, ac yn addo'n dda ar gyfer trafodaethau'r dyfodol.

8. *Mae Gweinidog y Gymraeg a Dysgu Gydol Oes wedi galw am i'r bartneriaeth rhwng S4C a'r BBC gael ei "diweddarau a'i hadnewyddu, er mwyn cefnogi a galluogi gwasanaethau S4C i dyfu ac arallgyfeirio mewn byd aml-lwyfan." Pa waith sy'n mynd rhagddo yn hyn o beth?*

Mae swyddogion S4C a'r BBC yn cwrdd yn rheolaidd i drafod y potensial ar gyfer cydweithio. Yr allbwn mwyaf llwyddiannus o'r bartneriaeth yma yw presenoldeb S4C ar y BBC iPlayer - sef yr unig sianel nad yw'n rhan o'r BBC i fod ar yr iPlayer. Mae hyn wedi rhoi llwyfan mawr ac eang newydd i gynnwys S4C. Roedd y posibilrwydd o werthu cynnwys S4C drwy safle BBC Store hefyd wedi'i drafod cyn i'r BBC benderfynu peidio â pharhau â'r fenter yn ddiweddar.

Mae'n cydweithio ar brosiect Y Gwyll/Hinterland yn enghraifft llwyddiannus iawn o gydweithio ar lefel gynhyrchu, ac mae prosiectau newydd eisoes ar y gweill, gan gynnwys rhai newydd ym maes drama. Rydym hefyd yn cydweithio gyda'r BBC i ddarlledu prif gystadleuaeth rygbi rhanbarthol, sef y Pro12. Mae gemau'n cael eu darlledu ar y BBC ac ar S4C a'r hawl i ddarlledu'r gêm derfynol yn cael ei rannu am yn ail flwyddyn.

Ar lefel gorfforaethol, rydym yn trafod rhannu adnoddau darlledu gyda'r BBC yn eu hadeilad newydd yn y Sgwâr Canolog, gyda'r bwriad o alluogi'r ddau ddarlledwr i gyflawni arbedion.

Yn sicr mae gennym ddiwylliant sefydliadol o barodrwydd i gydweithio ac i chwilio am gyfleoedd a fydd o fudd i'r gwasanaeth unigryw Cymraeg rydym yn ei gynnig.

Ar lefel gyllidol, mae trafodaethau'n cael eu cynnal ar hyn o bryd gyda'r bwriad o gytuno ar olynydd i'n Cytundeb Gweithredu gwreiddiol oedd wedi'i arwyddo gan Awdurdod S4C ac Ymddiriedolaeth y BBC. Mae'r pwyslais yn ôl ein trafodaethau ar sicrhau atebolrwydd priodol ar gyfer cyllid ffi'r drwydded. Credwn fod yr egwyddorion sylfaenol rydym yn anelu at eu hymgorffori yn y cytundeb newydd wedi cael ei hamlinellu ein sesiwn dystiolaeth.

9. *Galwodd y Gweinidog hefyd am i S4C "gryfhau'r cysylltiadau presennol gyda sefydliadau fel Cyngor Celfyddydau Cymru, Cyngor Llyfrau Cymru a phartneriaid eraill". Pa gynlluniau sydd gan y sianel yn hyn o beth? Sut y gallai Llywodraeth Cymru helpu gyda hyn?*

Ers 2012 mae sefydlu partneriaethau gyda sefydliadau Cymreig eraill wedi bod yn nôd strategol benodol i S4C. Mae wedi arwain at drafodaethau creadigol ar brosiectau penodol (gweler uchod) mewn meysydd strategol ac ym maes cynnwys.

Mae memorandwm dealltwriaeth yn bodoli rhwng S4C a nifer o sefydliadau eraill gan gynnwys Cyngor Celfyddydau Cymru, BAFTA Cymru a Chanolfan y Mileniwm. Mae cysylltiadau llai strwythuredig yn bodoli gydag ystod eang o sefydliadau gan gynnwys Cyngor Llyfrau Cymru, Mudiad Ysgolion Meithrin, Yr Urdd, Yr Eisteddfod Genedlaethol. Rydym eisoes yn cydweithio gyda'r Ganolfan Dysgu Cymraeg Cenedlaethol ac yn cynnal trafodaethau gyda'r Amgueddfa Genedlaethol, Y Llyfrgell Genedlaethol a'r adrannau o fewn Llywodraeth Cymru sy'n ymwneud ag addysg a'r Gymraeg.

Bwriadwn barhau â'r partneriaethau hyn.

Gan Lywodraeth Cymru y mae'r swyddogaeth o gymryd gorolwg dros ffyniant y Gymraeg ymhob maes. Yn hynny o beth, mae ganddi swyddogaeth allweddol o adnabod cynnydd a chyfleoedd ar gyfer y Gymraeg, yn ogystal â bygythiadau, ble bynnag y maent yn bodoli ac o ddarparu gwybodaeth ac arweiniad a fydd ar gael yn gyffredinol yn y meysydd hyn. Yn hytrach na chyfyngu ei gorolwg i weithgarwch y cyrff y mae'n eu hariannu, credwn fod hyn yn un o egwyddorion sylfaenol yr amcan o weithredu mewn partneriaeth ac yn gwbl gyson â diddordeb Llywodraeth Cymru a'r Cynulliad Cenedlaethol mewn pwnc fel darlledu, sydd mor allweddol yn y maes hwn, er nad yw'n bwnc sydd wedi'i ddatganoli.

10. *Mae'r Gweinidog wedi galw am i S4C "sicrhau ei bod yn comisiynu mwy o raglenni yn seiliedig ar eiddo deallusol o Gymru ac am Gymru a'i bod yn datblygu arlwy aml-lwyfan sy'n canolbwyntio ar yr eiddo deallusol hwnnw mewn partneriaeth ag eraill". Pa gynlluniau sydd gan yr orsaf i wneud hyn? Pa gymorth y byddai ei angen arni gan randdeiliaid eraill i gyflawni hyn?*

Mae mwyafrif helaeth comisiynu S4C yn seiliedig ar eiddo deallusol o Gymru ac am Gymru. Mae cyfresi fel Y Gwyll/Hinterland yn un o'r enghreifftiau prin o gynnwys cwbl Gymreig yn cyrraedd sgriniau teledu mewn gwledydd eraill yn llwyddiannus. Rydym yn awyddus iawn i adeiladu ar lwyddiant cyfresi o'r math ac rydym yn ymwybodol iawn o werth diwylliannol ac economaidd y sylw rhyngwladol a gaiff rhaglenni o'r math ar gyfer y diwydiant, yr ardaloedd lle mae'r rhaglenni'n cael eu saethu, a'r canfyddiad cyffredinol o Gymru.

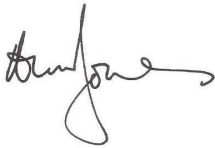
Byddwn yn parhau i gydweithio â chwmnïau a sefydliadau i chwilio am gyfleoedd i fuddsoddi'n ariannol a chynnig arbenigedd gwerthfawr. Rydym eisoes wedi sefydlu partneriaeth arloesol gyda Sony er mwyn datblygu fformatau allai gael eu dosbarthu'n rhyngwladol ac mae nifer o'r comisiynau sydd wedi deillio o'r cynllun yma wedi ymddangos ar S4C eisoes.

Mae datblygu fformatau yn cyflawni sawl peth – maent yn creu conglfeini newydd i amserlenni S4C ac yn cynnig cyfleoedd newydd ar gyfer allforio. Rydym eisoes wedi datgan ein bwriad i gynnwys mwy o fformatau ffeithiol yn yr amserlen.


O ran datblygu, creu a lledaenu cynnyrch sy'n seiliedig ar eiddo deallusol o Gymru, credwn mai S4C yw'r darlledwr sydd wedi gwneud y cyfraniad mwyaf dros y blynyddoedd. Mae'n amcan sy'n greiddiol i'n bodolaeth a bydd yn parhau wrth galon ein gwaith am flynyddoedd i ddod.

Gobeithiwn fod y wybodaeth ychwanegol yma yn ddefnyddiol, gyda diolch eto am eich sylw ac am sylw'r Pwyllgor.

Yn gywir



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Local media: new structures emerging

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Local newspaper circulation continues to decline precipitously, while decline in some categories of print advertising has slowed marginally

Digital traffic exploded in 2014, however, substantially outperforming the market generally, resulting in signs of stabilisation across print and digital in some marketing categories, notably recruitment and pockets of display

Industry leaders have moved beyond cost-cutting and are no longer reproducing their print products online: local platform solutions, and strategic technology and business partnerships, mean fundamentally different companies are emerging in local media

There are some hopeful signs in local media. Enormous traffic growth in the last year to 18 months provides some hints that a scale digital future at least looks a possible scenario for the most ambitious publishers. Some signs of stabilisation in aggregated print and digital advertising spend in some categories in some geographies are encouraging, even if it is far from certain that these trends will continue. A sharp downturn in the UK economy during the next few years, for example, could impose a vicious collapse in marketing commitment from Small and Medium Enterprises (SMEs). But, for now, the signals are more positive than otherwise, and our forecasts suggest total advertising decline could fall below 3% in the next year or two (though downside risks remain).

Furthermore, recent rumours that Trinity Mirror is in talks with Local World could trigger consolidation in what is still a highly fragmented, and over the last 10 years a massively shrunken marketplace. But even if this does not happen in the immediate future, developments by individual companies to rewire their businesses into local marketing platforms - often using external partners to step change the process, culture and quality of technology solutions - should accelerate companies to a more sustainable digital future.

In this report we look at the key local media trends in consumption and revenues, including advertising, but we also take the opportunity to explore how publishers are responding to structural challenges, observing that transformation strategies are creating fundamentally new types of organisation. We start by analysing the current market trends (and we provide our forecasts for advertising in figure 19 at the end of our report).

Part one: Overview of the current market

Print trends

Local newspaper circulation continued to fall through 2013/2014, albeit at a reduced rate, down -9.0% in 2014 after double digit declines in 2011 and 2012. According to our estimates, the industry now distributes 24m copies a week of which 15m are paid and 9m are free.

But at the same time fresh digital content strategies are starting to bear fruit as the four main regional news publishers all recorded significant upticks in traffic growth in 2014. Monthly global browser numbers submitted to ABC show that year-on-year traffic growth in the second half of 2014 ranged from 29% at Johnston Press to over 100% for Trinity Mirror's online regional news properties.

Figure 1: Regional and local newspaper industry KPIs

| | Value | | Year-on-year % change | |
|--------------------------------------|-------|-------|-----------------------|--------|
| | 2013 | 2014 | 2013 | 2014 |
| Circulation per annum (m)* | 1,381 | 1,257 | -9.4% | -9.0% |
| <i>Of which UK paid (m)</i> | 885 | 783 | -10.7% | -11.6% |
| <i>Of which UK free (m)</i> | 496 | 474 | -6.9% | -4.4% |
| Consumer spend (£m)* | 572 | 555 | -2.8% | -2.9% |
| Average cover price (£) | 0.65 | 0.71 | 8.8% | 9.8% |
| Print advertising spend (£m) | 1,161 | 1,075 | -7.4% | -6.1% |
| <i>Of which display (£m)</i> | 537 | 492 | -5.1% | -10.9% |
| <i>Of which classified (£m)</i> | 624 | 583 | -13.1% | -12.7% |
| Print advertising spend per copy (£) | 0.74 | 0.74 | -0.4% | 0.2% |
| Digital advertising spend (£m) | 139 | 172 | 8.0% | 23.7% |
| Digital as share of advertising (%) | 11% | 14% | ... | ... |

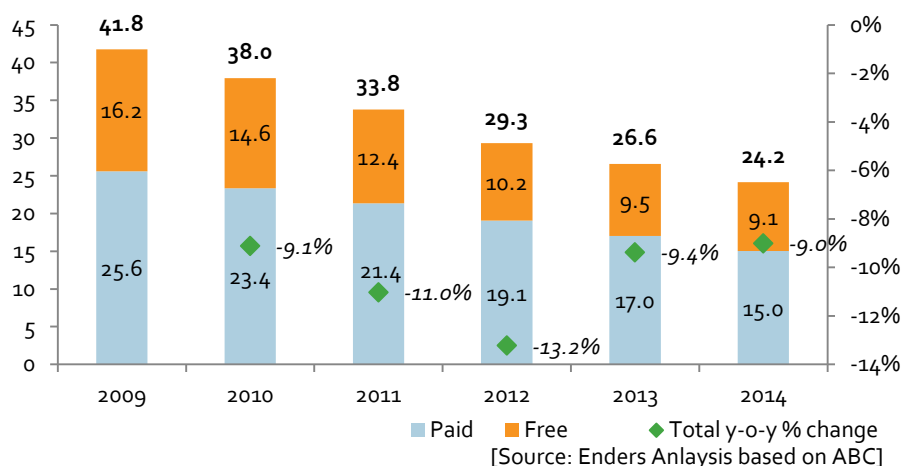
*Circulation and consumer spend are Enders estimates based on performance of titles continuing to report to ABC; average cover price is consumer expenditure divided by paid circulation per annum
 Advertising spend sourced from WARC and incl. Evening Standard
 [Source: Enders Analysis based on ABC and AA/WARC data]

Promising traffic growth to regional newsbrand websites is also being accompanied by improved revenue trends. Our latest advertising estimates based on WARC data for Q1-Q3 suggest digital spend on local news brands increased 23% in 2014 vs. a growth rate of 14% for total UK internet advertising spend. However, the monetisation of online audiences remains a pressing challenge as digital revenues still only accounted for 14% of local newsbrand advertising. To continue accelerating digital revenue growth and effectively compete with the search and social giants, local news brands will need to maintain their current audience growth rates while improving the targeting and general service of their digital platforms for advertisers.

Improved circulation performance in 2013/2014 has been driven by a marked recovery in free title distribution. In fact, the slowing of volume losses has been entirely dependent on publishers' supply of free newspapers as paid circulation has continued to accelerate reflecting the erosion of consumer demand for local news in print.

In 2012 we estimate that weekly circulation of free local newspapers shed 2m copies, down -17.5% year-on-year. This compares to a loss of 0.4m free copies per week in 2014. In contrast, paid circulation has now experienced three consecutive double digit annual percentage declines and accelerated to -11.6% last year.

Figure 2: Circulation per week (m)



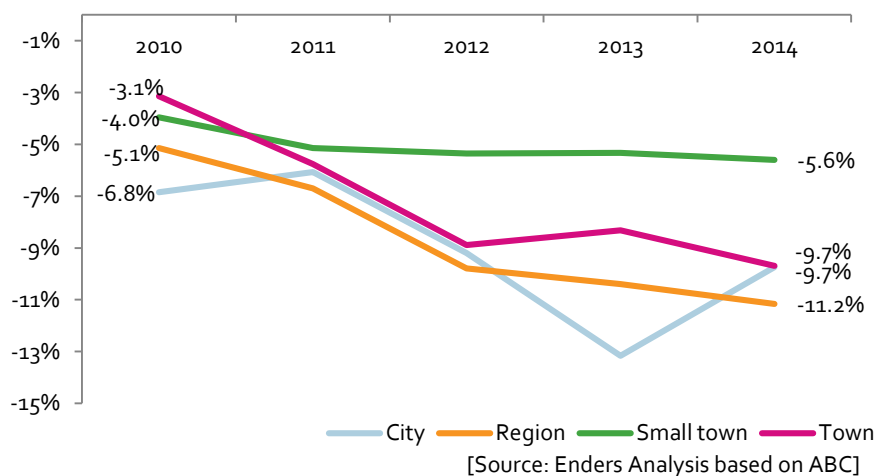
Paid print: Circulation decline across the board, revenues buttressed by pricing

This fall in demand is being felt across all paid local newspaper formats. On a like-for-like basis and excluding titles that changed frequency:

- Sunday paid circulation fell -10.4% to 0.6m copies per week
- Daily paid circulation fell -12.2% to 11.5m copies per week
- Weekly paid circulation fell -11.7% to 2.9m copies a week

Titles covering smaller geographic areas have outperformed the market significantly (see figure 3). Overall, decline is being driven by titles with larger circulations covering regions and cities such as the Birmingham Mail where circulation per issue fell -20% to 30,597 copies per issue in H2 2014 and the Express and Star where circulation fell -13% to 71,585. Publishers have continued to offset circulation falls with bold pricing strategies. As a result, local press consumer revenue has been comparatively stable, declining -8% over the 4 years to 2014 compared to a -26% decline for total advertising revenue.

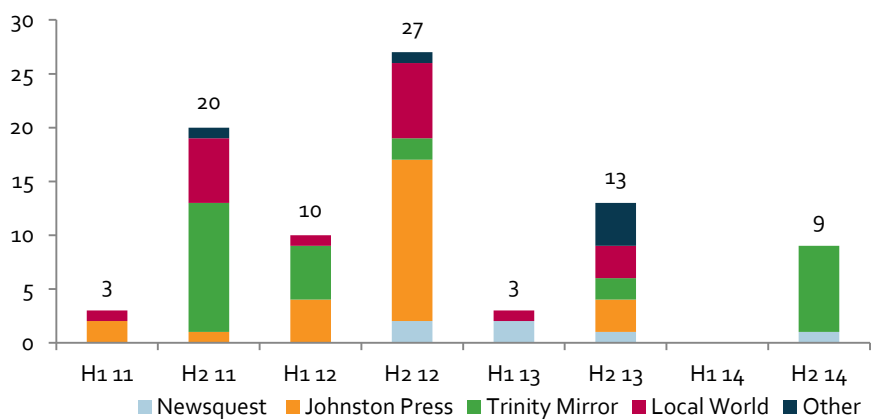
Figure 3: Circulation by geography y-o-y change (%)



Free print: Slowing of closures

Free newspapers' improved circulation can be attributed to a drop off in the number of newspaper closures in 2013/2014. After 37 closures among ABC audited titles in 2012, 35 of which were free publications, publishers have weeded out the weakest performers in their portfolios. We have identified only 9 title closures from the ABC audit for H2 2014 after Trinity Mirror announced the closure of 7 of its Surrey and West London titles in November. In 2012 we estimate that closed titles accounted for 28% of lost copies by ABC, this share fell to 8% in 2013 and 6% in 2014. Paid titles also constituted a significantly larger share of the copies lost to closures in 2013/2014. Of the 25 closures we have identified over the past two years, six have been paid titles, including Trinity Mirror's Reading Post, Surrey Herald and Liverpool Post.

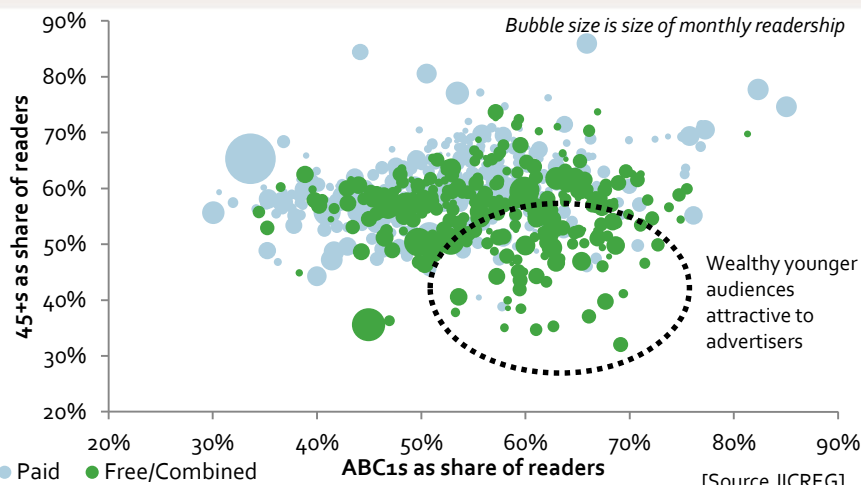
Figure 4: Title closures 2011-2014



[Source: Enders Analysis based on ABC]

The wider reach offered by free newspapers is augmented by their readership demographics which are broader than paid titles and more skewed towards the younger wealthier audiences that appeal to advertisers. Our analysis of JICREG data suggests that on average 40% of free local newspaper readers are over 45 compared to 45% of paid title audiences. The contrast is even starker in terms of socioeconomic status where 68% of free readers are ABC1 compared to 48% of paid title readers (see figure 5).

Figure 5: Regional newspaper demographics share

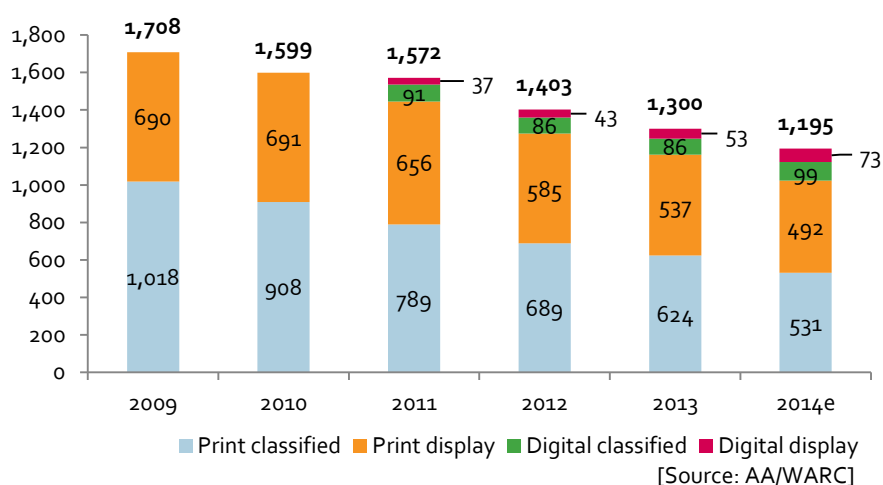


[Source JICREG]

Print advertising – revenue decline slows in improving economy

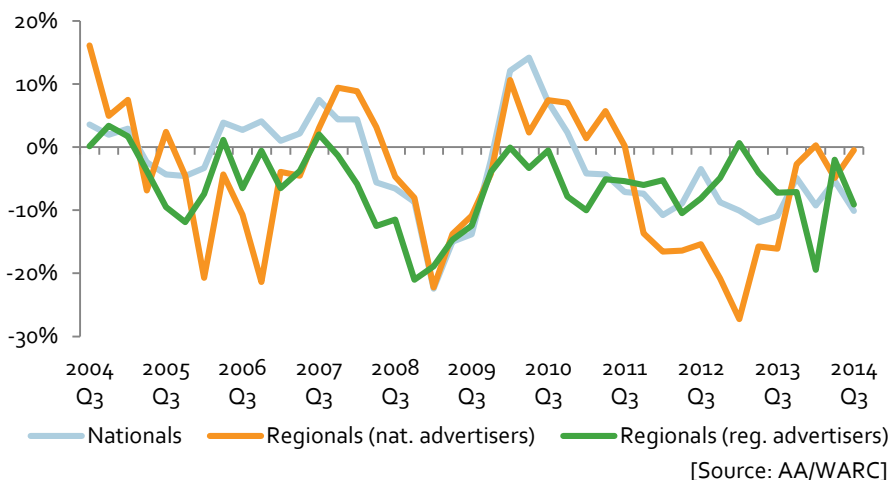
In line with circulation, print advertising revenue decline has moderately slowed, down -8.8% in 2013 and -7.4% last year compared to -11.9% in 2012, according to our estimates. We view this as primarily driven by cyclical factors; most notably a buoyant labour market which left recruitment classified revenues roughly flat in 2014 compared to a -13.2% decline the previous year. Other classified categories experienced a more minor reprieve with total print classified spend down roughly -7% for the year. The favourable market conditions in recruitment advertising enabled Johnston Press to report its first annual 'tipping point' in the company's results for FY 2014; total recruitment advertising revenue grew year-on-year with a print loss of -£0.3m outstripped by digital gains of £1m.

Figure 6: UK local newspaper ad spend (£m)



In print display, there has been a marked slowing of decline in national advertiser spend. After a -15.5% fall in 2013, spend fell -2% year-on-year in the first three quarters of 2014, outperforming the national newspaper advertising market as well as revenues from local advertisers (see (figure 7)).

Figure 7: Display ad spend y-o-y change (%)

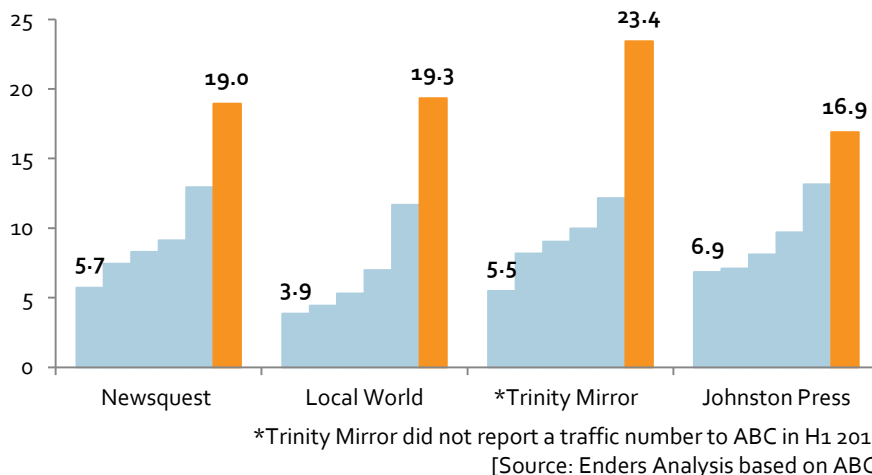


Our medium term outlook for print advertising is for the rate of decline to stay broadly constant at around -7% over the next 3-4 years in the context of a stable economy.

Digital

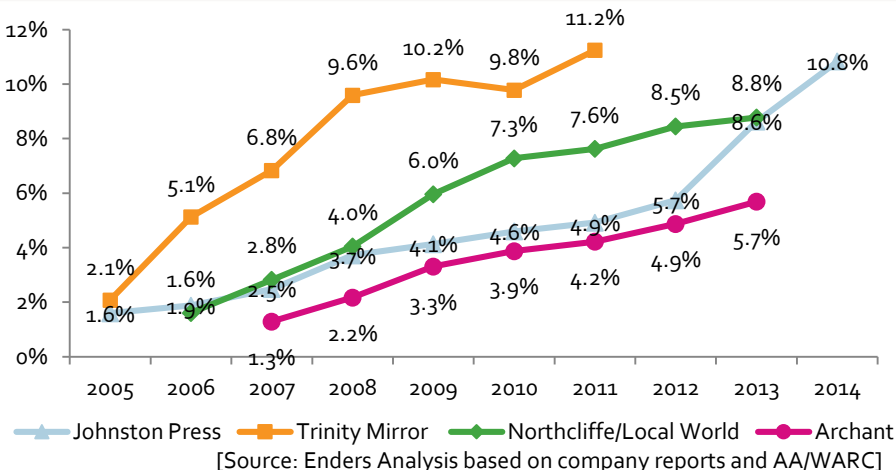
In 2014 the major publishers began to experience a significant uplift in digital traffic growth. Figures submitted to ABC show that Trinity Mirror and Local World monthly server traffic increased by 4.6x and 5.3x respectively between H1 2009 and H2 2014. Figure 15 illustrates all publishers will need to at least maintain this rate of growth in the next five years in order to provide a compelling alternative to Google and Facebook for local advertisers, but the recent growth patterns are promising signs that publishers' digital content strategies are beginning to take effect. In this report, we predominately focus on the 4 largest local news publishers by revenue, print circulation and online traffic: Trinity Mirror, Local World, Johnston Press and Newsquest.

Figure 8: Global traffic H1 2009-H2 2014 (m)



The second problem facing these companies, as outlined in figure 9, is that converting traffic growth into significant digital revenue growth has so far proved very difficult for regional publishers. Trinity Mirror's last reported digital advertising number for its regional news brands was artificially boosted by the inclusion of the company's pure play digital classified businesses. Of the other three market leaders only Johnston Press has broken the barrier of 10% digital revenue share in its 2014 results published earlier this month.

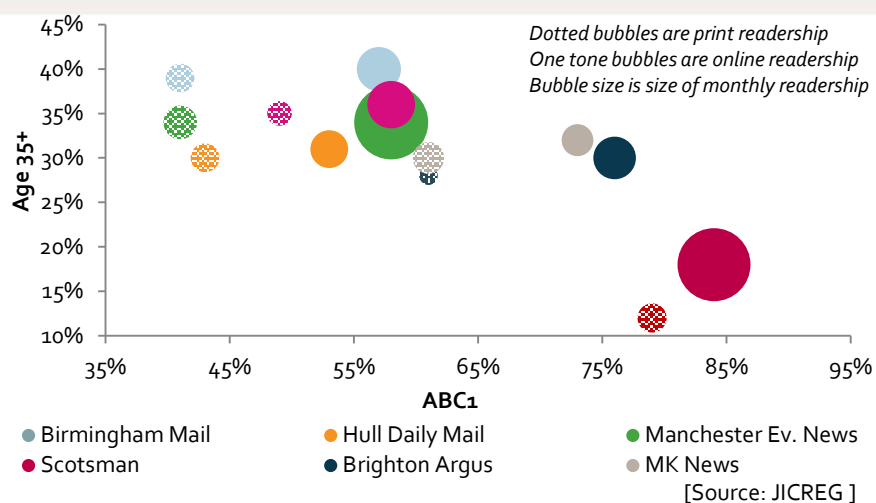
Figure 9: Digital revenue as share of total revenue



We do, however, see genuine signs of promise in the digital audience growth achieved by the four main publishers in the last 12 months and the acceleration in traffic growth is now beginning to feed into data supplied by WARC. We estimate that total digital display spend on national newsbrands increased 38% year-on-year in 2014, more than double the growth rate in 2012, and we believe that digital advertising will continue to grow at an annual rate of between 20-30% over the next three years (see advertising forecasts on p.23).

Studying a sample of regional titles in the latest JICREG readership data from October 2014 reveals that, as with free and paid print newspapers, the demographics of digital audiences are significantly more appealing to advertisers (see figure 10). Under 35s constituted 32% of digital readerships on average compared to 30% in print while ABC1s constituted 66% of online readerships compared to 54% in print.

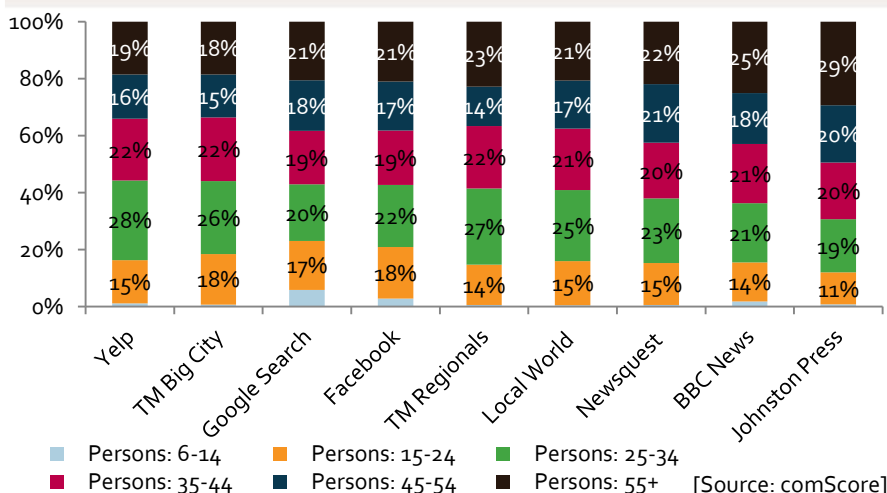
Figure 10: Online/print demographic readership share (%)



Regional newsbrands are also increasingly being consumed on smartphones and tablets although the share of page views by device varies significantly by publisher. comScore data for the UK in January 2015 shows that mobile devices accounted for 71% of page views on the Trinity Mirror city newsbrand websites while at Newsquest mobile share of page views was a comparatively meagre 33% - a telling reflection of the varying commitment of publishers' to mobile-first strategies.

When the online demographics of regional news brand audiences are compared with their main competitors for local advertising spend the numbers are also promising. comScore data from January shows the average share of traffic across the four main publishers in the 18-34 age group is 38% compared to 43% for both Google and Facebook suggesting that the lack of demand for local news in younger age groups is often overplayed.

Figure 11: UK traffic age group shares (Jan-14, %)



Market share and potential consolidation

In response to the rumoured acquisition of Local World by Trinity Mirror we have looked at company reports and industry numbers to try and piece together a rough sketch of market size and share across print and digital. The numbers in figure 12 are based on the published results of the top 4 local news publishers and include our estimates where data is incomplete or unavailable. The revenues at Trinity Mirror’s local news operations and Newsquest are particularly hard to gauge.

Trinity Mirror ceased reporting local numbers in 2012 after wrapping their national and local newspaper operations into a single publishing division. Newsquest is a subsidiary of the US media conglomerate Gannett, and broken out revenues have not been provided since Gannett’s 2012 annual report. In these cases we have relied on fairly broad assumptions to produce revenue estimates for the companies’ most recent reported financial years. For Trinity Mirror we have assumed a constant split between regional and national revenues since 2011 based on past results. For Newsquest, we have assumed total revenue growth in line with the total market for circulation and advertising revenue since 2012 and have split advertising into digital and print based on the split in the overall market and Newsquest’s share of digital traffic. Local World’s numbers are taken from the company’s reported results for the financial year ended December 2013 and are thus 12 months behind the numbers produced for Newsquest, Trinity Mirror and Johnston Press. Some top line estimates from our analysis of the Top 4 publishers’ market share:

- £820m in print consumer revenues (48% of total UK market)
- £1,614m in print advertising revenues (50% of total UK market)
- £172m in digital advertising revenues (54% of total UK market)
- Combined, Trinity Mirror’s local portfolio and Local World account for roughly £435m of regional newspaper brand revenues (25% of total UK market)

Figure 12: Regional publisher revenue estimates vs. total UK market (£m)

| | Johnston Press | Trinity Mirror | Local World | Newsquest Media | Total market |
|-----------------------------|----------------|----------------|-------------|-----------------|--------------|
| Circulation revenue | 78 | 59 | 61 | 67 | 555 |
| Print advertising revenue | 137 | 123 | 143 | 136 | 1,075 |
| Digital advertising revenue | 25 | 29 | 20 | 19 | 172 |

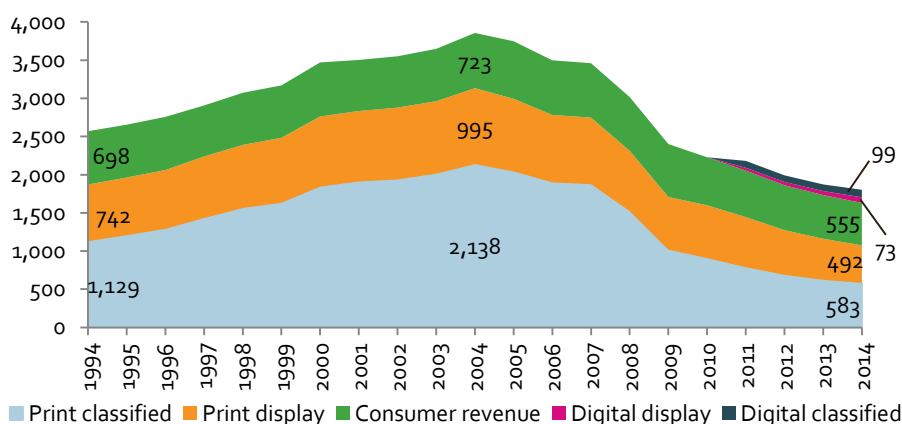
[Source: Enders Analysis based on company reports, ABC and AA/WARC]

Part two: the market challenge

Before we analyse strategic options available to publishers there is value in defining the market challenge that they face. Even today it is occasionally described as the migration of classifieds to digital—but this transition was merely an early (albeit impactful) manifestation of a much more profound structural shift.

To state it boldly: distribution rather than news has always been the local newspaper business model. Local newspapers were in effect local media monopolies, all value residing in the costly physical creation and transportation of the printed product. Circulations peaked in the mid 1950s when ITV launched, loosening the first bolts of that colossal barrier to market entry. But since the late 1990s, broadband, Google, smartphones, tablets and social media have systematically unscrewed the entire edifice, while two recessions and an increasingly urban, centralised and service based UK economy have given it a few violent shakes on the way down.

Figure 13: UK local newspaper brands revenue (£m)



[Source: Enders Analysis based on AA/WARC and ABC]

The collapse of the distribution monopoly leads to a myriad of challenges for publishers; as a result, they are fighting on many fronts simultaneously. For example, the loss of recruitment advertising to digital services was not just detrimental to revenues. There were many implications. For years local newspapers were receiving calls from SMEs and the public sector to place jobs adverts. These advertisers were typically offered a limited range of placement options and price points. This in turn determined the skills, scale and structure of the sales team, filled the newspapers with a depth of browsing content that motivated consumer demand, and created a weekly editorial and marketplace schedule. When recruitment advertising moved to digital every one of these operating assumptions was dismantled.

While recruitment is important in revenue terms, in the larger operation it is a relatively trivial example. The market challenges taken as a whole are much more complex and much deeper. Seemingly every digital trend negatively affects the local newspaper model. For example:

1. Mass “push” media is being replaced by personalised “pull” media, particularly now we have entered the mobile and social media era
2. There is a shift from generalist content provision, in bundles, to specialist services and aggregators (local is one of the few content categories that maps forward into the mobile, social era, but the execution has to be fundamentally different)
3. Platforms are to some degree replacing media: by platforms we mean a service that suppliers and users contribute to and develop
4. Effective business and service provision can be created, delivered and sustained on a much smaller cost base than ever before
5. In terms of demand, content bundles are less important for media consumption, with content increasingly atomised and consumed on a continuum, drawing from a myriad of publishers and services
6. All businesses now have many more marketing and sales channel options than in the pre-digital marketplace, replacing simplicity with complexity
7. Content and marketing (or more specifically, editorial and advertising) are either relentlessly converging (rise of native advertising and creative content solutions) or else they have been entirely separated (consumers search for properties on Rightmove)
8. Investment (from within the industry and from without) is increasingly allocated to the potential of the digital space rather than the existing revenues of legacy businesses, accelerating the supply-side trends

It is impossible in a short research paper to capture the scale and depth of strategic and operating challenges that these digital media trends throw at a local newspaper business. Almost everything such businesses were doing in 1995, and the way they were doing them, are fundamentally wrong in 2015. A manufacturing industry has moved into the service or retail sector in the blink of an eye. Furthermore, the local newspaper industry frequently talks about how the market functions today, with the unsaid assumption that today’s definitions and descriptions are somehow stable; that all publishers need to do is build an effective model for today’s technologies and consumption habits, and the job is done.

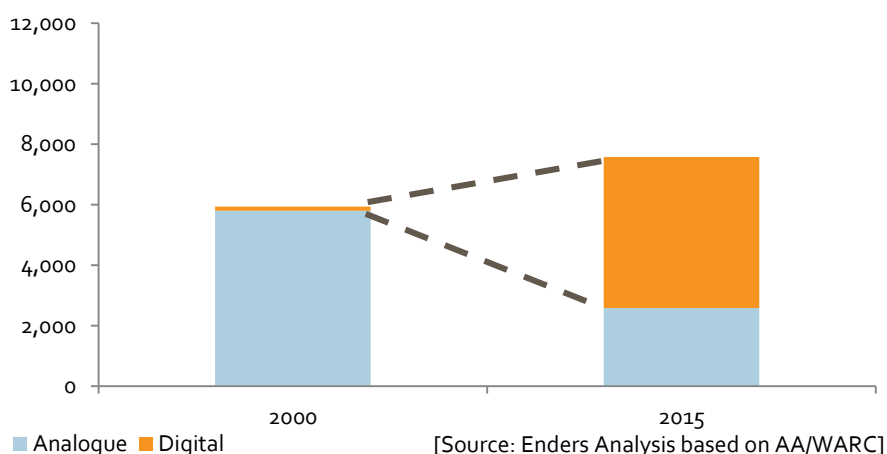
But this could hardly be further from the truth. Today’s marketplace is less stable than at any point in history precisely because the speed of service innovation and consumer expectations resulting from the development of digital technologies are accelerating, not decelerating. Print media was a fundamentally stable marketplace compared to the desktop internet. But the desktop internet was a fundamentally stable marketplace compared to the mobile one, and among the next waves of innovation will be apps and devices communicating with each other, doubtless generating new marketing, commerce, service and content business opportunities for local communities, and undermining existing businesses that do not adapt to changing circumstances quickly or effectively enough.

Next, has the competitive landscape for local media changed during this period of digital disruptive waves? The short answer to this is evidently yes; but it might also be reasonably argued that, overall, the competitive challenges thrown at local newspapers could have been even greater still. Based on experience of the last 15

years, new entrants are just as likely to fail as succeed, although some of the successes have been very big indeed.

We believe Google straddles both sides of the fence. On one side Google AdWords has generated more revenue from SMEs than many local newspaper businesses care to acknowledge. Some publishers believe local digital advertising has principally gone to Jobsite, Auto Trader and Rightmove. But we estimate that more than 200,000 SMEs are spending on average upwards of £7,000 per annum with Google, so in aggregate they are generating somewhere in the ballpark of £1.5 billion for the search giant, and potentially considerably more. And this effectively just covers the direct response or classified expenditure (see figure 14).

Figure 14: Classified ad expenditure (£m)



On the other side of the fence, over many years Google has launched and retreated from a wide variety of local initiatives, often in vertical marketplaces such as property and auto. Without local sales, knowledge, networks and authority, momentum for some types of service innovation is too slow even for a self-service and algorithm based solution as proficient and well implemented as Google.

Facebook has had considerable success with local communities and local commerce, and recent developments suggest they are increasing their interest not just in news content but in local content. We estimate more than 50% of Facebook's £510 million 2014 UK advertising income was generated from SMEs. Location but also precise consumer targeting are key to Facebook's success. Not so long ago the Exmouth Journal was the only way to target people in Exmouth. Online, this is not the case. The Exmouth Journal website has negligible traffic (according to Nielsen and comScore) and the publisher will have little data on these users beyond what they can backend from the IP address (no sign in is required). By comparison, in five minutes advertisers can place an advert targeting the 360,000 Facebook users who live within 25 miles of Exmouth, or, if they prefer, the 3,900 female Facebook users who live within 25 miles of Exmouth and have a birthday in the next seven days.

Of course publishers are developing targeting tools. For example, rather than just listing recruitment ads within their search facility (outsourced or otherwise), businesses can place recruitment ads on newspaper websites and using cookies target consumers by gender, age and income, but also by content/context. But this is not the same thing as Facebook's first party data approach (we will return to

this later). Facebook and other native businesses have deeper investment pockets and are moving much more rapidly.

Meanwhile, Facebook's initiative to host content directly on its site has started in discussions with the big national and global news brands, but will soon reach local media, providing a real dilemma for publishers. We have always considered the "local outrage" question a useful metonym for the local marketplace: if consumers go to Facebook when some local decision infuriates them, then local media have lost the battle. If consumers go to their local news website, then publishers have a chance of winning. Stories hosted on Facebook would blur the simplistic boundary we describe: share of advertising spend might be welcome, as would the audience reach, but at what long-term strategic cost?

We note that publisher backed hyperlocal and community sites have entered the marketplace with generally poor results. The Guardian pulled a local service initiative in 2011 which it had trialled in Edinburgh, Cardiff and Leeds, bargaining on the basis of these sites that a national network would be "unfeasible". Some local publishing groups have developed hyperlocal sites, and then retreated from them in waves. The challenges of building news led local advertising businesses are well demonstrated by Patch, the US hyperlocal news network. Founded in 2007 and acquired by AOL in 2009, Patch received \$300m in investment, creating more than 900 local markets, employing 1,000 journalists and soliciting contributions from 14,000 bloggers. AOL scaled it back to 600 sites, and then sold majority ownership last year, having incurred \$200m of losses over five years.

Nevertheless, thousands of startup sites have appeared in the UK, some of them are gathering considerable local traction. They tend to be small, independent businesses with limited commercial ambitions. Some of them are passionate champions of their local communities and local issues, while others are predominantly notice boards providing user reviews and/or ratings for local services. In terms of traffic, share of consumer time and share of SME expenditure, they are all competition for local publishers, albeit in a fragmented form.

TV broadcasters have also developed local media services, with both Sky and STV in the commercial sector notable for their active footprints in local news and community coverage. We consider these developments to be more of a threat to local newspaper publishers than the more formally organised Local TV initiative, which we have always strongly argued is destined to fail, at least on a sustainable, nationwide, commercial basis.

The BBC, however, is a different question, and its role in local news provision a report in its own right. At the same time the public service broadcaster is a critical player in a highly competitive and rapidly evolving landscape, and we did not want to ignore it here. Three separate developments have emerged in recent months.

1. James Harding, Director of BBC News and Current Affairs, made a speech at the February launch of a commissioned report, *The Future of News*: "In the UK, devolution and the decline of the regional press is creating a real need for local news coverage, a democratic deficit". The reports reasons: local journalism was "one of the biggest market failures in news in the last decade", and concludes the BBC should provide more local news
2. Separately, the BBC has started to pilot schemes to share stories with local newspapers and to link through to newspaper websites from BBC Local pages. The BBC has "promised to improve attribution of stories which originate in local papers and agreed to a formal audit of how many

BBC website stories originate in the local press. We have suggested other news organisations might consider covering such things as sport and courts for the BBC, we have hosted an industry event on data journalism and we are exploring joint ventures in local areas during the General Election campaign”

3. A recent Culture, Media and Sport Committee (CMS) report on the future of the BBC concluded, among other things: “the BBC should...support local media through extending the indie quota to include local news”

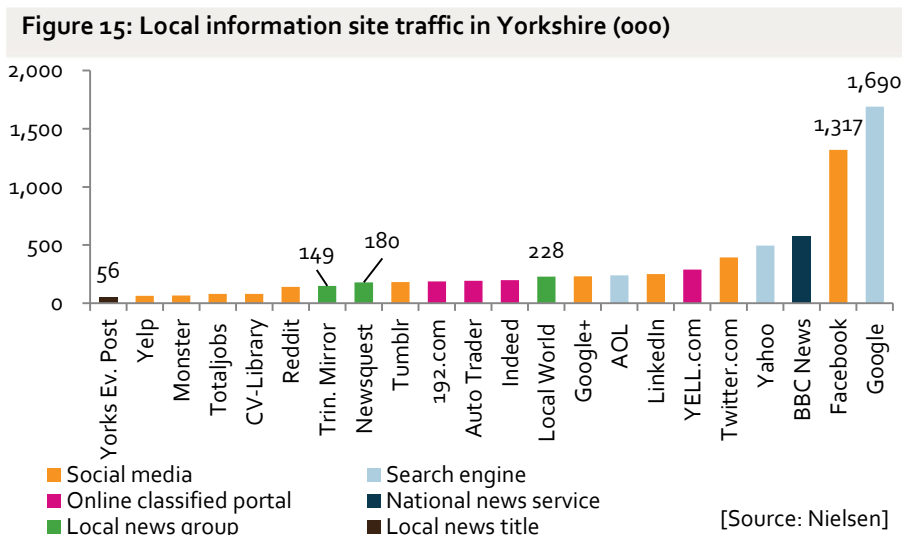
The implications of the first item above are that BBC developments could be *more* competitively threatening to local newspaper businesses, justified by the extent of newspaper closures (free titles), reduced frequency of titles (daily to weekly) and the 10 year loss of some 5,000 journalists, yet arguably ignoring or underrating publisher focus on digital investment, and in particular the rapid traffic growth of the last year or so. The BBC has long been criticised by local commercial media for filling its local radio, local online and local TV services with stories originated by newspapers. Tensions were particularly high when the BBC’s ambitions in local provision extended to a proposed local video initiative in 2008, before it was forcefully quashed by the BBC Trust.

However, both the second BBC item and CMS report suggest the BBC intends to support local media rather than more actively compete. This seems the more likely medium term outcome. Chancellor George Osborne announced in the Budget (18 March) that the Government should enter discussions with local newspaper publishers regarding tax breaks to help support the sector. The BBC’s role in local will certainly evolve in the next few years, and we consider it likely to become more entangled with local newspaper and native enterprises as it does so.

Finally on this point, while the decline in local journalists clearly has had an impact on local news provision, we do not believe publishers will reduce their content investment to the radical levels undertaken by commercial radio in recent years. Taken as a whole local commercial radio has increasingly filled schedules with syndicated, non-local content, massively reducing costs but at the expense of the breadth and depth of targeted, relevant local content. *Some* elements of non-local syndication are evidently worth exploring in the local press, but our sense is that publishers will not see this as an opportunity to save money in local journalism *per se* so much as one to reduce resources that have limited advantage being local.

In summary, publishers do not have a demand problem. Consumers still want to know what is going on locally and businesses still wish to reach consumers who are at least partly defined by location and a sense of shared community values. All the evidence suggests demand is robust. Indeed, after decades of rising disposable incomes, cheaper international travel, radically evolving lifestyles and neglected and declining town centres all of these socioeconomic trends have now moved into reverse. Local is relevant again: socially, we are becoming a *more* local nation.

But distribution has changed everything. The value of demand has been transformed. From a monopoly position newspaper publishers now compete to have a strong voice in the “noise” of available and overlapping services (see the example of competition for local traffic in Yorkshire in figure 15).



As we have previously opined, in order to move above this noise, local newspaper publishers need to try and grow their traffic 5x to 10x – and the substantial trend improvements in 2014 highlighted in Section 1 are very encouraging.

Part three: supplier options

Publisher responses to the structural challenges in the local media sector have largely been linear: publishers have reduced costs, and changed some reporting structures. There are many subtleties that this oversimplification misses. For example, some publishers have gone “digital first”, preparing content and marketing services for mobile devices, and “reverse engineering” daily and weekly print newspapers out of all that activity.

However, the majority of publishers have adapted their existing business into a digital business, and then created some reverse process elements. We consider this a subtle and sophisticated version of a *linear* response to the market challenge, rather than a deep rooted structural response.

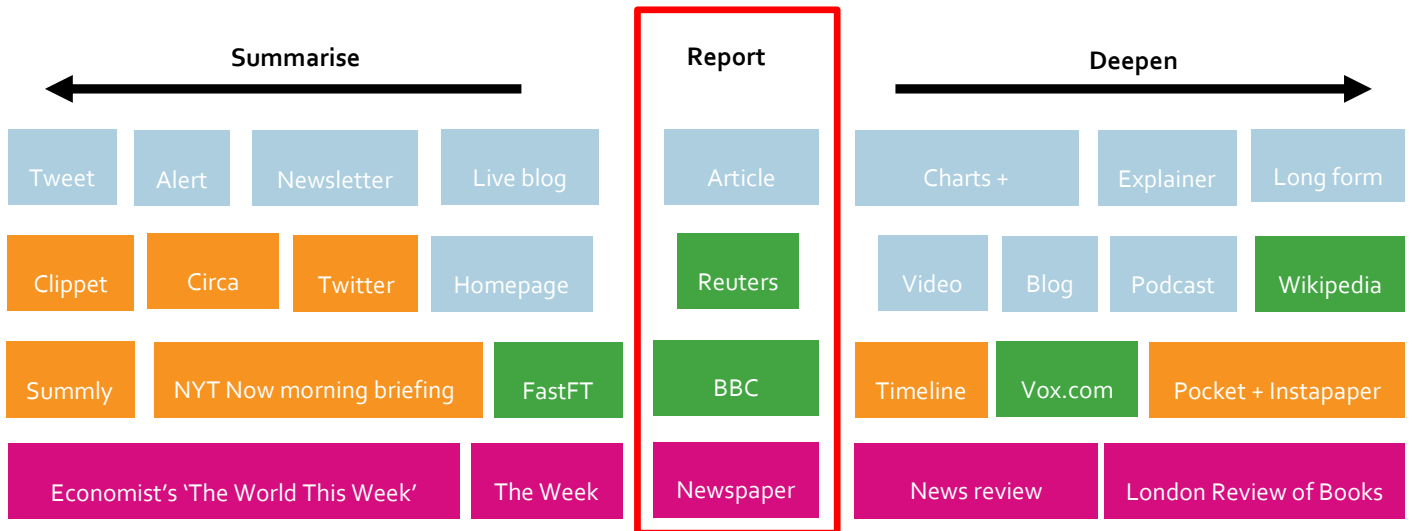
Linear responses are an optimal solution if the publisher is running the business to generate as much cash as possible in the medium term. Structural responses require more investment, damaging profit margins in the short and medium term, are a good deal more complex, are higher risk, and by their nature they are more disruptive of an existing business. (One way of thinking about a structural response is: if we wanted to destroy our current news brand tomorrow, what would we do?) For those organisations who wish to remain in the sector for the long-term, structural responses are necessary because their point is to build a sustainable service.

To put it in simple terms: local news brands have to evolve into local platforms, and build a communications, information, content and data service for local communities (citizens and businesses).

However, that is a good deal easier said than done. Distribution drives every aspect of the old model. For example: newspaper editorial content, including the length, design, tone and nature of all articles (see figure 16); how stories are treated and the timing of them; display and classified advertising, including the scale and execution of the adverts, and the range of SMEs interested in

advertising; the skills and experience of journalists; the employment infrastructure for journalists and commercial teams; the skills and experience of management; the management tools used for decision making; the very nature and frequency of management decision making.

Figure 16: Selling a news service to consumers



[Source: Enders Analysis]

David Broder, the former Washington Post commentator, defined a newspaper as “a partial, hasty, incomplete, inevitably somewhat flawed and inaccurate rendering of some of the things we heard about in the past 24 hours, distorted despite our best efforts to eliminate gross bias by the very process of compression that makes it possible for you to read it in about an hour”.

The magnitude of change from this publishing model to a retail or service model is immense and one of the critical questions is the degree to which a publisher can deliver this under its own steam, and the degree to which it needs to partner and outsource solutions. Our view is it is easy to underrate two things: the challenge of changing a highly established business culture and its focus on a 24 hour product provision; and the challenge of attracting the best technology talent so businesses can develop, and keep developing, the most relevant technological solutions.

Taking the latter point first, it is relatively easy to attract competent technology talent, but excellent developers are notoriously difficult to recruit outside of the technology sector. This is broadly understood. What is less frequently acknowledged is that the performance gap between competent and excellent technology people is a huge chasm, particularly when measured over years.

On the business culture point, changing culture from within is difficult precisely because existing management and staff are either resistant to change, or more usually can embrace only so much change: the pace is therefore almost always too slow compared to the speed of market developments.

Wholesale outsourcing of technology and transformation can enforce change to an agreed timetable and therefore create a new delivery and business culture in its wake. It is often reasoned such an approach cannot really carry the culture of a company: after all, these are just technology people writing code. But this description misses the point, even if you consider it accurate. A partnership of this nature is commonplace in many other industries including technology firms

themselves, and, when it is well handled by both sides, provides management with the tools to change company culture much more rapidly. Consider the following advantages, and it should become apparent how they effect change in the culture of the company itself:

- A service development roadmap is managed separately from company resources, in effect removing cultural issues that slow things down
- Expensive but relatively ineffective internal technology and process resources can be disposed, removing tensions between company functions and partially offsetting partnership costs
- Technology knowledge and implementation expertise is a much higher quality than publishers would be able to attract into their own organisations, even on a contractual basis
- Technology talent also keeps on top of developments in technology solutions; therefore, as the marketplace evolves so does the publisher's technology solutions
- Cost effectiveness - while major publishers (New York Times, Guardian, News UK) can afford massive tech teams, local publishers cannot
- Speed to market: rapid development deployment if/when required
- Technology solutions are not just about great code and architecture, they are also about developing efficiencies in process, automating activities where possible, creating timely and actionable data for all functional layers and management - and so on
- Technology resource can be scaled up and down as required much more efficiently than with in-house staff

Publishers have embraced substantially more outsourcing at a tactical level than they ever did in the past. They now routinely outsource a wide variety of activities, including printing, classified advertising search platforms, national advertising, advertising formats across devices, directory services and so on. But outsourcing - or partnering - at a more strategic level is still a big step for most publishers. Arguably it has taken the circumstances of Local World, a new organisation structured from traditional assets, to move from baby steps to such a transformational leap.

Northcliffe Media (DMGT's regional newspaper business) and Iliffe News and Media were sold into Local World in 2012, with shareholders including DMGT, Iliffe, Trinity Mirror, Odey Asset Management and Artefact Group. The company was valued at £100m. Launched with a paired back HQ and management team, Chairman David Montgomery described the spirit of Local World: "It will be unencumbered by the infrastructure of the industrial past such as property, printing presses and large scale distribution or any legacy issues such as high levels of debt." It therefore had opportunities to invest, and budgeted £10m for tech development from the outset.

Local World's vision to transform from a manufacturing to a service organisation generated two challenges. First, the company would have to access technical specialists to compete with global advertising giants like Facebook and Google. Second, Local World would have to run its IT function both more effectively and more efficiently. Management met with 10 consultancy firms and appointed Cognizant Technology Solutions. Cognizant provides IT, consulting and business process services and was selected essentially on the basis of one criterion: its high quality technology team. This team is tasked not just with delivery

of managed IT services, but creating all the tools and services that bring the new content and commercial strategies to life.

There is a world of difference between tactical outsourcing of discrete cost lines or revenue streams and collaborative outsourcing at a strategic level. Strategic partners work through the outsourcing options with companies and the configuration of the outsourcing. Strategic roles are always retained in the organisation.

Functions that local newspaper publishers would review cover both managed IT services and also those which would not be recognised as the key digital transformation elements. Our list here is not comprehensive, but is designed to demonstrate the breadth and depth of the collaborative process:

| Managed IT services | Digital transformation |
|--------------------------|------------------------|
| Service desk | Content |
| Data centre and networks | Advertising sales |
| Advertising system(s) | Commercial activities |
| Production | Digital projects |
| Editorial | Mobile |
| Finance | Web, social |
| Business applications | Analytics |

Publishers and the industry have many options, but outsourcing on this scale can accelerate the cultural transformation necessary to run a very different business model. In the meantime, it provides a clear illustration of the breadth and depth of the change that management need to achieve, whatever implementation approach they favour.

Emerging content models

Put simply, a local platform hub is a publishing model that the news brand controls, but which any registered user can contribute to. The publisher has editorial authority. News is an important category of information because news is change, which in turn affects search and social media and can drive targeted alerts. But a database is also critical. So, a trivial example: the Horniman Museum in Forest Hill in South East London has been a family attraction for decades. Occasionally it makes the news, perhaps when a major exhibition opens or a famous donor provides funding. But for the vast majority of the time its activities are not newsworthy, they are merely process.

If a consumer types Horniman into Google the museum site will be returned, and, very occasionally, the news brand site will be returned. But the local content platform should *always* be returned, because it knows everything about the Horniman: it knows every exhibition it has ever run, every donor it has ever had, its opening times, its history, its management team, the number of visitors it gets per annum, its most famous exhibits. The local platform has to be the Wikipedia of its community, not just its news service, and just as a Google search for an actor invariably highlights the Wikipedia page, so the local platform should be returned whenever a local personality, business, landmark, school, hospital, train time, golf course, shop, councillor - and so on - are searched for. Therefore, the technology and data architecture of local platform hubs, and content taxonomy and tagging, are all critical skills in this new business environment.

Location is also critical. With more than half of usage coming from mobile devices, and the proportion certain to grow, relevant segmentation and use cases need to be rigorously developed. The whole service should be built around the user's primary location, and provide a degree of content personalisation. Perhaps one page is a map, with every user's home at the centre of it, and all relevant content highlighted geographically. That page could be a personal homepage that alerts consumers when they check their phone first thing in the morning. "Local" has a wide variety of meanings and related use cases, but we believe there are three broad ones: nearby; community; and front door (for deliveries). Every element of the content (and commercial service, which we look at in our next section) can be developed in relation to these top level use cases.

Mobile is crucial. We estimate 75% of traffic to local digital services will be on mobile devices in the next two to three years. Notifications and alerts are evidently tools that drive traffic very effectively, but using these to link to long articles may be missing the point. It may be important to link to very short summaries (and then to longer articles as desired) or even very short videos. Local platforms need to understand how users engage with media on mobile: the content flow has to be fast (brief) and it has to be eminently social. Even BBC1's flagship Ten O'Clock News recently featured iPhone footage of delays at Heathrow.

All publishers are using the community as content contributors to a greater degree than ever before, and some have set ambitious targets around the scale of such contributions. Platform models - such as eBay, Etsy and Wikipedia - are by definition open to multiple users, and local media hubs should adopt the same publishing logic. After its launch Local World's David Montgomery spoke of a "truly digital" future in which journalists become "harvesters of content" and much of the "human interface" involved in the current publishing model disappears.

Newsroom 3.1, a 2014 Trinity Mirror initiative at its North East office (Newcastle Evening Chronicle, Sunday Sun and The Journal and Teesside's Evening Gazette), is arguably a less radical version of this approach. New roles such as Social Media Editor and Newsroom Planning Analyst were implemented in an editorial structure designed for planning and process rather than reaction. Editorial authority remains important, but it is not solely applied in a broadcast mode; its influence is more decentralised. A single top-down editorial approach is no longer the correct – or only correct – operating model. Nevertheless, curation and judgement remain critical.

Montgomery hosts a conference call with Local World's editors every weekday morning, reviewing each print and digital business, its editorial decisions, and the traffic being achieved. The goal of this meeting is to spread best practice by encouraging teams to emulate the values of the most successful content, and to avoid some of the mistakes of the least successful content. Such discussions focus on a huge range of editorial criteria such as timing, tone, positioning, layout, use of photography and other qualitative judgements: anything that would appear to influence the relevance and appeal of content for local communities (and, in a number of circumstances, a much broader audience too).

Key to the future of local platform hubs is a shift in editorial and journalistic mindset. Over a period of three decades local newspapers have arguably delivered on a promise of editorial independence at the expense of other relevant missions. We realise our thinking here is controversial. We are absolutely not arguing that local newspapers should ignore local council corruption or that its journalists should be paid to write positive copy about companies. However, what we *are*

arguing is that local newspapers should unashamedly champion their community and their towns and cities. Too often we suspect a relentless focus on editorial independence has led to a negative, combative tone that is counterproductive for a local media platform.

Local media platforms will need to celebrate local businesses, local personalities, successes large and small. Since its relaunch as a free title under Lebedev Holdings the Evening Standard has become substantially more of a champion of London than in the years prior to its sale. It is a campaigning media brand on behalf of a wide range of causes including the capital itself, rather than a neutral bystander as likely to knock the city as support it. Similarly, Hull is to be the 2017 UK City of Culture, and the Hull Daily Mail was a forceful champion of that outcome and its Editor Neil Hodgkinson is on the board overseeing the city's 2017 activities.

Overall, local platforms will have a life of their own, and not everything can be precisely planned or controlled. Nevertheless, in terms of in-house skills, platforms will need good content managers who can aggregate blogs, video, user-generated content, social media. They will also need data analysts who can track usage and prioritise service developments. Human interest stories will become more important. There will be objectives to find and promote local celebrities. More syndicated content for everything that is non-local will be developed by the large publishers, and perhaps an industry-wide solution would be the most cost-effective. Editing will be less top-down, more decentralised, but essential for strategy, leadership, curation and judgements. Editors will be the public face of the business- arguably closer to their role 100 years ago than they have been in recent times. Journalists - of which there will be fewer - will be promoted as stand-alone brands within this complex network of activity.

Emerging commercial models

The new business model is predicated on a shift from anonymous to known consumers. To put this model in place publishers need to have an engagement funnel, from anonymous, occasional visitors through to registered, regular users. We remain doubtful that large volumes of registered users will pay for access to a local platform, but it is not impossible to envisage the long-term development of a range of benefits some of which can only be realised by paying members. Our point is that the funnel will not just have two options (non-registered and registered users) but many options, from entirely free usage, through registered-user only content and services through to paid membership services.

Gathering consumer data is critical so that the platform evolves into an effective marketplace for every SME, public sector office and business in the community. In discussions with various local and regional publishers over the last year we have established that local sales teams are typically reaching about 10-15% of the SMEs listed within a relevant area (based on Office of National Statistics data). The sales system built over many decades was for repeat customers and inbound calls (recruitment, for example) rather than an outbound operation. Furthermore, newspaper businesses have always been surprisingly inflexible in the marketing opportunities they have offered. Customers have had to fit into a limited template of options, rather than buying what they want.

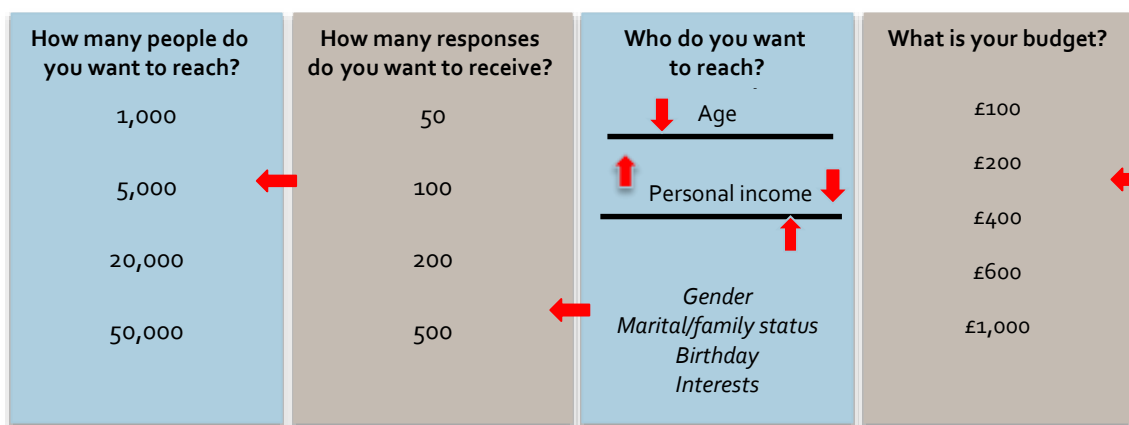
The local hairdresser does not necessarily want to take out a display advert in a local newspaper. S/he wants to fill his/her salon on Monday mornings when all too often it is empty. There may be a variety of ways to achieve that outcome: email

campaigns, discounting vouchers, targeted mobile and desktop display. There may be other marketing challenges and objectives that require SMEs to develop their search engine presence or social media strategy.

Therefore, the local platform solution has to be both entirely flexible, and also self-service. Some publishers have suggested to us that SMEs do not really want self-service but we estimate that in 2014 Google, Facebook, Auto Trader, Rightmove and Zoopla generated well over £2bn from SMEs. Local platforms need to have an integrated back-end administration system for SMEs that is based on key use cases and is as intuitive as the consumer front-end (see figure 17).

Figure 17: SME marketing administration (illustrative)

Illustrative SME marketing administration self-service on a newsbrand local platform hub



[Source: Enders Analysis]

Facebook, which generates nearly £300 million from SMEs by our estimates, has a huge advantage over traditional media because not only does it have access to good consumer data, but it is first party data. Some 34m UK adults access Facebook, and while the depth of data collected on consumers varies substantially, the density of usage, engagement (more than 20% of time online in the UK is on Facebook) and structured data is extraordinary compared to that collected by other media. Targeting data generally has become a sophisticated industry in recent years, but nothing is ever as valuable as rich first party data. This is why we are in no doubt that publishers need to consider the value of registrations and membership, even if they have decided they will never develop subscriptions.

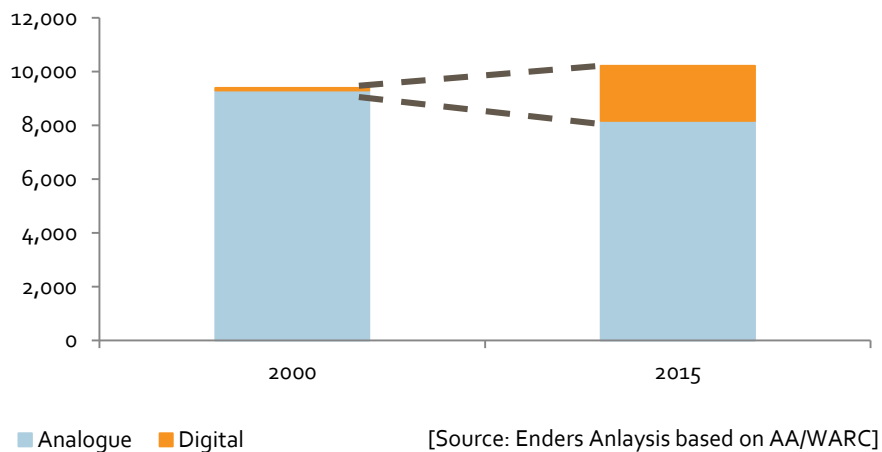
A fully evolved self-service infrastructure means sales teams have increasingly to be experts at upselling, targeting and educating new segments, in an effort to attract the missing 85% of SMEs that are not today using local publishing media.

In parallel, as physical newspapers retreat we believe a huge gap in the marketplace has opened up for local display marketing. Other traditional media options are relatively unchanged: outdoor and TV have marginally improved, with more digital inventory available and new options such as Sky Adsmart, sold locally by Johnston Press. Radio continues to be important for some objectives and organisations. But broadcast TV remains onerously expensive for many businesses and irrelevant for their marketing objectives.

However, digital has *not* replaced newspapers for display in the local media landscape. Digital display is still a relatively small part of the total display advertising marketplace (see figure 18), and Facebook clearly offers the most

effective option at present. But Facebook, and programmatic display advertising more generally, do not provide a solution for SMEs who want to market in an appealing and relevant quality local content environment (we touched on some of these issues in our advertising report, [Context is Queen, the value of media environment \[2015-019\]](#)). Businesses want to market themselves, they want to build their reputation, and local media platforms provide the best environment for them to achieve that. Not all communications are about direct response; and consumer ratings have not eliminated the need for businesses to deliver confident, controlled messages about themselves on a platform in which consumers are positively engaged by local content.

Figure 18: Display ad expenditure (£m)



We believe a local platform would stimulate SME display spend, provided it delivers six things:

1. Huge reach (penetration) of the local market
2. Density of usage- commensurate with Facebook usage
3. Ability to segment, and target relevant users according to a wide variety of criteria- deep data on users
4. A broad, highly flexible and easy-to-use range of marketing options
5. User-friendly self-service administration system that translates objectives into techniques, and measures marketing performance on simple dashboards
6. Editorially, the platform is a passionate local champion (though editorial independence remains core)

Commercial teams need the tools to segment and prioritise all plausible advertisers by business type; provide multiple and flexible marketing use cases to each segment; and to enable back-end performance optimisation tools to businesses. The platform needs to be effective – the sales teams have to be comfortable being measured on transparent performance metrics. And that is why it also needs to demonstrate that it is effective, and that through careful campaign manipulation that marketing solutions can always be further improved.

Arguably, the most optimal solution for the industry would be to develop a *nationwide* local platform. The biggest challenge to this innovation would probably be publishers themselves, who may still prefer to develop and own solutions rather than collaborate on a shared platform to compete with Google and Facebook.

However, effective national development in this way could make the local media attractive to national (and global) brands again. Mediaforce 1XL is a step in that direction, but it is a small step compared to an integrated local platform for the UK as a whole: that would be a very attractive option for national advertisers to reach audiences with exactly the right message at exactly the right time in exactly the right environment.

Many non-local publishers are positioning their digital services as trading platforms, and a nationwide local programmatic trading platform could be an astute, and strategically important long-term investment for the local press sector as a whole. Furthermore, it could help put local platforms on the front foot, by letting them focus on the key measures and attribution models preferred by SMEs and national brands, rather than those supplied by Facebook, Google and the agencies. Likewise, native and content marketing solutions for SMEs could arguably be better served through a centralised industry solution.

As mentioned above content syndication innovations - non-local features for print newspapers - may also work more effectively as an industry-wide solution, rather than as a series of individual publisher solutions. Consolidation in the marketplace could accelerate the industry towards such outcomes.

Publisher business models are shifting from two revenue streams to multiple revenue streams, though consumers, SMEs and the public sector remain the contributors. Many publishers already have myriad revenue streams, but the proportions of revenue will become materially much more mixed than they are today and than they have been historically. The advertising revenue bucket will dramatically change, with publishers increasingly providing marketing solutions for SMEs, only a small – and declining – proportion of which will be traditional advertising. In this outline, we are not limiting ourselves to service solutions such as Johnston Press's Digital Kitbag (for search ending marketing, website builds, and such like). Local platforms will be protean, learning from SME demand and marketing effectiveness, and continuously improving the services on offer.

Revenue streams will include:

- Audience targeted emails
- Location based alerts
- Sponsored editorial
- Creative content
- Search Engine Optimisation and Marketing
- Sponsored live events
- Membership access, offers, events
- Display advertising
- Mobile advertising
- Websites and mobile sites
- Direct response messages
- Video advertising

Sizing these various opportunities is difficult, but no different from forecasting the revenues of most native startups. However, traditional analysis of the local newspaper market tends to focus on the transition of audience expenditure and category advertising expenditure from print to digital. On this basis, it is hard to see how revenue can go anywhere but down. Johnston Press has recently highlighted that some advertising categories, aggregated across print and digital,

have now stabilised; this is encouraging, but the thinking undervalues the opportunities for local media platforms.

One of the reasons that recruitment advertising is stabilising for local newspaper publishers (aside from a fairly strong economy and a reasonably confident jobs market) is that their recruitment services are moving up the value chain, closer to the HR function of SMEs: they are evaluating CVs for businesses, and sending on a shortlist of the best candidates. A large proportion of the revenue opportunities listed above have historically been pursued on an ad hoc, rather than a systematic, basis. Some of the revenue streams were evidently impossible in a pre-digital world. Because as a rule of thumb commensurate digital advertising expenditure is discounted 80% compared to print, we think of digital platforms as being tiny businesses. But digital is also a far larger playground than print. Today, commercial teams are not only failing to reach 85% of SMEs in their regions, they are also failing to provide full service flexibility for 100% of them.

Local platform hubs should not be competing for the established few billion pounds of advertising spend by SMEs, but for a cut of the entire marketing, PR and even technology spend of all SMEs and a smaller cut from national brands. In total this is a huge pot, many times the magnitude of the UK's advertising spend. It has grown well beyond the level of inflation for the last decade, and should continue to do so for the foreseeable future.

Figure 19: UK local news brands advertising expenditure and forecasts

| | 2013 | 2014e | 2015f | 2016f | 2017f |
|--|------------|------------|------------|------------|------------|
| Local news brands advertising expenditure (£m) | | | | | |
| Print display | 537 | 492 | 462 | 434 | 407 |
| National display | 165 | 161 | 154 | 148 | 141 |
| Local display | 372 | 331 | 308 | 286 | 266 |
| Print classified | 624 | 583 | 547 | 511 | 475 |
| Recruitment class. | 103 | 103 | 101 | 98 | 93 |
| Non-recruitment class. | 521 | 480 | 446 | 413 | 382 |
| Digital display | 53 | 73 | 95 | 118 | 142 |
| Digital classified | 86 | 99 | 111 | 120 | 131 |
| Recruitment class. | 55 | 67 | 77 | 84 | 93 |
| Non-recruitment class. | 32 | 33 | 34 | 36 | 38 |
| Local news brands advertising expenditure (year-on-year % change) | | | | | |
| Print display | -8% | -8% | -6% | -6% | -6% |
| National display | -16% | -3% | -4% | -4% | -5% |
| Local display | -5% | -11% | -7% | -7% | -7% |
| Print classified | -9% | -7% | -6% | -7% | -7% |
| Recruitment class. | -13% | 0% | -2% | -3% | -5% |
| Non-recruitment class. | -9% | -8% | -7% | -8% | -8% |
| Digital display | 24% | 38% | 30% | 25% | 20% |
| Digital classified | 0% | 15% | 11% | 8% | 9% |
| Recruitment class. | 5% | 22% | 15% | 10% | 10% |
| Non-recruitment class. | -7% | 3% | 4% | 5% | 7% |

[Source: Enders Analysis based on AA/WARC]

About Enders Analysis

Enders Analysis is a research and advisory firm based in London. We focus on the media, entertainment, mobile and fixed telecoms industries, with a special focus on new technologies and media, and we cover all sides of the market, from consumers and leading companies to regulation. For more information see www.endersanalysis.com. Contact us at info@endersanalysis.com.

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News brands: Rise of membership as advertising stalls

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Brief overview

Print

National quality newspaper print circulation decline has slowed on the back of an extraordinary newsflow in 2016, and because the structural transition to mobile has largely been absorbed

However, popular press decline has continued to be the main driver of total circulation falls as smartphone adoption for these demographics has been in full flow since 2013. This matters because it has helped accelerate the structural shift in newspaper advertising to digital advertising: advertiser and agency sentiment and trading have rapidly shifted (with quality titles suffering every bit as much as popular titles)

Saturday and luxury (magazine supplement) environments are substantially outperforming print media – a trend we believe will become more accentuated as time goes on

Print is still substantially the most attractive solution for immersing readers in news and features, a consequence of the disconnected device and inherent serendipity of its layout and package. As membership models develop publishers will invest more in designing and enhancing their tablet and mobile services

Digital

News brands are losing market share to the tech and distribution platforms – we estimate 90% of UK digital display growth in 2016 was on Google and Facebook. As with print, high end, luxury and well-differentiated media are best placed

Services that can track users across devices will be particularly well placed over the next few years, as brands shift their attention from reach to targeting and attribution, enhanced by immersive engagement

Rise of member and subscription services

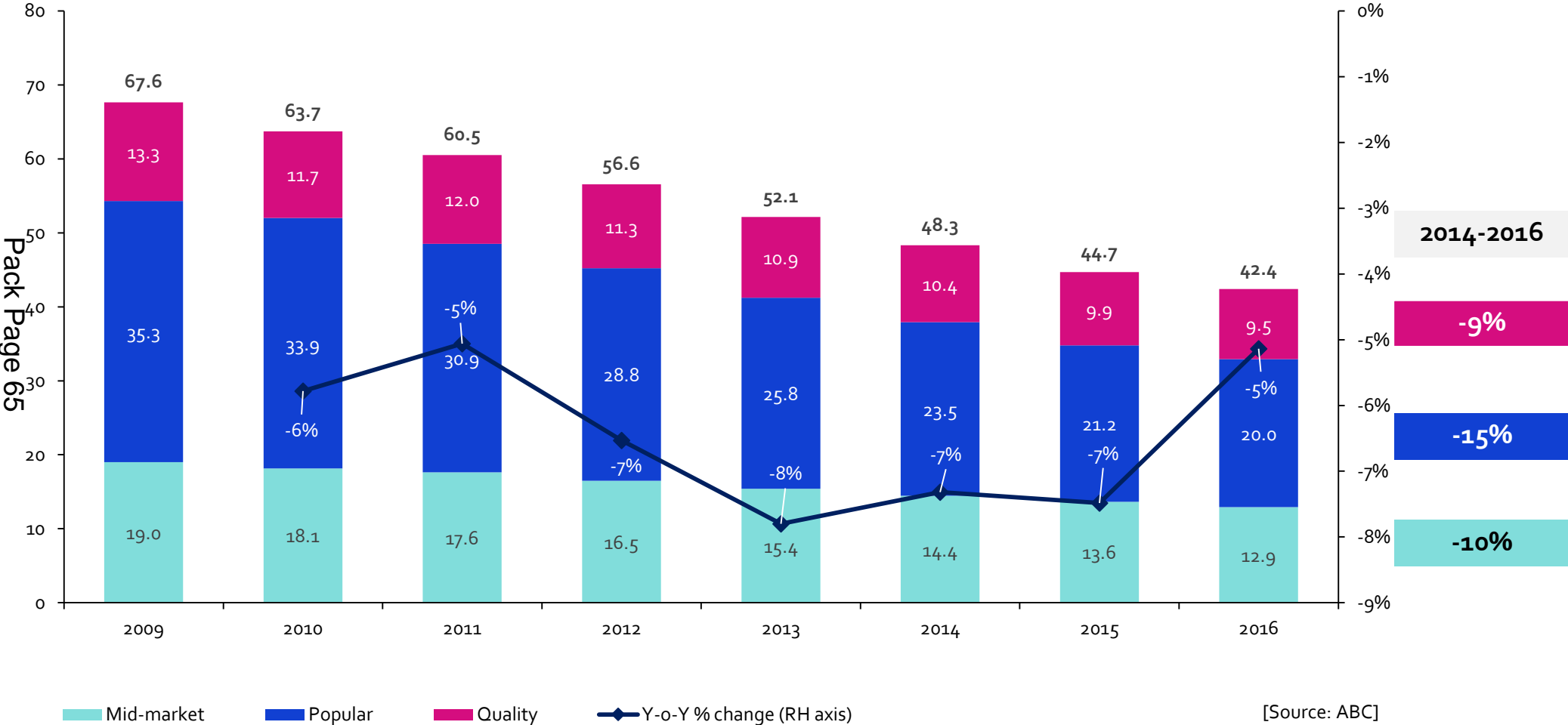
The rise of member and subscription services will diverge the marketplace: quality, immersive, partially closed experiences with membership fees; and open, scale services largely reliant on digital advertising

However, publishers are notoriously poor at *service*, undervaluing both the need to develop a holistic experience mindset (integrating data, design, tech and marketing) and the complexity and costs of deploying retailer skills effectively across the organisation

National newspaper circulation trends: qualities stabilise, as decline transfers to the popular press

As decline in newspaper shifts from the high-end, low-volume quality press to the popular and mid-market press the aggregated decline in volumes has increased, producing inevitable challenges to the economics of physical wholesale and distribution

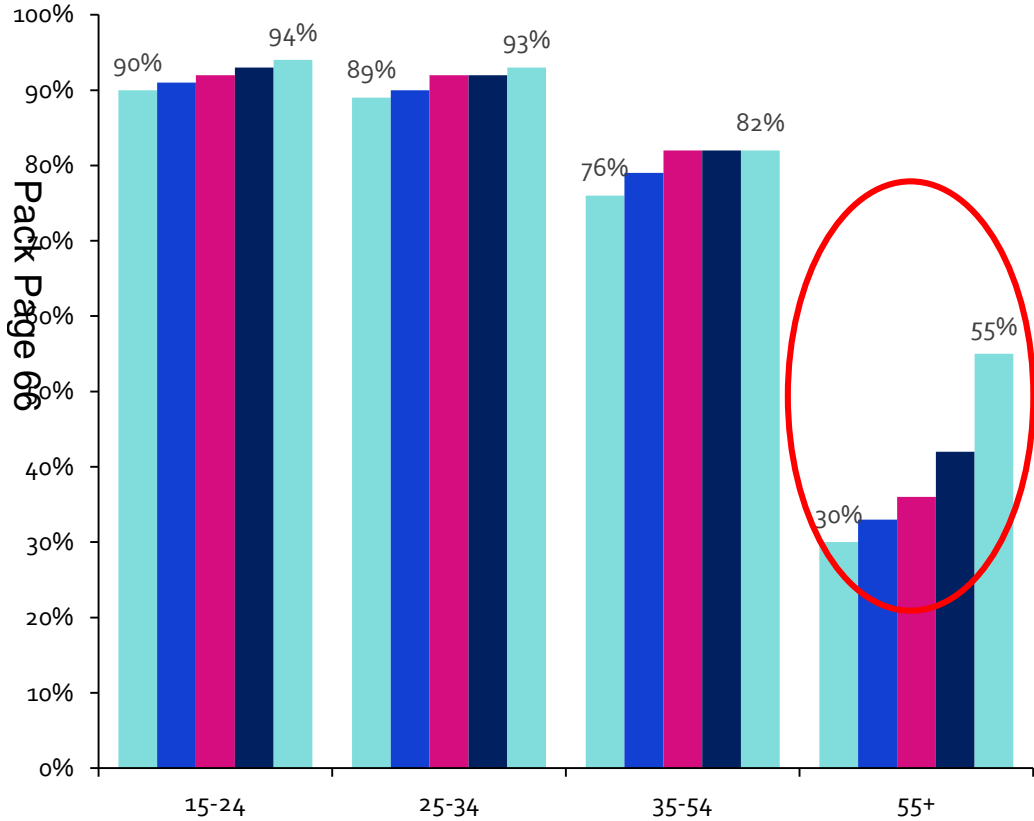
National newspapers circulation volumes per week (m)



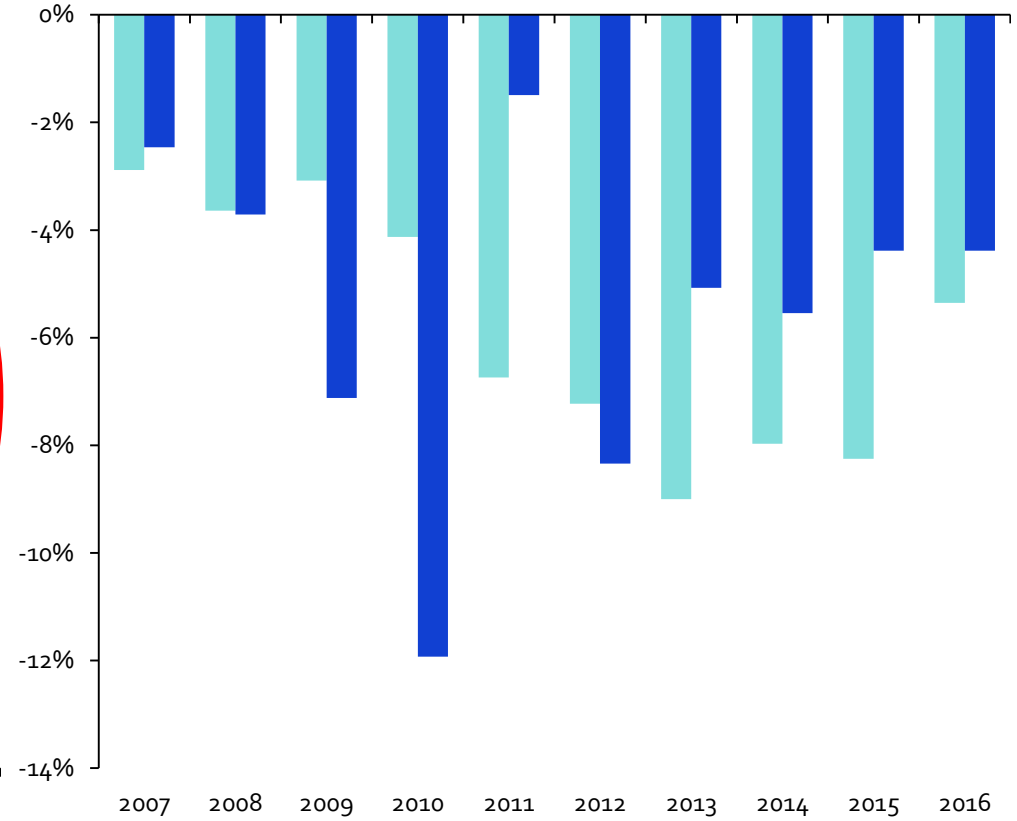
Smartphones are a critical driver of circulation decline

Smartphone adoption among the over 55s has grown exponentially since Q1 2015, and has been the main driver of decline in demand for daily print

Smartphone adoption % by age group



Circulation Y-O-Y % change by type



■ Mar-15
 ■ Jun-15
 ■ Sep-15
 ■ Dec-15
 ■ Mar-16

Personally use smartphone
 [Source: Ipsos MORI, Enders Analysis]

■ Popular
 ■ Quality

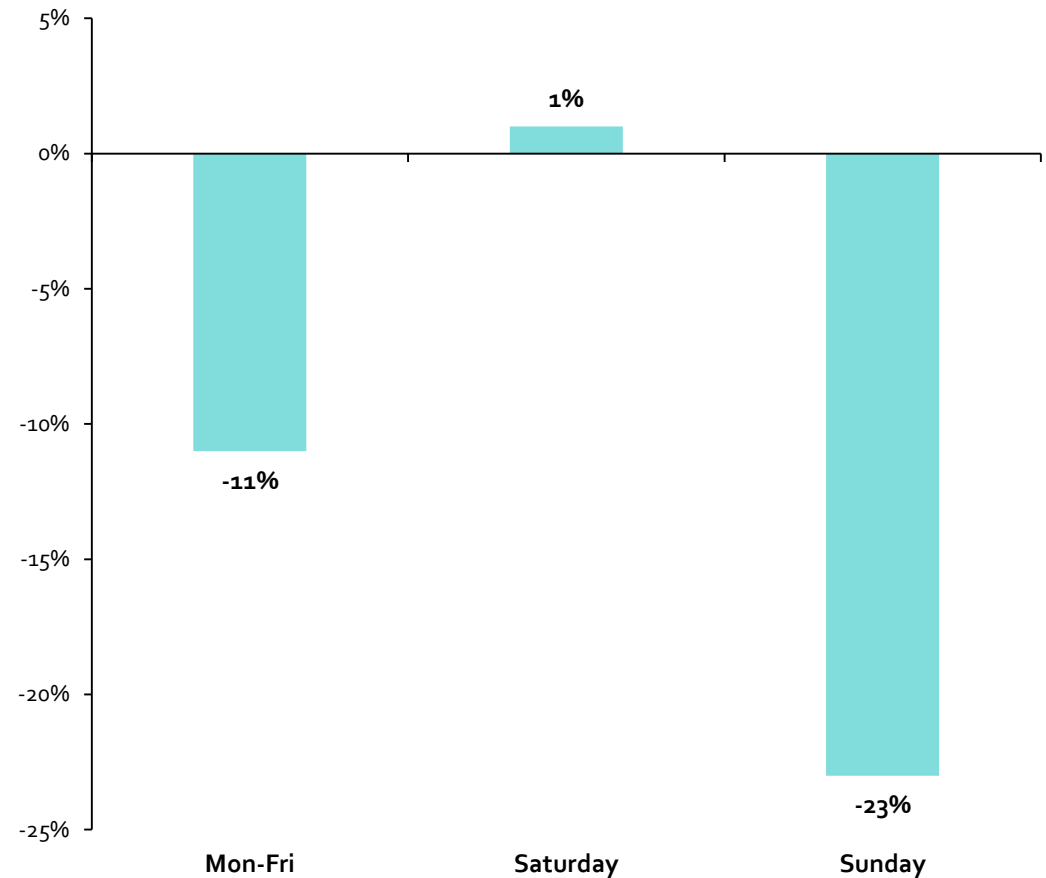
[Source: Enders Analysis, ABC]

The clear weekly trend: Saturday wins

- Erosion in daily newspaper purchasing is well understood, but the weekend market is changing more dramatically. Quality Saturday titles are very steady, while Sunday titles have fallen substantially. Sundays are turning into “just another day”, and the weekly digest – a very successful format in print – sits more comfortably at the start of the weekend than the end
- Greatest resilience in print news media – such as The Economist, the Weekend edition of the FT, The Week – provide weekly digest/commentary in a trusted brand package, which is a highly relevant print product in a 24/7 news environment. Content that is not replicated anywhere online – Private Eye, for example – is relatively rare and also outperforms print media trends

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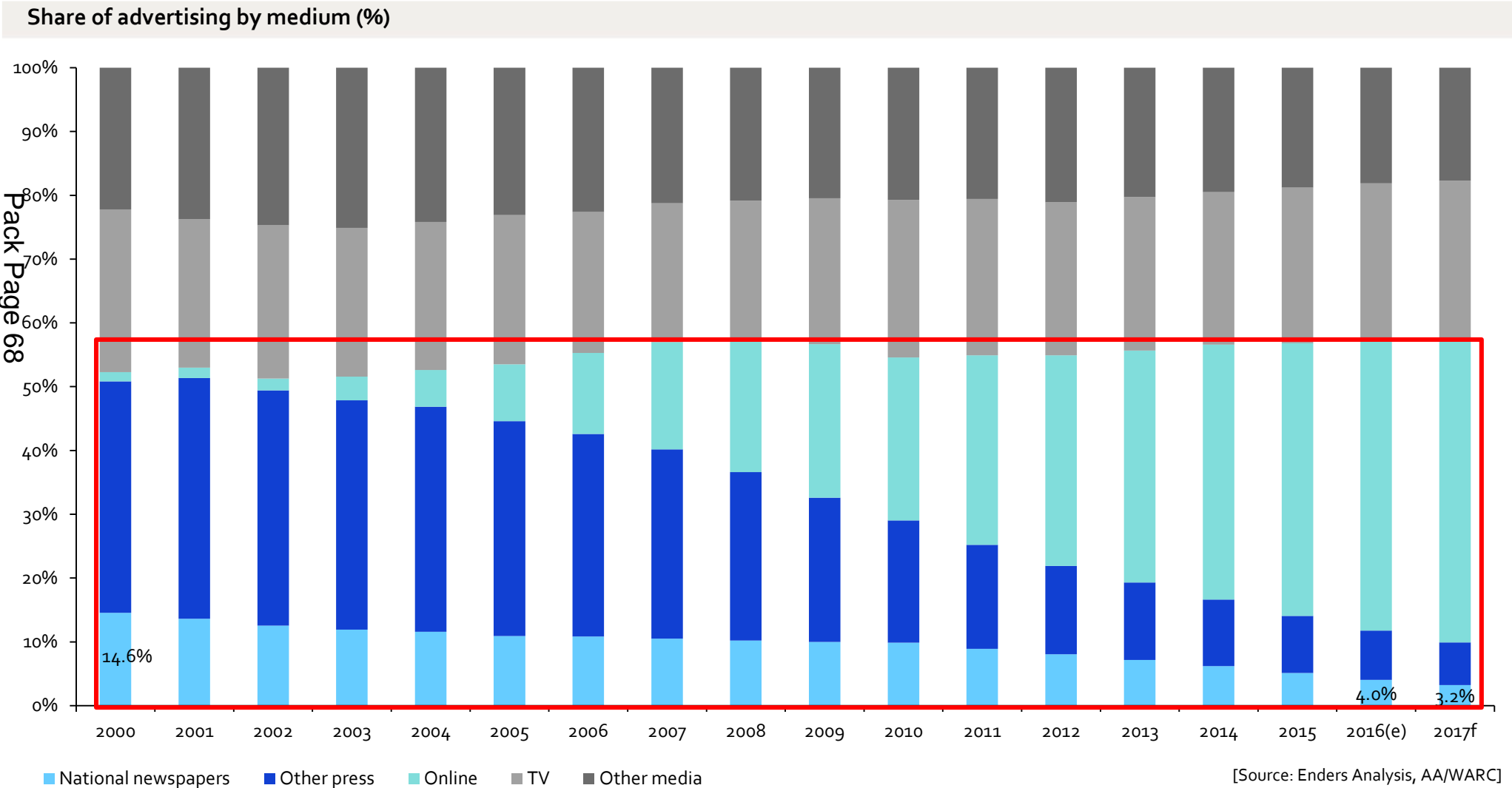
Sales volume growth, UK national quality press , 2012-2016



[Source: Enders Analysis]

Press to online advertising substitution is *very clear and accelerating*, with other media steady

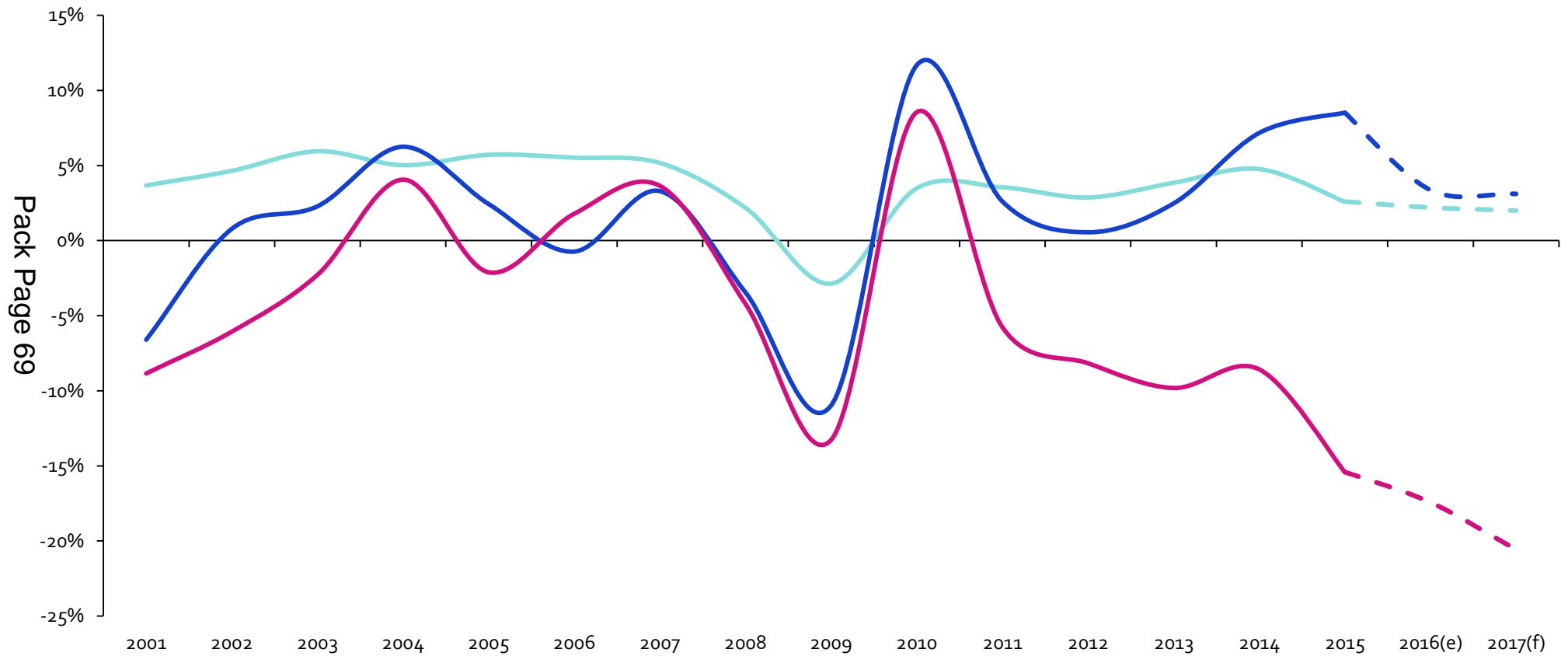
Substitution has been brutal: the growth of digital advertising has largely been at the expense of print media. For the first 10 to 15 years of this trend it was largely a story about print classifieds moving to general and specialist search (Google, Auto Trader). In the last two to three years, it has increasingly been a story about print *display* moving to digital platforms



Advertising trends in newspapers are equally challenging

Print display advertising decline accelerated substantially in 2015, then again in 2016: a structural decline which has been decoupled from steady growth of consumer demand, and counter to what has been a highly resilient advertising market generally, with TV, outdoor and most other media performing well

Nominal UK display advertising, national newspaper print display advertising and GDP (Y-O-Y % change)

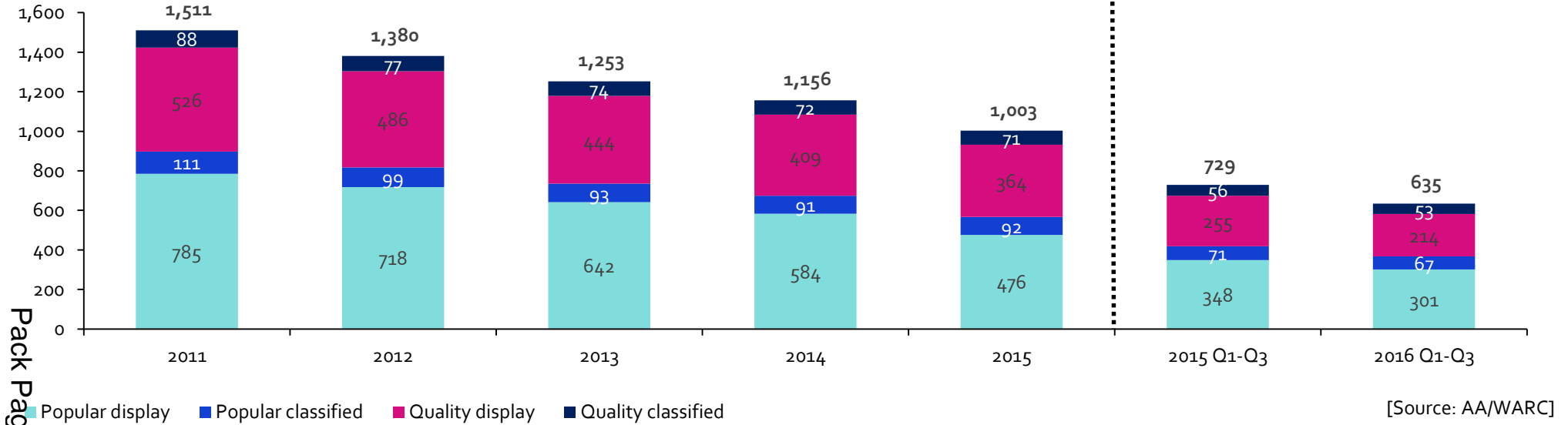


— GDP growth — Total UK advertising growth — Total UK national newspaper print advertising growth

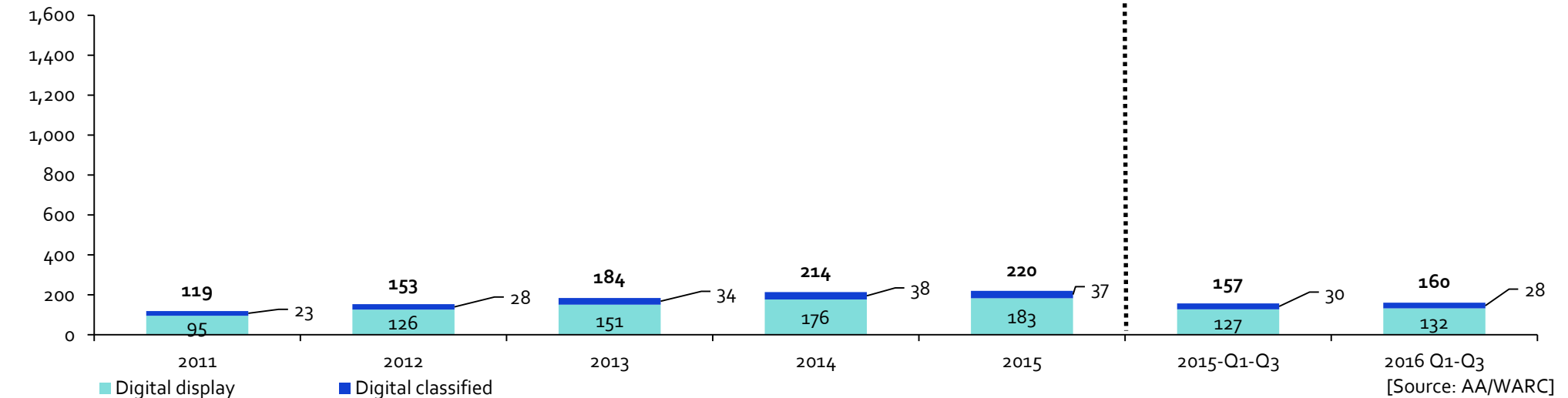
[Source: AA/WARC, ONS, BoE, Enders Analysis]

£5.80 print revenue lost for every £1 gain in digital (much of *that* revenue indirect from platforms)

National newspapers print advertising revenue (£m)



National newspapers digital advertising revenue (£m)

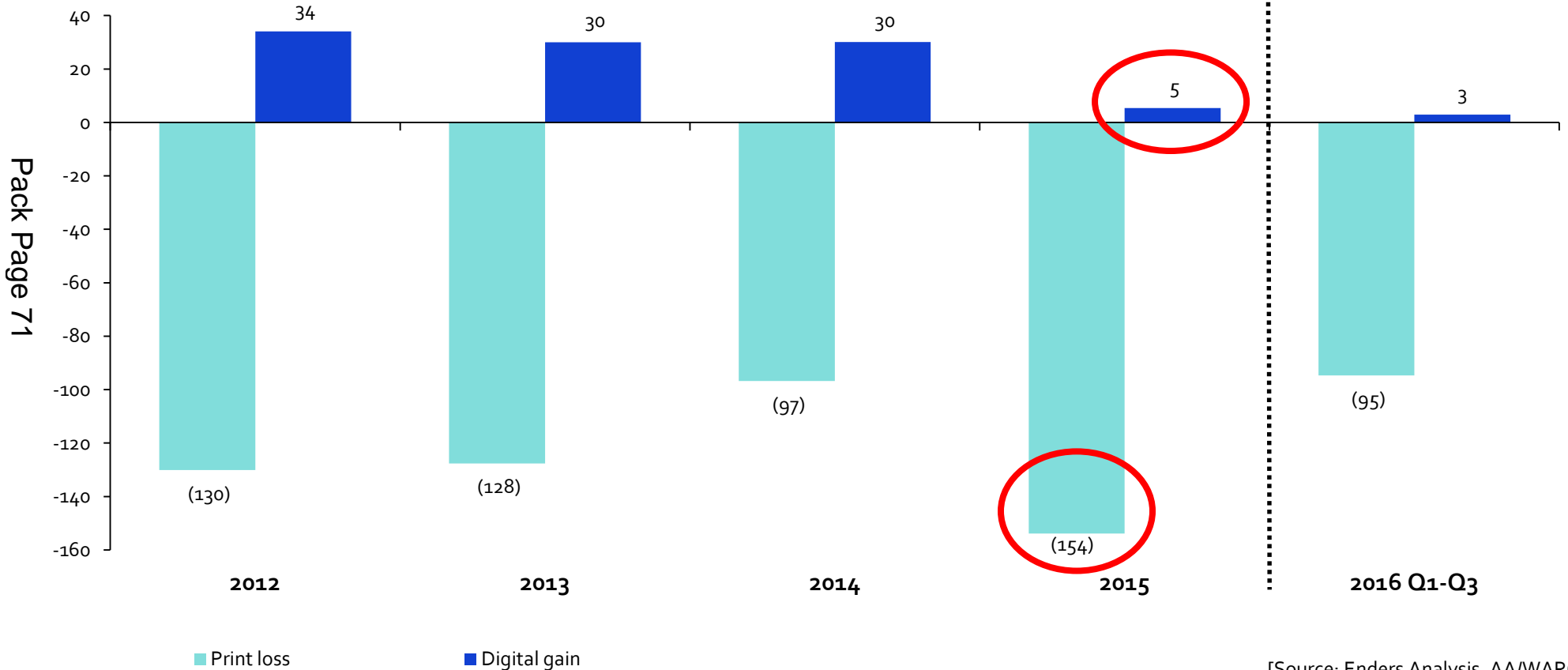


Trends were accentuated in 2015 – £31 in print lost for every £1 gained in digital

Digital growth almost stalled in 2015, and remained challenging in 2016 – this is the primary reason why some publishers have in the last year or two reviewed their membership, subscription or paywall options

New York Times switched its advert formats in part to thwart programmatic, and has accentuated the added-value *context* of its advertising model, now seen as a secondary revenue stream, not the joint core revenue stream

Digital gain versus print loss in national newspapers (£m)

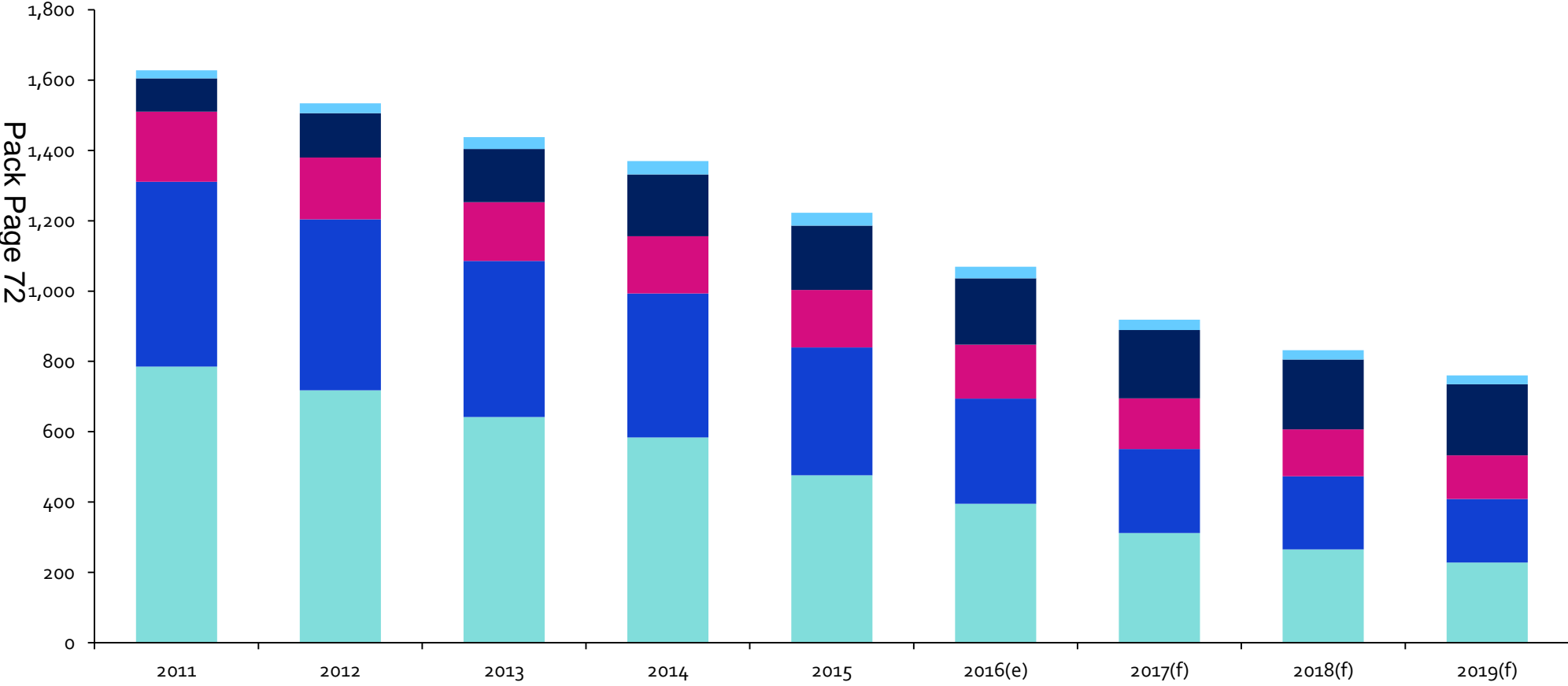


[Source: Enders Analysis, AA/WARC]

National press advertising outlook

Our forecasts assume recent trends continue. Discussions with a wide range of advertisers and media agencies in the last few months have provided us with no indications that the transition from print to digital is going to slow down this year or next year – and could *accelerate* before any slow down occurs further out

National newspaper advertising revenue (£m)



[Source: Enders Analysis, AA/WWARC]

National press advertising outlook

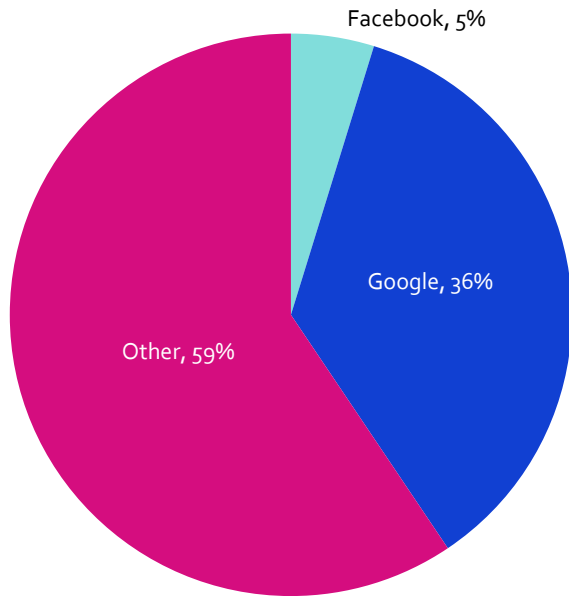
| National press advertising outlook (£m) | | | | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|------------|------------|------------|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016(e) | 2017(f) | 2018(f) | 2019(f) |
| Print display - popular | 785 | 718 | 642 | 584 | 476 | 395 | 312 | 265 | 228 |
| Print display - quality | 526 | 486 | 444 | 409 | 364 | 299 | 239 | 208 | 181 |
| Print classified | 199 | 176 | 167 | 163 | 163 | 154 | 144 | 134 | 124 |
| Total print | 1,510 | 1,380 | 1,253 | 1,156 | 1,003 | 848 | 695 | 607 | 533 |
| Digital display | 95 | 126 | 151 | 176 | 183 | 188 | 194 | 198 | 202 |
| Digital classified | 23 | 28 | 34 | 38 | 37 | 33 | 30 | 27 | 25 |
| Total digital | 117 | 151 | 181 | 213 | 219 | 222 | 224 | 225 | 227 |
| Total print and digital | 1,627 | 1,531 | 1,434 | 1,369 | 1,222 | 1,070 | 919 | 832 | 760 |

[Source: Enders Analysis estimates and forecasts based on AA/WARC]

Two thirds of national newspaper digital audiences come from Google and Facebook...

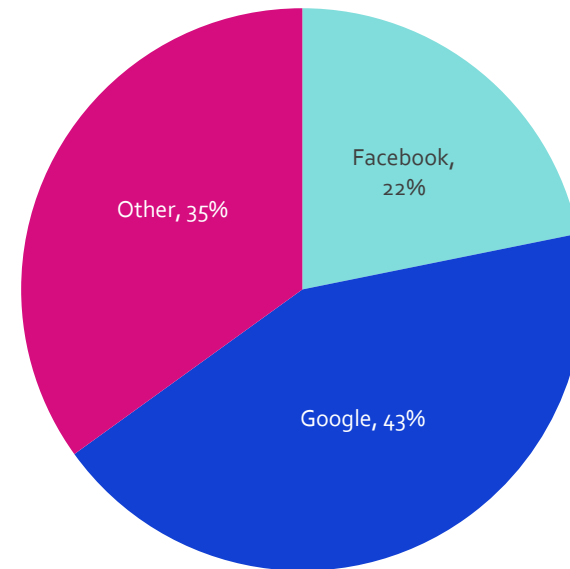
Google has grown in importance as a traffic source for news publishers over the last three years, but Facebook has grown between four and five times

National newspapers source traffic (July 2013)



[Source: Enders Analysis estimates based on comScore]

National newspapers source traffic (July 2016)



[Source: Enders Analysis estimates based on comScore]

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...but 90% of digital ad growth is Google and Facebook, with news losing share

- Google and Facebook have unmatched user understanding and valuable owned inventory in mobile search, native and video
- Google and Facebook are also expanding digital advertising among SMEs: their self-serve platforms are easy to use, billing options are flexible, no minimum fees
- Their strategies are *marketing*, not advertising – that’s a critical difference for a wide variety of businesses, from corporates seeking short term transaction growth to Small and Medium Enterprises seeking precise targeting or cost-effective brand exposure
- Only a fraction of the ad spend on either platform goes through agencies

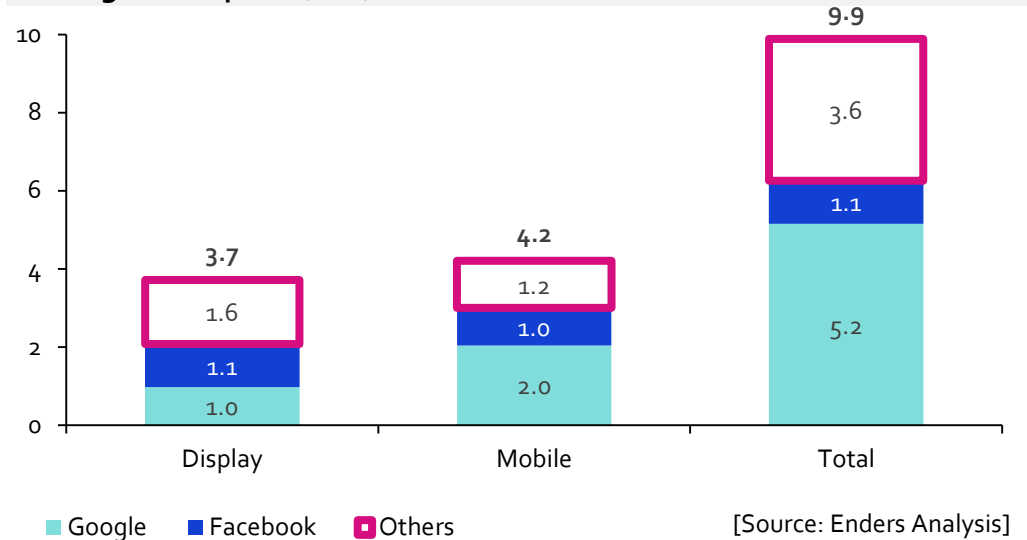
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Traffic acquisition costs apply (Google pays 20% of advertising revenue to publisher and distribution partners)

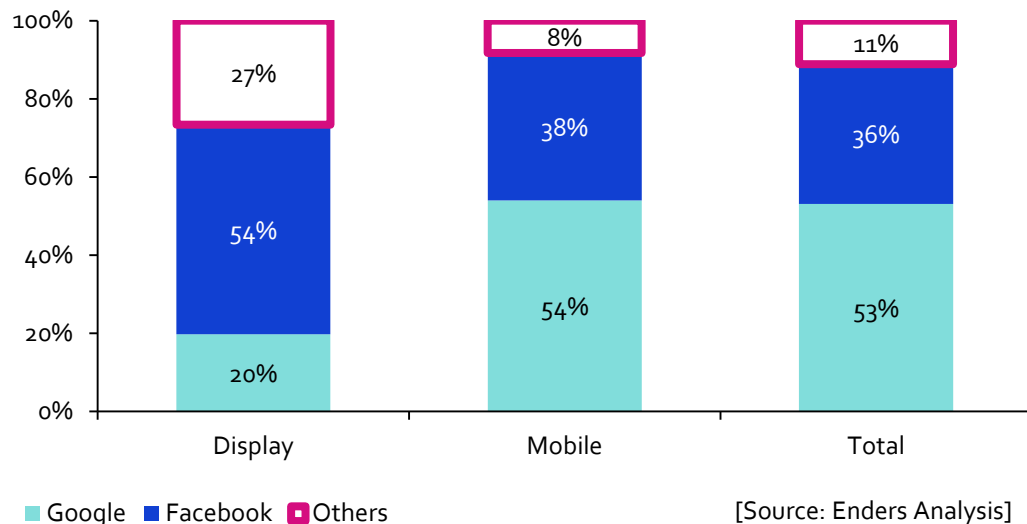
Amazon is coming: excellent identity layer, user understanding (purchasing not just intentions) and control of the most valuable opportunity: at the moment of purchase intent

- **Snap(chat) is coming:** unique, high-quality formats; highly engaged audience. Could be Twitter-scale in the UK this year, but much better performance metrics
- But of course overall traditional display advertising is being replaced by short term direct response marketing measurement (see next)

UK digital ad spend (£bn)



Google & Facebook shares of 2016 YoY growth, UK digital ad spend (%)

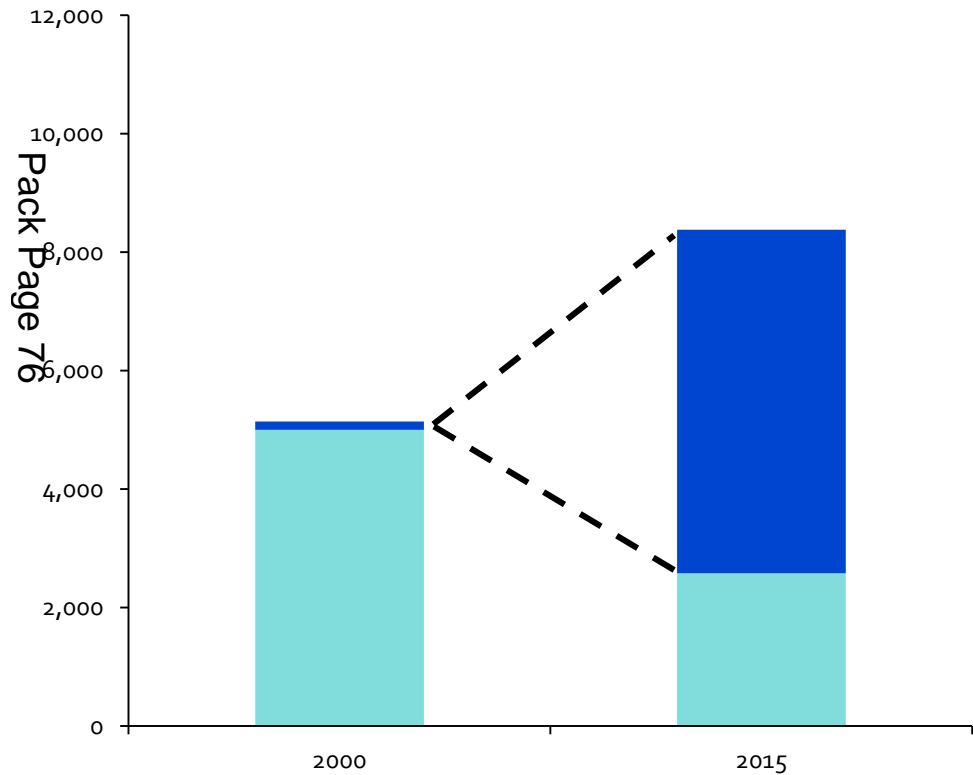


Marketing objectives in digital are overwhelmingly direct response rather than display

Much of the recent structural decline in print display advertising has been at the expense of digital, with this advertising largely measured on direct response or other short term activation measures, rather than longer term awareness, emotional brand connections and reputation measures

Print media, which has always felt to advertisers and agencies more *tactical* than TV, has lost out in this transition, and we have seen some marketing data which suggests print media is now being undervalued in the media mix compared to its effectiveness, particularly long term brand benefits

Direct response ad expenditure (£m)

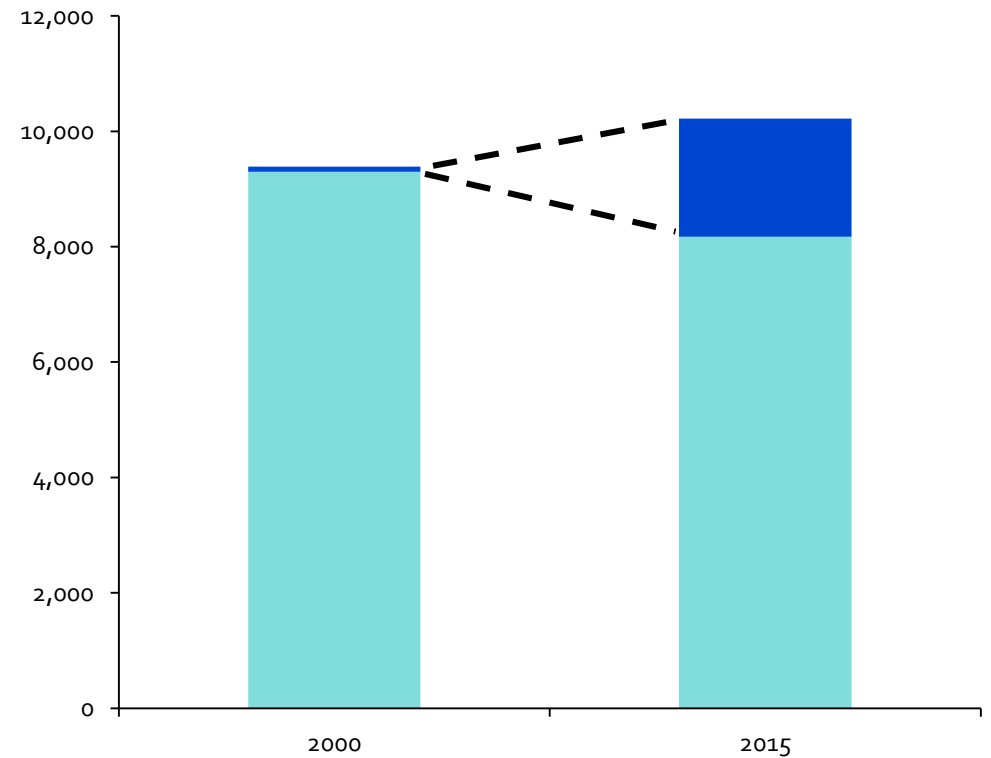


■ Analogue

■ Digital

[Source: AA/WARC]

Display ad expenditure (£m)



■ Analogue

■ Digital

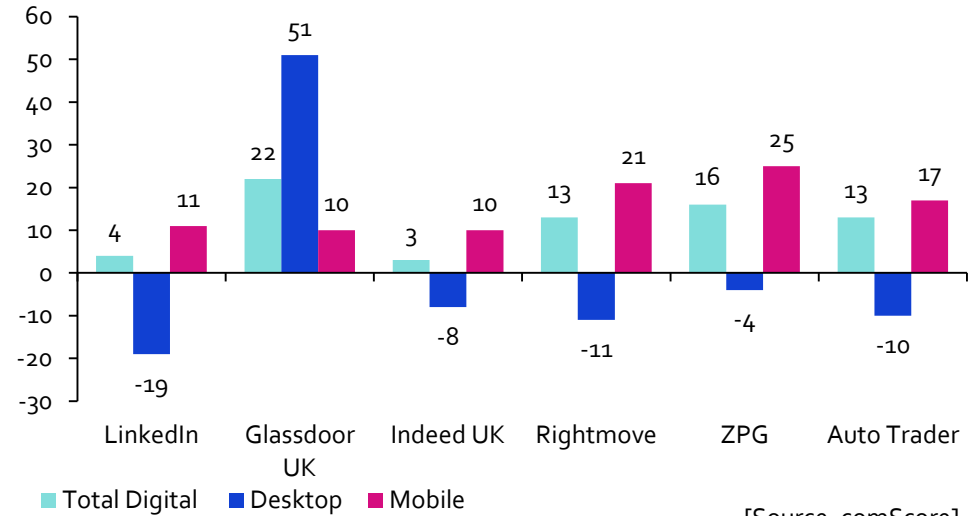
[Source: AA/WARC]

Among specialist services the rise of mobile is enabling market leaders to cement their position

- As with general content platforms, specialist services – for example classified markets – are becoming increasingly reliant on mobile
- Consumer research and interaction are growing and have transitioned from desktop to mobile devices
- We observe that the range of services achieving scale success is declining as the desktop retreats, because consumers only download one app for each interest
- As a result, brand awareness is critical, mobile deployment quality needs to be excellent, but with these factors assumed the market advantage of leading sites is cemented by mobile

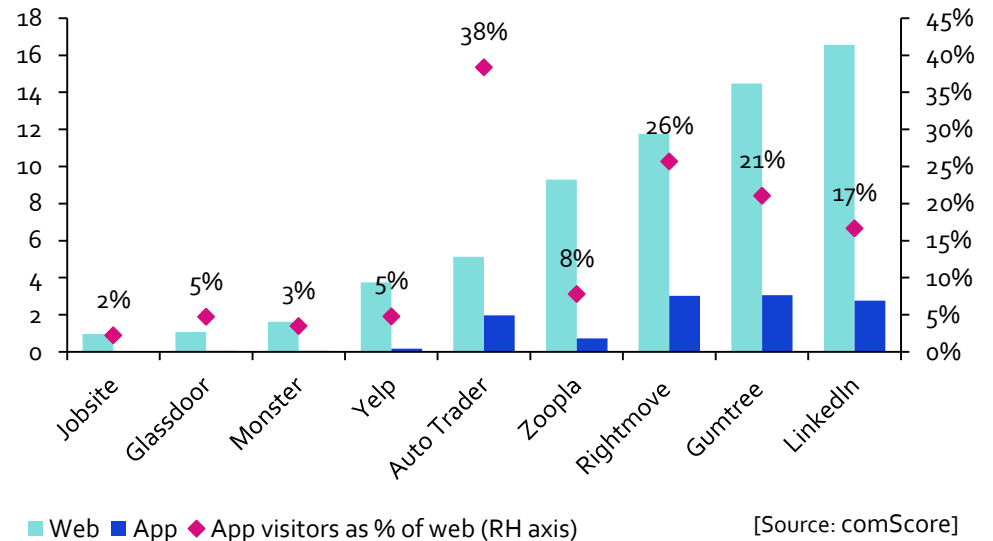
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Classified sites % change unique visitors Sep-15 to Sep-16



[Source: comScore]

Classified sites mobile unique visitors (m)



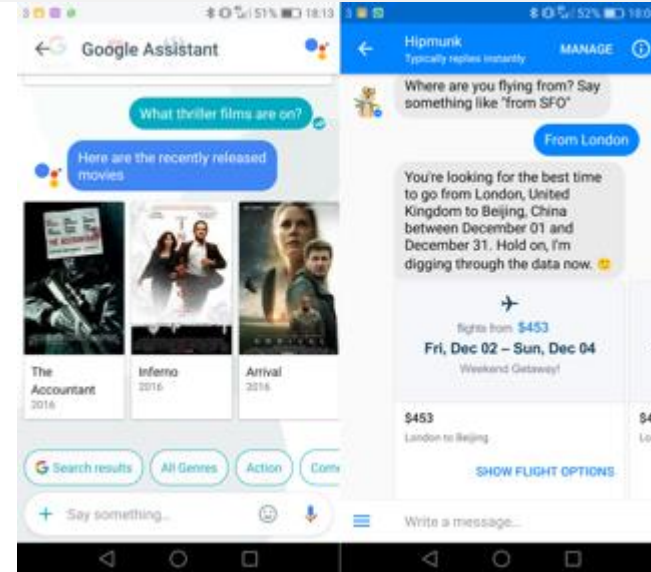
[Source: comScore]

The future: from media to context and audience

- Over the next few years, advertising and other marketing will converge. Paid media will become less well defined
- **Content marketing** is a good example of these trends. The majority of spend is on owned media – will premium paid media lose or gain share?
- The rise of **messaging** (at the expense of social)
 - Combination of automated (business) and human interactions
 - It will fulfil ad-like functions on top of customer relations and a sales channel
 - It will involve few, probably no display units – no advertising *per se*
 - The billing model will be flexible, including entirely earned and organic, paid-for prominence, and pay-per-interaction, as well as billing by performance
- Affiliate links are another, more prosaic form of overlap – not paid media, but a potential revenue source for publishers and marketing expenditure for retailers (although with its own potential for abuse)

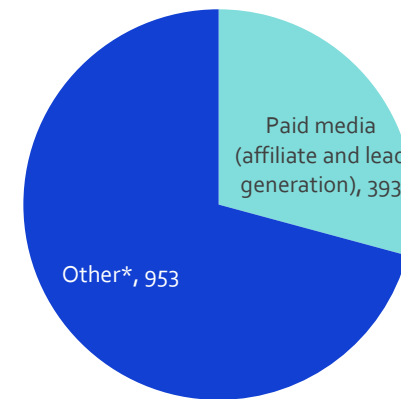
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Google Assistant (l), flight search bot in Facebook Messenger (r)



[Source: Enders Analysis screenshots]

Est. 2015 UK affiliate and lead generation spend, online (£m)



*Price comparison and aggregator sites, gaming affiliate networks, B2B lead gen. etc.
 [Source: PWC/IAB Online Performance Marketing Study 2015]

News brands: Rise of membership as advertising stalls [2017-011]

Future of marketing: B2B techniques shift to consumer markets, and rise of native services

Decline of paid media

- While we expect total digital marketing investment to continue to grow, options other than paid media are growing in importance
- Voice interfaces and AI assistants will provide new opportunities for sponsorships, affiliate models and customer acquisition marketing – outside current paid media and search advertising models
- Related to all this is the growing importance of data management platforms and “marketing clouds”, systems which help blend together customer relationship management, marketing and advertising
- These models are expanding from highly personalised B2B marketing to consumer marketing



[Source: Google, Amazon]

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Decline of traditional media

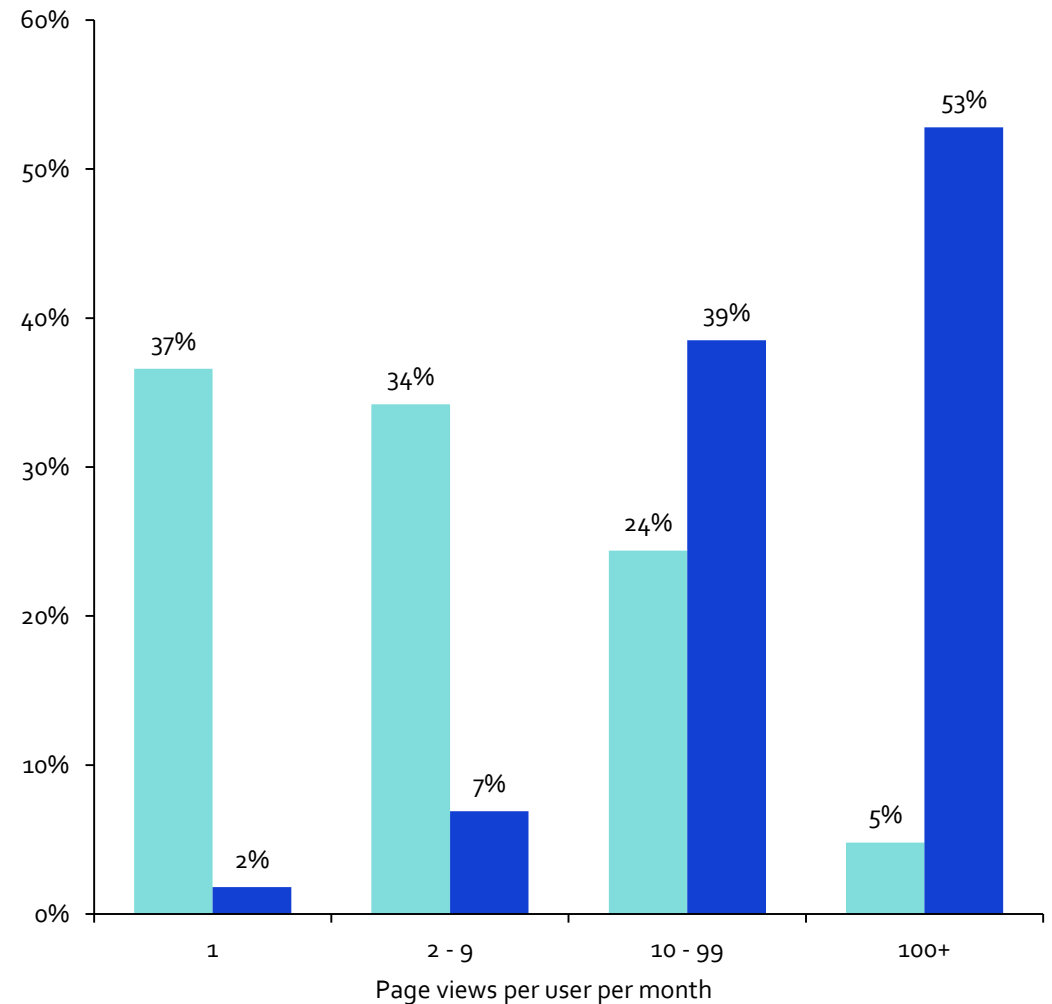
The attraction of high-traffic services with uncontentious editorial-native solutions – think of Tastemade which has sponsored food and travel short videos distributed across social and even broadcast media, or Vice – will grow substantially in the next few years, undermining spend with some traditional media

For news services a strategic shift (back) from reach to quality audiences and engagement

- Over the years Enders Analysis has assessed a large spread of content and access models, observing a *general failure to create closed, immersive and engaging user experiences*
- User engagement is key to
 - sustain news operations independent from platforms
 - build a critical reading volume, encouraging membership
 - create a quality advertising environment
- Most publishers to date have delivered a strategy that assumes brand strength, audience scale and user engagement grow together in a virtuous circle
- *Digital scale is a mirage*: digitalisation has increased “readership” by an order of magnitude...
 - generates advertising revenues – but fails to cover costs
 - weakens brand differentiation and positioning
- For a typical German online newspaper (see chart), less than 5% of users generate more than half of contacts – a ratio similar to that of 200,000 circulation against 10m unique users
- A focus on core users’ experience rather than on scale could grow subscriptions and a more valuable advertising space
 - The New York Times changed advertising formats, creating some programmatic friction, but emphasising the quality of its environment and the engagement of its attractive audience
- Will more curated tablet apps emerge, with rich (video?) brand advertising rather than direct response marketing?

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Newspaper online usage pattern



■ Share of users (%)
■ Share of page views (%)

Based on an anonymised newspaper, September 2014
[Source: Enders Analysis from AGOF/Zeitung 2014/15
Bonn: Bundesverband Deutscher Zeitungsverleger (p.170)]

Médiapart – a case study in paid native digital news provision

- Created in 2008 by former Le Monde journalists, Médiapart is a subscription-only news site without advertising (€11/month)
- The service focuses on investigative and opinionated journalism
- High profile journalistic scoops have greatly helped brand recognition and sampling by readers
- With 65 staff including 39 journalists, Médiapart generated a €10.3 million turnover and €1.9 million operating income
- The subscriber count has increased steadily to 118,000
- Médiapart strives to create a community around its brand through printed publications, forums, blogs and events

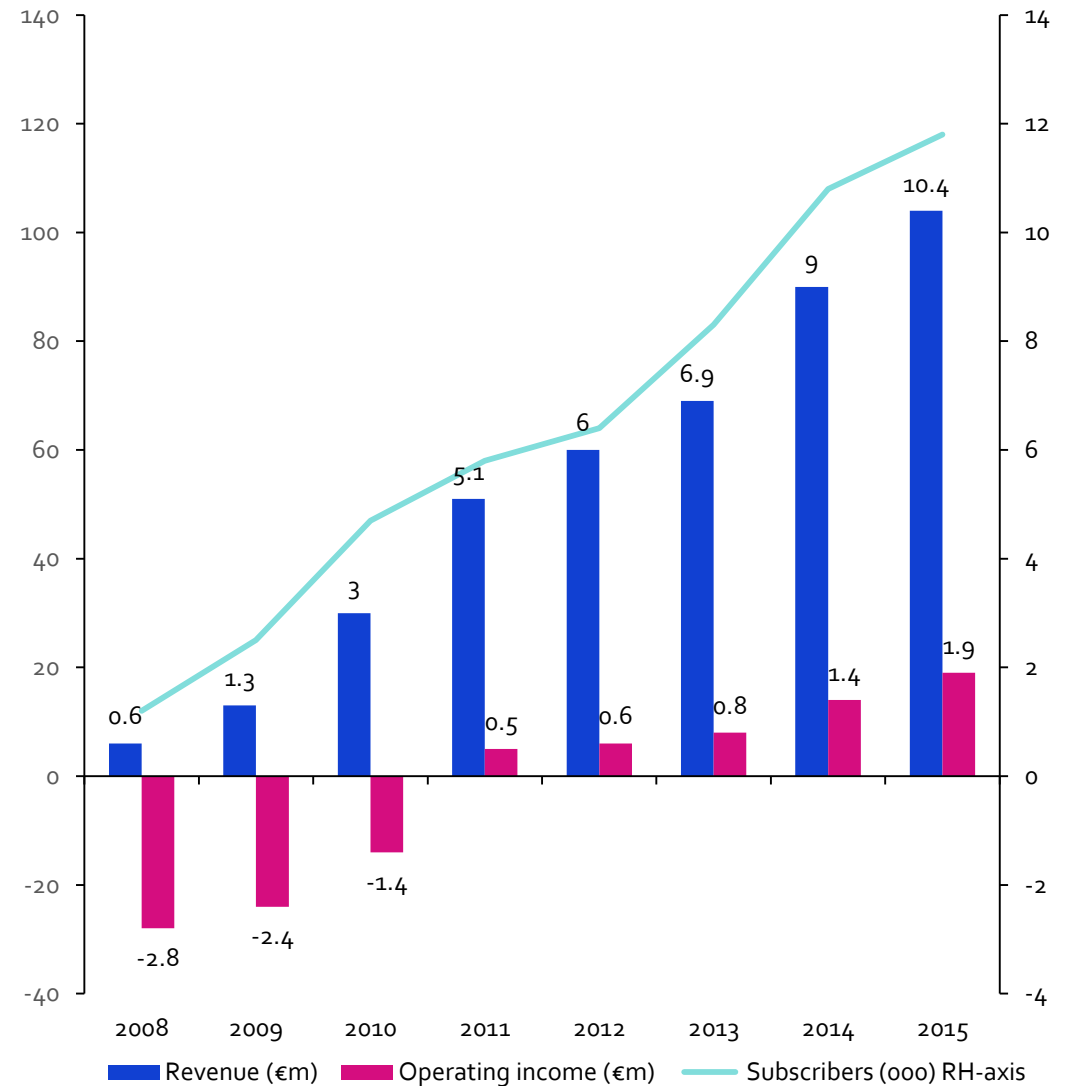
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Médiapart has had notable impact on French politics – but its resources are thirty times smaller than Le Monde’s or Le Figaro’s

We believe three factors are essential for consumers to consider paying for content media services

- Perception that the content matters, and therefore has value, and the access price feels commensurate to the value
 - Perception that the content cannot be acquired any other way, at least not for free
 - Convenience and other customer service factors
- We note publishers have a poor track record at customer service, often undervaluing its importance, and underestimating the complexity and associated costs of deploying retail prowess across the business

Médiapart: subscribers (000), revenue (€m) and operational result (€m)



[Source: Enders Analysis from Médiapart]

Rise and rise of membership, and the challenge of micropayments

- The New York Times has added >500,000 digital subscriptions in the last year, and more than half of those in the weeks around the US presidential election
- In the UK digital models are changing
 - The Guardian has grown its members to some 200,000, while maintaining entirely free access
 - The Telegraph has adjusted its meter model to optimise usage and conversions
 - The FT introduced a free trial period to encourage *immersive* usage, again to encourage conversions
 - On the other hand, The Sun abandoned its paywall: this was always a very challenging solution for a content business that invented a hugely influential form of social media long before the internet
- Our thesis is that membership models will grow in the next few years
 - The dream of an advertising-funded free access solution for scale newsrooms looks increasingly dubious
 - As the branded package comes under threat we believe smaller-scale, more specialist (narrower editorial remit) services may gather traction – Mediapart, Politico
 - Large news brands may be able to have it both ways – Times Business, Telegraph Politics, Guardian Society, Sun Bingo, Mirror Football
- Micropayments remain a challenge, even if the consumer use-case may be gathering traction and there is no longer a technology hurdle. Two levels of friction remain – industry and consumer
 - Industry options include (1) shared industry wallet; (2) a supplier with everyone's cards on file to be a wallet provider (while taking a 0% cut to keep it profitable for publishers); (3) wait for every consumer to get bitcoin. The likelihood of these happening feels inversely proportionate to its chance of success if implemented
 - Certainly nothing will work for consumers unless publishers – newspaper, magazines and beyond – all use the same service. Jamatto and others are intuitive and pretty frictionless, easy to deploy and flexible in terms of variable publisher imperatives
 - But even successful solutions elsewhere – such as Blendle – will find the UK a difficult market. Publishers are fiercely competitive, there is no deep language moat and there is just too much free content

Disclaimer

About Enders Analysis

Enders Analysis is a research and advisory firm based in London. We specialise in media, entertainment, mobile and fixed telecoms, with a special focus on new technologies and media, covering all sides of the market, from consumers and leading companies to regulation. For more information go to www.endersanalysis.com or contact us at info@endersanalysis.com.

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Agenda Item 3.4

Cynulliad Genedlaethol Cymru / National Assembly for Wales

Pwyllgor Diwylliant, y Gymraeg a Chyfathrebu / The Culture, Welsh Language and Communications Committee

Newyddiaduraeth Newyddion yng Nghymru / News Journalism in Wales

CWLC(5) NJW14

Gwybodaeth Ychwanegol gan Dr. Andy Williams a Emma Meese, Prifysgol Caerdydd / Further Information from Dr. Andy Williams ac Emma Meese, Cardiff University

Addendum to CWLC committee evidence:

Precedents of contestable funding being used to support local news innovation

While giving oral evidence to the committee's inquiry into Welsh news media we were asked for indicative costs for contestable funding schemes for local news. Dr Martin Moore's *Positive Plurality* report (<http://mediastandardstrust.org/wp-content/uploads/2014/10/Positive-Plurality-policy-paper-9-10-14.pdf>, pp.27–36), which addresses existing and potential future policies to support local news, offers detailed insights into:

1. the amounts and ranges of funding delivered by different UK and US schemes;
2. the varying size and scope of such schemes (some a relatively small and bounded, others are much bigger and more ambitious);
3. the importance of considering the criteria for success relevant to the aims and objectives;
4. the need to consider the mechanisms for delivery, and the evaluation of success; and
5. the suitability of contestable funding for the UK context.

Notably this report pre-dates the Google Digital News Initiative (DNI), a large EU-wide fund offering grants from a 3-year funding pot of €150million, which has been the largest contestable funding project in the UK in recent years.

Particularly important in this case is the make-up of the fund team and assessors – Google very clearly went with a group of journalists with experience working at community level, but also with excellent knowledge of tech trends in the local news sector and experience of dealing with potentially risky grant allocation. The make-up of the team is essential, and it's generally accepted that Google have done well in the blend of approaches, outlooks, cutting edge experience, and

knowledge of relevant news industry sectors (more info here: <https://digitalnewsinitiative.com/about/>).

The scheme is also interesting in the way that Google tiered the size of awards offered, and likewise the amount of information demanded in grant applications.

While collating this information we contacted Dr Martin Moore (martin.moore@kcl.ac.uk, Kings College London, previously, Media Standards Trust) and Will Perrin (william@talkaboutlocal.org, Talk About Local), both of whom are experts in the provision and delivery of contestable funding for media across the world. They would be very happy to offer further advice and assistance if needed.

Agenda Item 3.5

Bethan Jenkins AM
Chair, Culture, Welsh Language and Communications
Committee
National Assembly for Wales
Ty Hywel
Cardiff Bay
CF99 1NA

25 May 2017

Dear Bethan

Petitions currently under consideration by the Petitions Committee

I am keen that we provide the best possible service to people and organisations who petition the National Assembly for Wales.

In this spirit, and a desire to support joint-working between Assembly committees, I am writing to you to share information about the petitions we are currently considering which concern subjects within the remit of your Committee.

The current list is in the annex to this letter.

If any petitions are relevant to your current work programme it will assist us in our consideration if you, or your clerking team, could let us know. If you would like any further information on any of these petitions I would also be happy to provide it.

Yours sincerely



Mike Hedges AC/AM
Cadeirydd/ Chair



Annex

| | |
|-----------------------|--|
| P-05-692 | <u>Build an International Mother Languages Monument at Cardiff Bay</u> |
| P-05-724 | <u>Rights to Primary Health Care in Welsh</u> |
| P-05-756 | <u>Live Music Protection in Wales</u> |
| Collecting signatures | <u>Stop Compulsory Welsh Language GCSE</u> |



Agenda Item 6

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Agenda Item 7

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