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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%
Of which UK paid (m)	885	783	-10.7%	-11.6%
Of which UK free (m)	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%
Of which display (£m)	537	492	-5.1%	-10.9%
Of which classified (£m)	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%	…	…

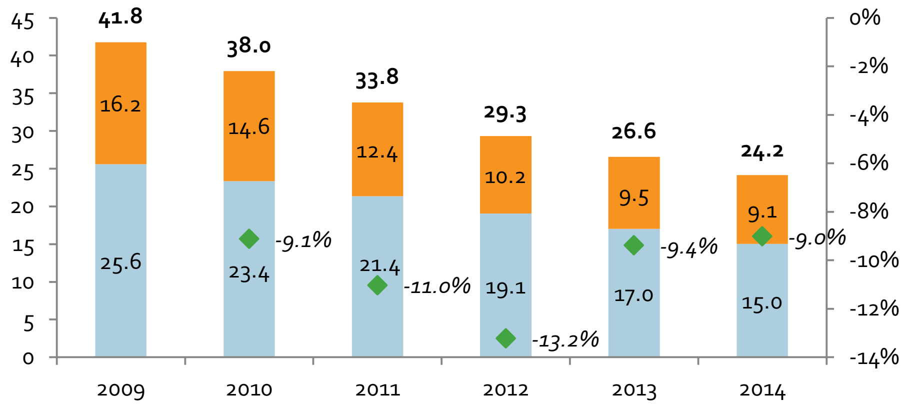
*Circulation and consumer spend are Enders estimates based on performance of titles continuing to report to ABC; average cover price is consumer expenditure divided by paid circulation per annum
Advertising spend sourced from WARC and incl. Evening Standard
[Source: Enders Analysis based on ABC and AA/WARC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



[Source: Enders Anlaysis based on ABC]

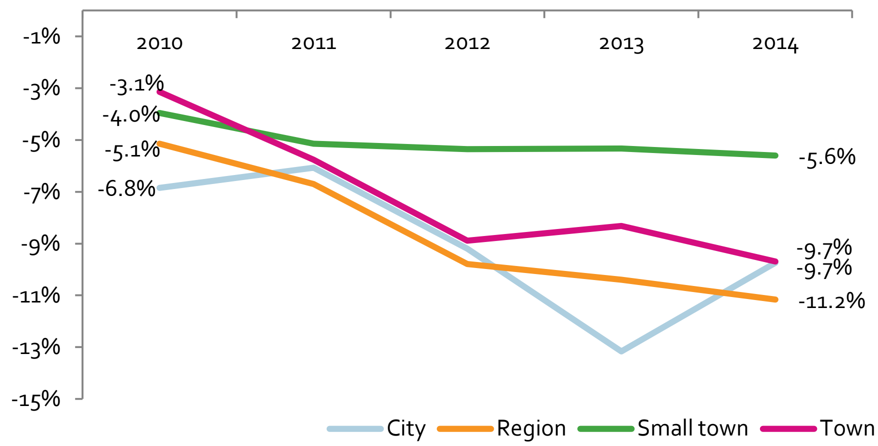
Paid print: Circulation decline across the board, revenues buttressed by pricing

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 (%)

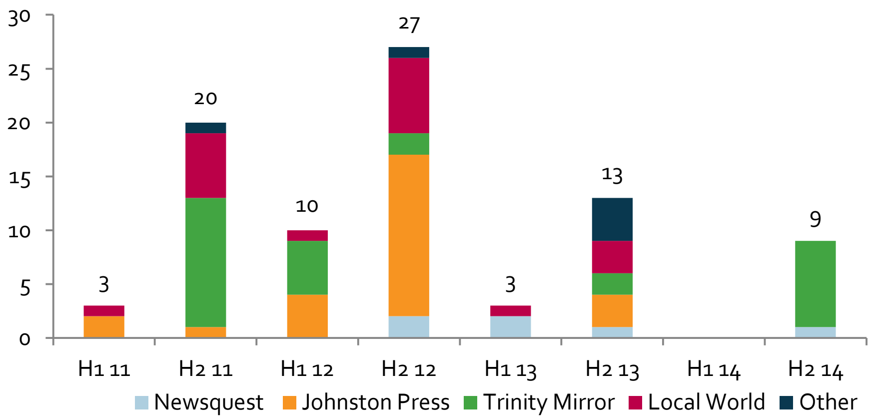


[Source: Enders Analysis based on ABC]

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.

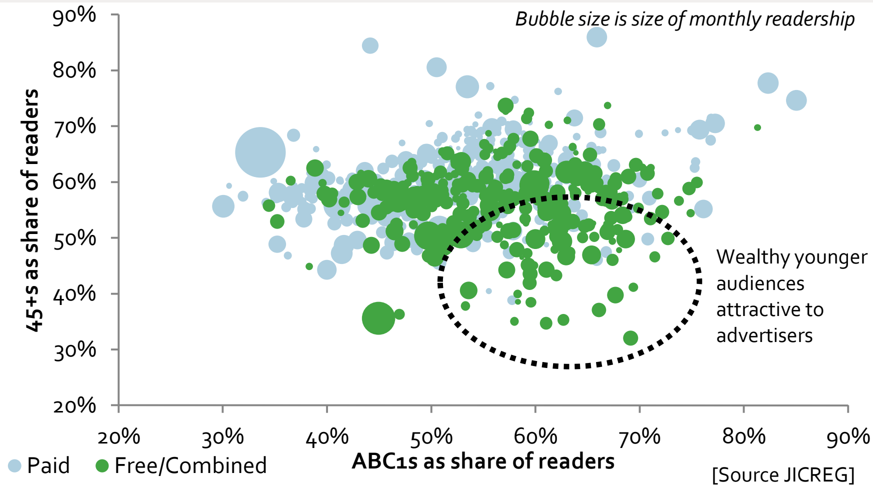
Figure 4: Title closures 2011-2014



[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

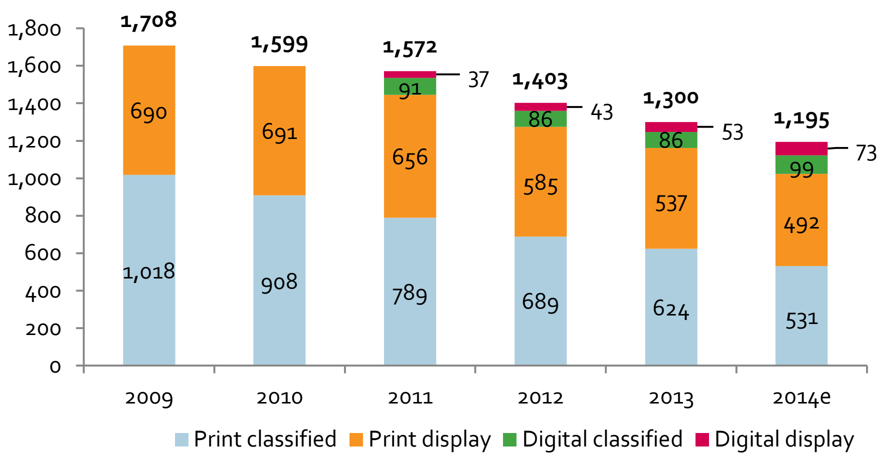


[Source JICREG]

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.

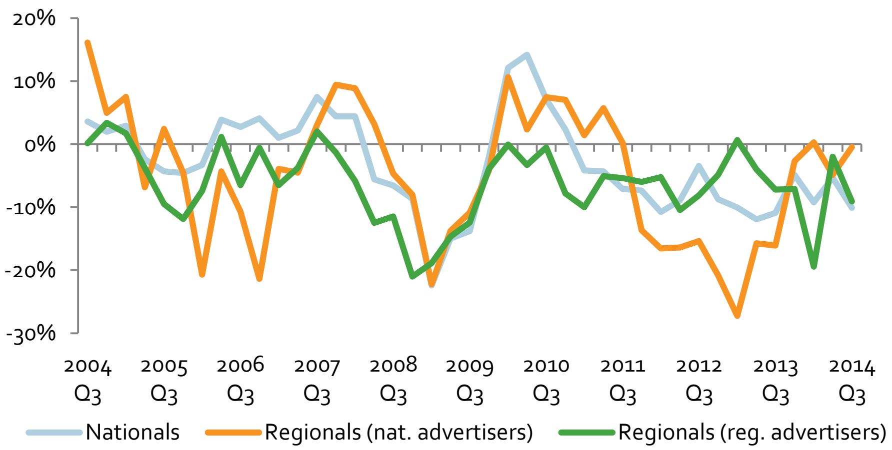
Figure 6: UK local newspaper ad spend (£m)



[Source: AA/WARC]

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 (%)



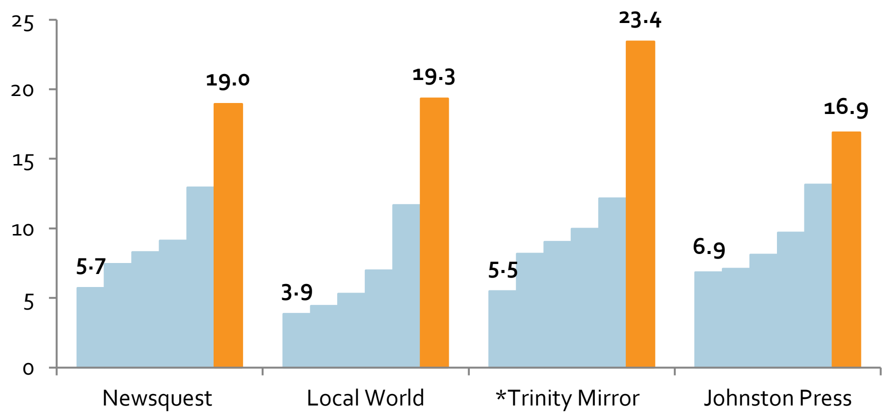
[Source: AA/WARC]

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.

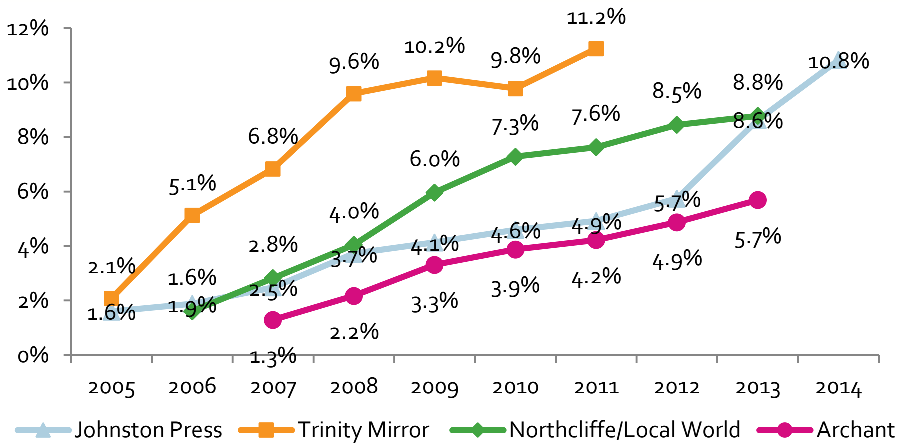
Figure 8: Global traffic H1 2009-H2 2014 (m)



*Trinity Mirror did not report a traffic number to ABC in H1 2014
[Source: Enders Analysis based on ABC]

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

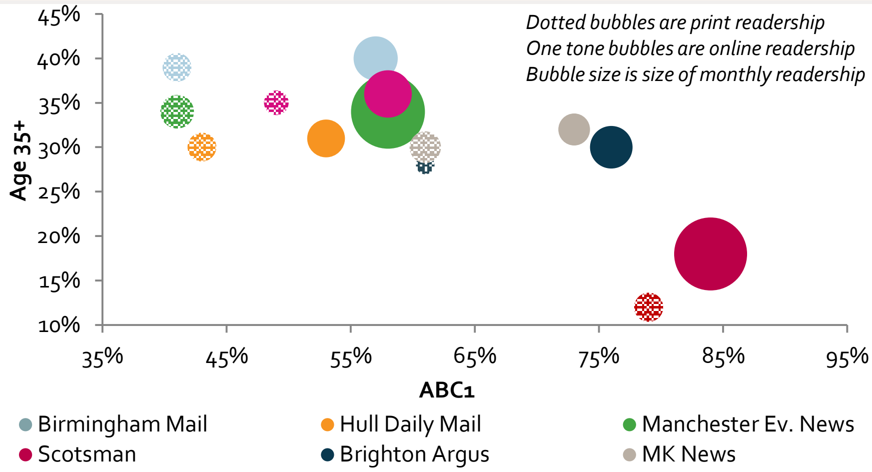


[Source: Enders Analysis based on company reports and AA/WARC]

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 (%)

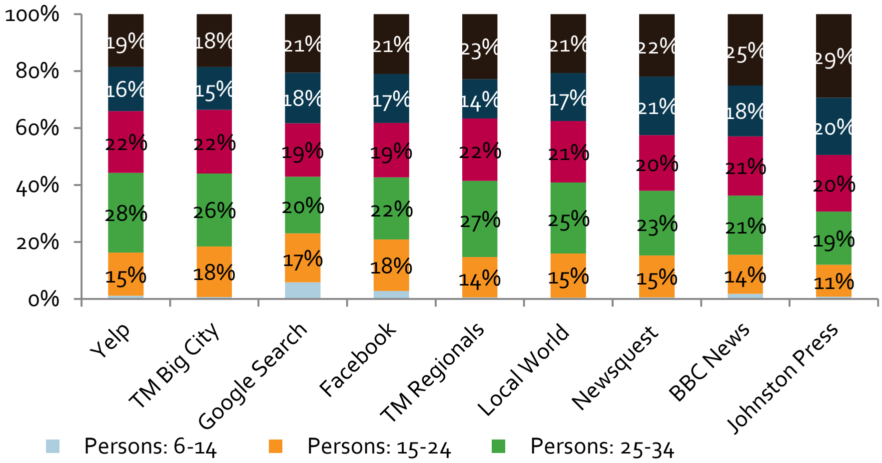


[Source: JICREG]

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, %)



[Source: comScore]

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 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

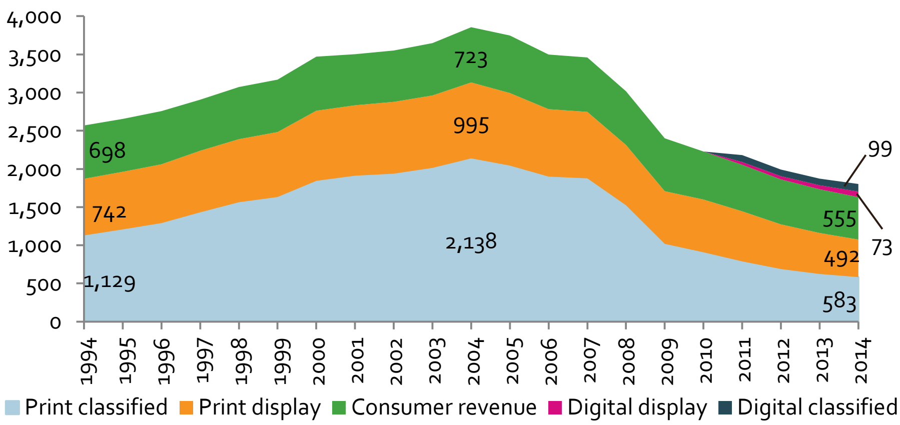
[Source: Enders Analysis based on company reports, ABC and AA/WARC]

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

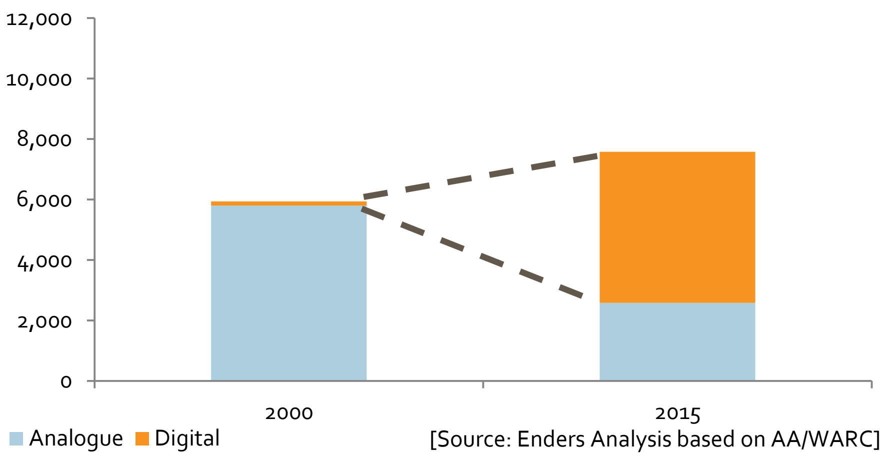
It is impossible in a short research paper to capture the scale and depth of strategic and operating challenges that these digital media trends throw at a local newspaper business. Almost everything such businesses were doing in 1995, and the way they were doing them, are fundamentally wrong in 2015. 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)



[Source: Enders Analysis based on AA/WARC]

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.

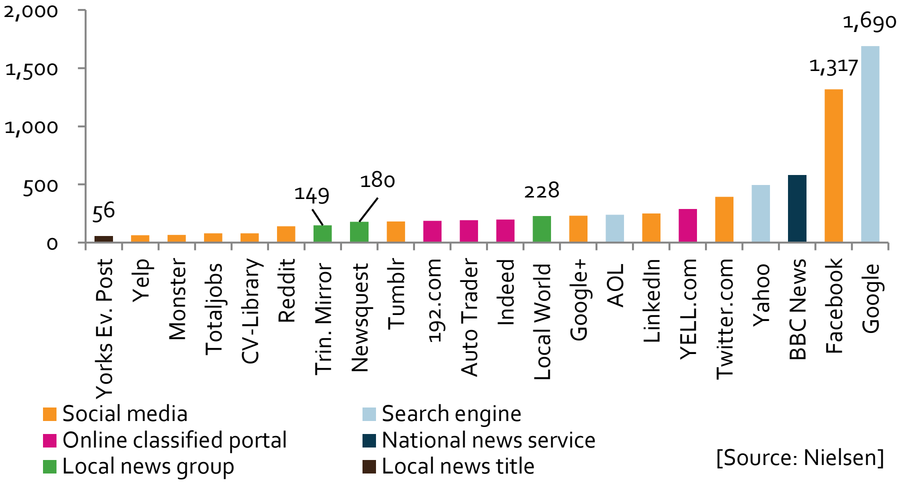
However, both the second BBC item and CMS report suggest the BBC intends to support local media rather than more actively compete. This seems the more likely medium term outcome. Chancellor George Osborne announced in the Budget (18 March) that the Government should enter discussions with local newspaper 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).

Figure 15: Local information site traffic in Yorkshire (000)



[Source: Nielsen]

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.

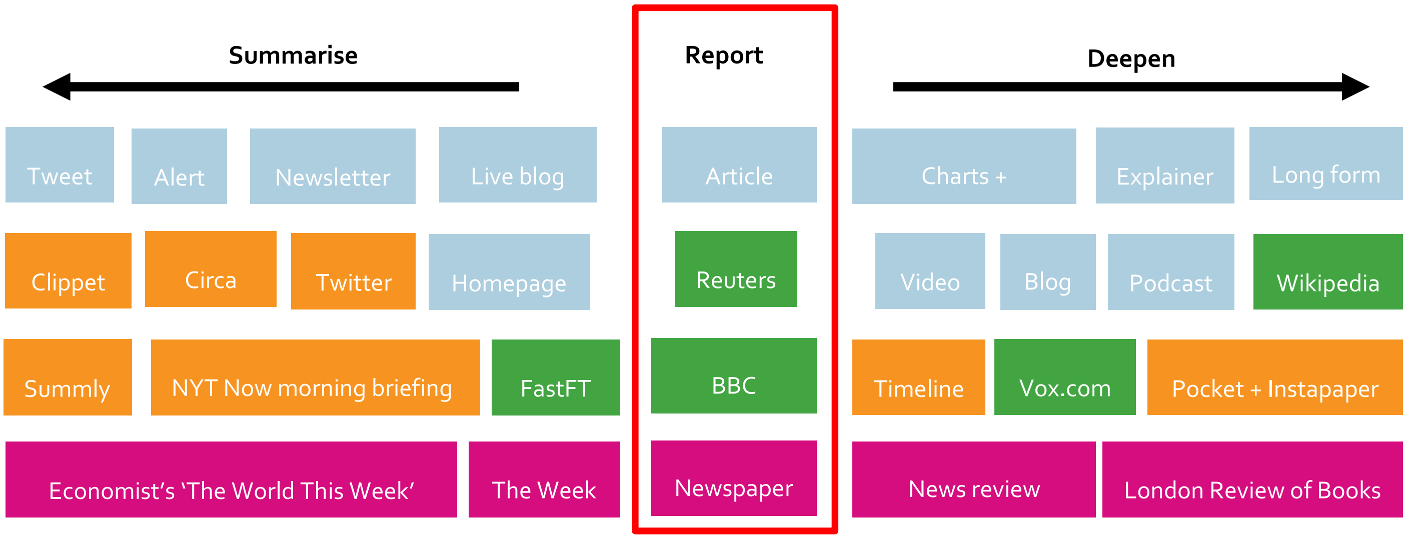
However, the majority of publishers have adapted their existing business into a digital business, and then created some reverse process elements. We consider this a subtle and sophisticated version of a *linear* response to the market challenge, rather than a deep rooted structural response.

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.

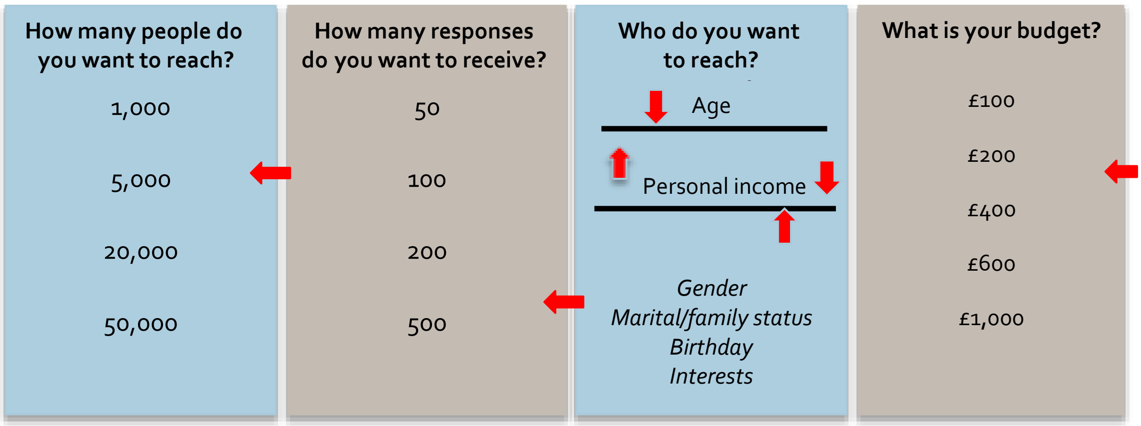
Gathering consumer data is critical so that the platform evolves into an effective marketplace for every SME, public sector office and business in the community. In discussions with various local and regional publishers over the last year we have established that local sales teams are typically reaching 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]

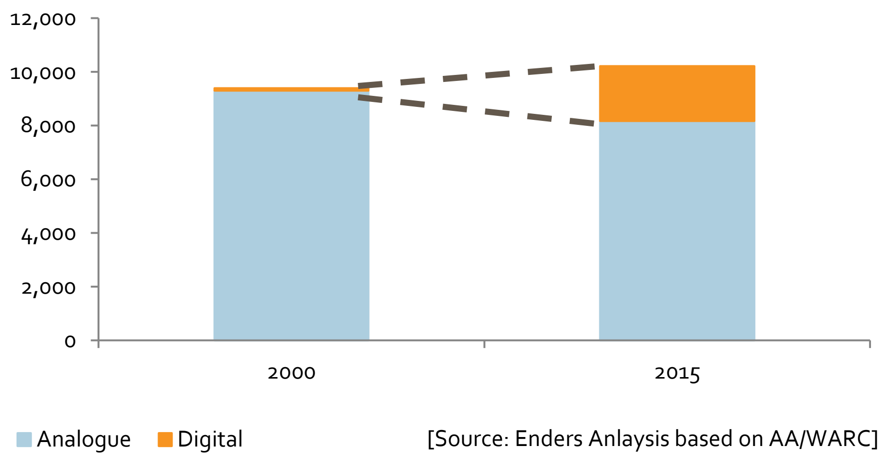
Facebook, which generates nearly £300 million from SMEs by our estimates, has a huge advantage over traditional media because not only does it have access to good consumer data, but it is first party data. Some 34m UK adults access Facebook, and while the depth of data collected on consumers varies substantially, 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)



[Source: Enders Anlaysis based on AA/WARC]

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.