



April 21, 2020

Communications and Digital Committee
House of Lords
Westminster, London
England, UK

Dear Committee Members,

I study newspaper economics and I would like to make a few points to your inquiry into the future of journalism. They may be tangential to its stated focus on accessibility, diversity, the pivot to digital, and engaging online audiences, but they are arguably central to the future of newspapers, which I am sure you would agree will be important to the future of journalism. I have been studying the finances of North American newspapers since researching my 2014 book *Greatly Exaggerated: The Myth of the Death of Newspapers*, and the finances of UK newspapers since moving to Europe in 2017. I am currently under contract with Routledge Research for a book titled *Re-examining the UK Newspaper Industry*. Perhaps the most succinct statement of my position on the future of newspapers is contained in a presentation I gave at a conference last year, which was recently [reprinted](#) in the *Newspaper Research Journal*. It can also be found [on my blog](#).

Newspaper economics are counter-intuitive in the extreme. It is a misconception that newspapers are losing money. They aren't, or they wouldn't still be in business. Some declare multi-million-pound losses, but these are on paper only and represent the lost value of their business enterprise. On an operating basis, most are making double-digit profit margins, albeit on sharply lower revenues. Some chains have gone bankrupt, but only because they took on levels of debt which proved unsustainable with lower revenues. Johnston Press counter-intuitively earned profit margins of 20 percent or more in recent years before being taken over by its bondholders. Its reduced earnings were simply insufficient to service its debt. Newspaper circulation is down, but much of this is by design, as newspapers counter-intuitively lose money on each copy they sell.

Most people assume that newspapers are dying because a new medium has emerged in the form of the Internet. Those who understand history, however, realize that the same was said when radio and television arrived. Newspapers took a smaller share of the market each time, as they have with the Internet, but they adapted successfully and are doing so again. Newspapers are still here because they have a robust business model which makes them inherently profitable. They benefit from economies of scale, barriers to entry, vertical integration, and elasticity of demand. John Morton explained it best in [this article](#). Most importantly, as hybrid print-online publications, newspapers have four possible revenue streams to optimise, while online media have only two. No one has yet found a profitable business model for general news online, so how can digital news replace legacy media?

I submitted to the Cairncross Review a paper I wrote in 2017 which has since been published in the *Journal of Media Business Studies* as “Are UK newspapers really dying? A financial analysis of newspaper companies.” It can be [found here](#). Dame Cairncross quoted it on the first page of her report last year on the sustainability of high-quality UK journalism. “In making the case for intervention in support of journalism, it is important at the outset to acknowledge three points,” her report noted. “The first, made in evidence submitted to the Review by Dr Marc Edge of the University of Malta, is that most national newspapers and regional newspaper groups are generating good profits, with margins of 10% or more.”

I would like to point out a few things I have found in my subsequent research. By way of background, I wish to submit into evidence a paper I presented to the biennial Future of Journalism conference in Cardiff last September which has been shortlisted by *Journalism Practice* for publication in a special issue on the same topic. It can be [found here](#). As detailed in my paper, newspaper finances have improved greatly with the recent widespread adoption of paywalls, which reverses the so-called “original sin” of giving away their content for free online. That was not a broadly profitable business model, although it has worked for some newspapers, such as the *Daily Mail*, which uses a “clickbait” model to generate online advertising revenue, and the *Guardian*, which is supported by the Scott Trust and by memberships sold to readers.

Since introducing a “hard” paywall in 2010, the *Times* has recently turned to profit from years of loss. More popular has been the “metered” paywall pioneered by the *Financial Times* in 2007 and perfected by the *New York Times* in 2011. It allows casual readers through in order to maximise online advertising revenue, but forces regular readers to pay. Paywalls also help by stemming print readership losses and increasing online engagement, which has allowed higher advertising rates. While paywalls have proved popular in North America and most European countries, however, they have not been adopted as widely in countries where newspaper competition is fierce, such as the UK. This might be an area in which policy measures could assist.

The second and most important point I would like to make regards the perils inherent in ownership of newspapers by private equity firms, also known as hedge funds and often derided as “vulture capitalists.” Such firms have increased their ownership of newspapers in North America exponentially over the past decade and have now made inroads into the UK market with their recent takeover of Johnston Press. Realizing that most newspapers still generate enviable free cash flow, they cheaply bought up the debt of overextended owners. When these companies went under, the hedge funds assumed control and typically kept as much debt as possible on their books in order to skim off their earnings.

By 2014, hedge funds owned six of the ten largest U.S. chains and the two largest in Canada. They cut costs mercilessly to milk newspapers of their remaining profits, mostly by laying off journalists. This has created so-called “news deserts,” bringing calls for government policy to help create a new non-profit business model for journalism. This might also be something you wish to consider.

I hope you find the aforementioned presentation, articles and paper useful. I would be happy to assist your inquiry in any other way I can.

Sincerely,



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