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**REMARKS TO THE SYDNEY INSTITUTE
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Ladies and Gentlemen

It is good to be able to join you to discuss the future of our newspapers and the issues facing quality journalism in Australia. But first I can give you the words of reassurance you want to hear....Gerard Henderson has filed for tomorrow morning's edition.

It wouldn't be fair for me to give you any more details than that – and run the risk of ruining what is sure to be a highlight of your morning – but let me assure you, it is worth the Herald's \$1.20 purchase price in its own right.

And on that comforting note, let us move to the issues of the hour: the nature of the newspaper business and the future of papers like The Sydney Morning Herald.

My responsibilities at Fairfax cover the editorial side of the business at the Herald and the Sun-Herald in Sydney and The Age and the Sunday Age in Melbourne. My comments tonight, given that they are being made at The Sydney Institute, will inevitably emphasise the Sydney Morning Herald, which enters its 175th year of publication next year. Discussions about The Age, experiencing readership growth and generating genuine excitement under its new editor, Andrew Jaspan, will be for another time, in another city.

The Herald, of course, plays a vital role in the life of this city. It reaches more than 1.2 million readers each Saturday and 900,000 each weekday. It attracts a readership coveted by advertisers – as the Herald aggregates an audience that is difficult for them to reach: the educated and the affluent; the informed and the influential; the intellectual and cultural constituencies in Sydney.

In a pure business sense, the Herald takes that audience and sells it to advertisers who want to reach them: the department stores, the banks, the travel industry and the advertisers who use the classifieds – the rivers of gold – for real estate, employment and motoring.

But of course, when we think of the Herald, we don't think of it as a forum for bringing together buyers and sellers – we think of that remarkable compendium of news and information delivered at your newsagent and to your driveway each morning.

We think of ground-breaking investigative journalism; the courage of Paul McGeough's reports from Baghdad and the relentless coverage of issues like the railway crisis, the Norma Khouri fraud and the James Hardie scandal.

In sport, readers turn to us, not because we buy sports and sporting venues like our competitors, but because we love sport and because people like Peter Fitzsimons and Peter Roebuck can report on it in a way that is intelligent and passionate.

Most people would think of us as a great public institution – a public good – making our democracy safer and our lives richer. And they are right. This is the pivotal role we play as a leading newspaper publisher and media company in our democracy. And whilst at some times it may annoy or disappoint some readers – Sydney and Australia are better places because The Sydney Morning Herald is there covering our city, our nation, and the world – and chronicling our life, our times, our challenges and our aspirations.

When I think of our journalists, it is certainly this role that attracted them to the paper and keeps them at the paper. While they understand that the Herald has to take advertising of course – their pride and passion is in the great journalism at the core of the paper – and the paper’s place in the heart of the city.

One of the unique features of providing leadership at Fairfax is that in a sense, we do produce a public good in a public company. Our owners, our shareholders, I assume, enjoy reading the papers we produce each morning. But they own our shares because they want us to grow the company to be stronger, to play a more prominent and influential role – and to generate strong earnings growth so that we, as a company, have a stronger ability to control our destiny.

To succeed, therefore, we must meet our responsibilities in providing Australia’s best journalism whilst at the same time, meeting our corporate responsibilities to our owners.

Some have argued that there is an incompatibility between a broad open public share register, like we have at Fairfax, and the ability to continue to invest in quality journalism.

But I think the experience at Fairfax over the past decade would indicate this has not been the case with us.

On a corporate side, we have had to manage our costs and grow our revenue and earnings – and we came through a major advertising downturn because we managed the company more tightly than had previously been the case.

The Sydney Morning Herald and The Age are healthy with strong revenue and earnings growth, in both absolute terms and in comparison with other metropolitan newspapers worldwide. The AFR remained profitable throughout the last advertising recession – unlike the Wall Street Journal and the Financial Times.

Our effective management through the cycle allowed us to make a major investment in New Zealand, where we successfully purchased the INL mastheads to make us the largest newspaper publisher in Australasia.

But what about on the journalism side? Despite an independent board of business and media executives, despite pressures to grow revenues and manage cost – we have passed every test of independent journalism. Our papers have won every award there is to win – many of our reporters are acclaimed for their courage and tenacity – and if you watch the path of stories through the news media on a daily basis you will see that it is Fairfax papers that consistently break the stories the matter, that have significance and that set the news agenda in Sydney.

Our journalism does not pander to certain corporate interests. Our reporters do not receive any riding instructions on what their reporting must find. Our editors are not told what views are right and what views are wrong; who should be given a hard time and who should be ignored. There is no expectation that the Herald's news columns will be used to further specific business interests. Our journalism today in an openly-held public company is every bit as independent as it was under the ownership of the Fairfax family.

Our track-record on these things is better than any of the media dynasties that work in our market – and it causes immense frustration to our competitors.

All media outlets can point to pockets of excellence that can be used to justify a label of editorial integrity: low-rating news programs that are kept on the air, or high-brow, loss-making newspapers or magazines kept in business.

But the real test in media isn't the niche products you keep producing...it is the stories you allow to run – particularly stories that might cause some harm to yourself and your interests or those of your friends – because you understand the value of free and independent journalism. And Fred Hilmer and other board members would be the first to tell you that they are not protected species when it comes to hard-hitting, independent journalism by Fairfax reporters. Indeed, the paper's reporting on the company is as tough as coverage by any of our competitors.

At Fairfax, we insist our editors produce papers that pass tests on fairness, accuracy and balance – but in doing so, allow reporters to write the stories as they find them. And when pressure comes to bear on Fairfax editors and Fairfax management from the high and the mighty – threatening legal action and corporate retribution – the company has been steadfast and resolute in defending our journalism.

That is not to say our journalists run amok and our editors fail to edit. “The inmates are running the asylum.” It is a line our competitors use - whenever we run stories about them that they don't like. But our editors are accountable for every word in the paper. The difference with our competitors is the way we see our papers. Our papers' financial strength is based on brand values that are generated from credibility, independence, excellence and quality. Our publications are not just another tool to be utilised to further a broader corporate interest.

Our CEO leaves next year and despite his track record in strengthening the company, he is still subject to the criticism that he is not of the media – that he did not spend his entire career working in newspapers, magazines or television. But I can tell you from my unique vantage point, Fred Hilmer has upheld the highest possible standards of editorial integrity and been a champion of independent journalism. He has never flinched, never buckled, never taken a backward step in defending the rights of our editors and journalists to find the news and report it in a fair and balanced way.

The best things in life are not always free. And there is a price for this independence – and that is – we have to keep performing well as a company. Our investors are not shareholders because of an act of corporate generosity. They expect us to manage well and to have pathways to further growth. And if we can do that by practicing strong, fair, independent journalism – that’s all the better.

So, for the journalists who work at Fairfax because it is a haven for independent print journalism that has impact in this country – the future is in their hands and the hands of all who work in the company.

If we cannot manage Fairfax as a growing media company – with increased shareholder returns and pathways to further growth – then the rejection of the company by the market puts independent journalism at risk.

The business of journalism faces many challenges. At Fairfax, part of the obvious challenge is that our journalism has been underwritten by advertising support, particularly classifieds. It is not widely understood outside the business that less than 20 per cent of the revenues at the Herald comes from people buying the paper – the rest comes from the display and classified advertising.

Of course, we are seeing more classified advertising on-line and Fairfax has a strong position in the key classified on-line markets. And we are creating new products to reinforce our strength in print – like the new Domain East real estate section each Wednesday for our Eastern Suburbs readers, to be extended in a Domain North edition early next year.

We have also seen growth in display advertising and have enjoyed the retail war being slugged out in our pages. May it be long, bitter and protracted. A Hundred Years' War.

But despite these challenges, we are confident that there is a strong and prosperous future for newspapers supported by advertising and there is some evidence that the future looks much more rosy for newspapers than for free-to-air television.

But they are smart in TV – and slick at spin. So you read reports about audiences in terms of marketshare, not market penetration. And you hear about Channel 9 news rating a 27 pipping Channel 7 that rated a 25 – and those figures are about marketshare – not about the number of people watching.

And the number of people watching has been dramatically falling. Over the past ten years, the free to air television stations' share of all TV viewing has fallen from 97% to 83%. Since 2001, the total daily average readership of Fairfax newspapers in Australia has increased by 2.5%. Over the same period, free to air television has lost 5.9% of its audience through the day.

The future for free-to-air looks even more threatened when Foxtel inevitably moves from 100 channels to 500 channels in the next decade – and when personal digital recorders allow people to watch what they want, when they want – and bypass the ads as they do so.

But we can be confident that at least for newspapers like the Herald – we will continue to be a unique aggregator of a large, quality audience – attractive for advertisers and hard for them to reach outside our papers and the magazines we also carry in their pages.

We face real challenges to preserve and build on our position – and those challenges will impact on the way we produce the paper, the news and information we carry and the nature of our journalism.

Without doubt – the biggest change to newspapers in the past decade has been the impact of on-line information. Previously there were massive barriers to entry in the information business. If you wanted to reach a mass audience you needed a radio or television licence – or fork out for your own printing press.

On-line means you only need a computer and a modem – and as we all know – everyone is moving into the on-line information space. You don't need to kill a single tree to be famous – or notorious.

This is not bad news for newspapers – at least – not newspapers like The Sydney Morning Herald. Our site, smh.com.au is the #1 online leader in the news and information sector in Australia and is experiencing rapid growth in profitability. Coupled with the readership of our print edition – the 350,000 unique visitors to the site a day means the reach and the impact of the Herald on a daily basis is larger than it has ever been before.

Particularly amongst younger people – on-line gives us the ability to build our news brand of the Herald as a reliable source of information you can trust – in a powerful way.

But the on-line reality means the print edition is changing and will continue to change. We do not edit The Sydney Morning Herald with the arrogant assumption that we will be the first to tell our readers what happened yesterday. Most of our readers will have caught a TV news bulletin – or at least checked out the headlines on-line. They listen to radio and may have breaking news sent in an SMS to their mobile phone.

In this changing media landscape – there are three clear areas of opportunity for a paper like the Herald in a journalistic sense, and I would like to address each in turn.

We must develop papers that are more closely attuned to the interests of our readers and fit more easily into their lives.

We must ensure that what we are offering to them is compelling and unique.

And we must ensure that we are delivering this information in a way that generates trust, respect and commitment from our readers.

Then perhaps in conclusion, I might speculate on whether you get all this in the current broadsheet format – or whether you might be reading a compact edition Sydney Morning Herald.

We know from our research that many of our readers are time-poor – they lead busy lives – and the answer for them is not to make the paper bigger and bigger. If anything – the paper will get smaller in terms of total pages and tighter in terms of editing in the years ahead – particularly the Monday – Friday editions.

Less needs to become more – by having more utility and value. Part of the challenge of designing the newspapers of the future will be to ensure that readers can extract the level of information they need in the time they have. If it is 10 minutes, 30 minutes or three hours – the reader's experience of the paper will need to be rewarding and fulfilling. That requires a strong design, demanding editing and content that is distinctive, unique and engaging.

The interests of Herald readers are very broad. From Australians in Iraq to Australian Idol: from the Government's plans for the Senate to the expansion plans of Sass and Bide. Our readers want us to cover the field.

And in covering these stories, we need to apply the same news values and standards to our lifestyle sections, arts reviews and business columns as we do for the page one story. We attempt this now – but the expectations we place on ourselves will rise even further.

And whilst some readers may turn up their noses when they see Australian Idol on the front page of the Herald – twice – in one week – at the paper, we simply have to understand that Australian Idol proved to be an important part of the lives of very many of our readers. Of the 3.3 million who watched the final episode, very many were the affluent and influential core of Herald readership. It is important that we cover stories like Australian Idol – but we need to cover them in a way that appeals to our readers – hopefully with wit, insight and wonderful pictures.

It can be a challenge for journalists. Australia Scan research suggests that the percentage of the population that consumes media primarily from broadsheet newspapers and the ABC is only 8% - but the target audience of The Sydney Morning Herald is much higher than this – probably closer to 30 or 40% of Sydney’s population. We need to make sure we are not the 8% writing for the 8%.

It is not an exercise in dumbing these papers down. It is a case of sharpening them up.

But there is no future for the Herald in providing a worthy dose of news up to the readers, with a mindset that if the readers knows what is good for them – they will consume it. Our readers want good strong news, politics, investigations and international affairs. But they also want pop culture and fashion and lifestyle journalism as well. Younger people in particular see entertainment as news. And all our readers want their news produced in a way that it can be easily read and understood, with clear graphics, strong pictures and a good mix of content.

We are researching readers intensively – not so we can simply give back to them what they ask for – because part of the pleasure of a newspaper is the surprise that it brings – but so we can more actively understand how they use the paper and the needs they want it to meet. The better our understanding of our readers – the more effectively we can meet their needs.

This leads us to the second issue – which is a greater focus and intensity on delivering a unique media experience in terms of content.

We need to be unique in print and on-line.

News that you have not seen anywhere else. Hard-hitting investigations, authoritative reports from our team of foreign correspondents, wittier journalism, better writing, analysis from commentators you follow and can trust.

It will be us investing in the journalism that makes the Herald different every day. It is quite rare that a newspaper breaks an individual story that drives circulation sales. But create a culture that says every day you are breaking stories – every day you are setting the news agenda – that is the kind of newspaper that generates a buzz that drives readership. We already do this and will need to do it more.

Part of the unique experience is having unique voices writing for the paper. Our readers are clear what they want. They want straight news reporting with no bias or commentary – and then they want the best analysis and commentary clearly labelled and identified in the paper.

In the Herald – some of our commentators have fierce followings. Alan Ramsey's election pieces generated a storm of debate which broke nearly 50/50 between the appalled and the devoted.

Many of our regulars have their own loud followers and critics. The best columnists and commentators break news in their columns – they talk to real people, dig into history, explain context and engage their readers. They bring genuine insight. Their subjects and their conclusions may not always be predictable as a consequence.

In a sense, our team of commentators help the paper not to explain what happened yesterday, which was perhaps once the paper's role – but to explain why it happened, what will happen today and what may happen next.

Now a major challenge for newspapers that can assemble the talent and create the well-edited and engaging newspaper – is the challenge that this can be purchased every morning – or read on-line free each day.

Newspapers around the world are now examining carefully the model that has emerged over the past 10 years of putting most of the content up on line for no charge. There is a tension within newspaper organisations about putting nearly all of the paper on-line to drive traffic and as a consequence generate on-line advertising.

We are in fact doing that, with our online news and classified sites profitable and enjoying annual revenue growth of 40-60%. The challenge is whether you also encourage readers to simply read the paper on-line, without purchasing the print edition.

It is of interest that quality newspapers around the world have suffered steeper circulation declines since last year's war. The drop-off has been steepest in weekend papers, where many readers only purchase a paper once or twice a week rather than have a daily habit. The war generated extraordinary on-line traffic – and coupled with the dramatic roll-out in broadband coverage – may well have helped the on-line sites become a stronger habit in the lives of our readers. Which is a good thing.

But it may mean newspapers like the Herald have to change their approach to news gathering and where it reports news. It may be that over time our site is less an on-line depiction of today's print edition, but more a dynamic breaking news site, where as best we can, we make Herald news reporting standards and values continuously available for our readers through the day.

Indeed, the net has already emerged in offices as a replacement for radio through the working day. More and more of us turn to the net first – and smh.com.au first – at any random moment of the day, as opposed to the radio news.

Already some big exclusive news stories that will not hold until the morning are being put on our on-line sites immediately. I can see that in the future there would be fewer stories transferred from the print edition to the site, but more updates, greater immediacy and increased rewards for logging in every hour during the working day.

Rather than simply being a newspaper, the Herald would be the most authoritative news brand, with more resources available to throw into supporting 24 hour news coverage than any other media outlet in the city. And of course, our on-line performance would be the best advertisement for the print edition – and the print edition would highlight what updates readers could expect on-line during the day.

The Herald's on-line opportunity – our ability to move our credible news values into an on-line environment – highlights what I believe is our other key opportunity is for the future.

As I said earlier, anyone can be a publisher these days. There is so much to read, so many outlets jostling for a place in the limited time people have available to consume media.

And such a crowded marketplace provides the Herald with another strong opportunity. How does the Herald compete in such an environment? By being the most *trusted* source of news. I believed we are well positioned now – and we are taking steps to further improve our performance.

Our readers have an expectation that the Herald's reporting will be fair, accurate and balanced.

Putting the paper out on a daily basis is an extraordinary enterprise. Over an 18 hour period, we create something with as many words as an average book – with stories breaking, new information emerging and politicians and CEOs ducking for cover as the deadlines loom and our presses warm up.

Which brings us to the issue of accuracy under the pressure of publishing deadlines. I am the first to admit that, notwithstanding the best efforts and most talented staff, we get things wrong.

If we get something significant wrong, readers want us to correct it. We run more corrections in the Herald than any other newspaper – certainly more than our News Limited competitors. That is not to say we make more errors – I would contest that we don't. But we don't fight to keep corrections out of the paper – we willingly put them in. When we run a correction, we demonstrate we take accuracy seriously.

We have also benchmarked our papers on basic spelling and grammatical errors against leading newspapers in the United States – and against each other.

And following a process implemented at The Chicago Tribune, we now have a central reporting of all errors detected at the paper. Editors can have a clearer understanding of the scale of errors, which parts of the paper are generating errors and whether there is anything in our processes that is stopping us detecting them. We need to understand if particular reporters are having trouble with accuracy. The initiative is working well and helping us to put out more accurate papers.

Issues of fairness and balance are harder of course. Our reader feedback suggested that in the last election campaign, about half of the readers who complained suggested our coverage was biased towards the Coalition – and half said we were biased towards Labor. There was stronger consensus in support for our editorial position at the Herald that we would no longer endorse a political party in our pre-election editorial.

Whilst accuracy is often an issue of black and white, there can be real nuance in issues of fairness and balance – what you see is often framed by the perspective you bring to the story. But at a senior editor level, we are becoming quite obsessive about trying to eradicate opinion that can enter a news story and slant it. And we are alert to excessive coverage of any issue that is of great interest to journalists but limited interest to a broader readership.

We will also be implementing some new programs to further test our performance in these areas. This will involve audits of some editions of the paper after publication – including checking back with some who were interviewed for stories, to discover whether they believed they were accurately quoted and the story was balanced.

We are also reviewing our processes for the use of ‘off-the-record’ sources for articles. The Herald will still use anonymous sources for articles, but we will have robust internal tests for verification and cross-checking. As has been demonstrated in numerous, high-profile cases overseas, the extensive use of anonymous sources leaves the newspaper open to fraud or manipulation and can work against accurate and truthful reporting. We want to get the news and break the story – but we also want to be absolutely sure that we have the whole story, that we have it right, and that the paper is not being used to slant or spin a story in a particular way for a particular interest.

All of which is to say we are raising the bar higher on fairness, accuracy and balance. We take it very seriously. We intend to be, unimpeachably, the most trusted source of news in this city.

And finally, will you, one day soon, be reading a tabloid or compact edition of The Sydney Morning Herald?

Of course, tomorrow morning, one of the most popular elements of the Herald will be in compact form – the Good Living section. The evolution of the paper over the past 20 years has seen our readers become very comfortable with the mix of broadsheet and tabloid sections.

I don't subscribe to the view that readers in this market equate broadsheet with quality and tabloid with trash. The Murdoch tabloids in Australia are hardly red-top screamers and of course, there is no more respectable tabloid paper than Fairfax's Financial Review.

I suspect that many of our readers are comfortable with the broadsheet and would not welcome us tampering with it. And they would be suspicious that a compact Herald would be headed down-market.

But other readers, particularly younger ones and those who catch public transport would probably welcome the portability and convenience of the Herald they love in a compact form.

There are a few things we do know from the international experience. What is really important is what is in the paper, not the size of the pages. A bad paper is still a bad paper, no matter how convenient the format. And papers that are struggling to survive as a broadsheet have usually not found salvation in a compact format. Tony O'Reilly's Independent in London has found increased circulation after converting to the smaller form, but the path to sustained profitability reportedly remains elusive.

A particular challenge is on the commercial side of the business. Most papers currently sell ads based on their size in the paper – a full page in the broadsheet is double the size and arguably the cost of the full size in the tabloid.

I have heard it likened to TV stations charging advertisers based on the size of the TV on your wall rather than the number of people sitting in your lounge room – another example of how TV has been smart.

What it means is that nearly all newspapers have sacrificed some advertising revenue when moving from broadsheet to tabloid, as advertisers taking full page broadsheets have usually not converted to taking double page tabloid ads.

The papers that are most likely to convert in the short term are those struggling for circulation, trying to find a viable audience – and those with less advertising to convert and therefore less revenue risk. In an Australian context, that means the most likely candidate is...The Australian.

But maybe one day, the Herald. We will watch our former reporter, Robert Thomson, now the editor of The Times in London, as his brave, bold, tabloid experience unfolds. We know everyone at News Limited in Australia is watching closely also.

All of which adds up to an overview of the business of great journalism. These changes will put demands on our staff. At Fairfax, we have Australia's finest team of print journalists. Well-educated – and often – schooled and mentored at the papers by wonderful veterans committed to the craft. They are the best paid print journalists in the country and very few leave to go and work elsewhere in the industry. They are passionate about their papers and are proud of their work. And as last week's Walkley Awards show – they set the standards in Australian journalism.

I believe there is a path our papers can follow which will continue to strengthen the financial performance of Fairfax whilst improving the quality of our newspapers in a changing media market. It is a future based on providing high quality, compelling exclusive news in formats designed to help readers extract the level of information they need in the time they have. And this information will be delivered around the clock, with readers assured we are working to ever higher standards of quality, independent journalism.

Fairfax is a fascinating and a rare place. A public company that produces a public good. Creating newspapers that generate such passion and loyalty and commitment in their readers. Newspapers that have a profound impact on our readers and our leaders, working in an industry facing such world-class, ferocious competitors and undergoing rapid technological change. And helping to serve our democracy by questioning, challenging and uncovering the truth, being captive to no-one.

Great journalism is a great business, with a great future.