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## The Value of Local News in the Digital Realm – Introducing the Integrated Value Creation Model

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### ABSTRACT

Taking the failing two-sided market model of commercial news media as its point of departure, this article introduces a value creation model that unpacks the dynamics of local newspapers' value creation from a business, social responsibility, and audience gratification perspective. The integrated value creation model shows how local news publishers' role as civic institutions and as commercial operations generate both value flows and value flow gaps between audiences, newspaper businesses and society. Specifically, the model illuminates how local newspaper businesses' value capture strategies and audiences' perceived value of the digital news product affect local newspapers' societal role and their business sustainability. The article provides insight into the possibilities and perils of a funding structure for digital journalism in a triple market setting where state subsidies, audiences and advertisers contribute to news publishers' revenue.

### KEYWORDS

Value creation; local newspapers; audiences; social responsibility; business model; value flow; value flow gap; payroll

Local newspapers' business operation has traditionally been based on a double value creation logic whereby news is sold to audiences in one market and the attention of these audiences is sold to advertisers in another market. This is known as a two-sided market model, typical for commercial news publishers in Western liberal democracies (e.g. Anderson and Gabszewicz 2006; Picard 1989). While serving these two markets, newspapers also create value for broader society. Their provision of news and information that contributes to a better-informed citizenry is generally regarded as a pre-requisite for a well-functioning democracy (e.g. Baker 2001; Christians et al. 2010; Napoli et al. 2017). News organizations thus serve societal common good interests as well as economic interests (Reader and Hatcher 2020; von Rimscha 2020). The relationship between the economic and societal value creation is complex and contradicting (Picard 2010). As much as the provision of news and information relies on the operation of commercial media outlets, the business logic of these organizations also threatens the supply of news and information, for example in geographic areas too small to sustain commercial news operations. In countries like the US, such market

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failure is currently wiping out local newspapers, creating news deserts and information deficits in many local communities (Abernathy 2020). In other parts of the world, media subsidies are in place to secure the provision of news and information to citizens (Gulyas and Baines 2020; Murschetz 2020). Such public funding of local journalism, whether by means of direct monetary support or indirect support through tax exemption and other regulatory measures, represents a third customer market – the subsidy market – where the state employs financial instruments to stimulate news medias’ value creation for citizens. As local news publishers increasingly struggle to maintain a profitable advertising business in their transition from print to digital and the commercial model of news is falling apart, there are urgent calls for a more active public policy to save local journalism (e.g. Napoli 2020; Pickard 2020). A revenue model for news that combines subsidies and user payment with some advertising revenue can potentially provide a viable path forward for local news publishers (Olsen, Pickard, and Westlund 2020).

The two-sided market model does not capture how local newspaper organizations are both commercial operations and knowledge-producing institutions that create value for society. Moreover, it does not account for how local newspaper businesses may generate revenue through public funding as well as from audiences and, to a lesser extent, from advertisers. To capture these facets, there is a need for a conceptualization of local newspapers’ value creation that encompasses both the social and commercial value dimension in a triple market setting where state subsidies are part of newspaper businesses’ revenue mix. Furthermore, local newspaper paywalls in the context of unprecedented availability of free content online, encourage a critical interrogation of how local newspaper operations’ “way of doing business” influences audiences’ use of local news and information services, and local papers’ role as societal institutions. In essence, it raises the question of how value creation and value perception dynamics between newspaper businesses and audiences influence local newspapers’ value creation for society.

In response, the present paper introduces the *integrated value creation model*, which unpacks how local newspaper operations create value in the digital realm by serving commercial customers as well as society. The purpose is to enhance the understanding of this complex interplay between social, individual, and business interests, which may or may not converge. The model concerns possibilities and perils of news publishers’ revenue generation – a comparatively neglected object of analysis in journalism research (Lewis 2020) – and provides insights in response to calls for a more nuanced understanding of the effectiveness of local media subsidy systems (Gulyas and Baines 2020). By identifying and combining three key perspectives on local news publishers’ value creation from the research literature – a societal responsibility perspective, a business perspective, and an audience gratification perspective – the paper develops the integrated value creation model as a step-by-step process. The first step concerns local newspapers’ value creation for society as envisioned by a normative social responsibility understanding of the local press. The second step lays out local newspapers’ value creation from a business perspective based on a commercial logic. The third step describes local newspapers’ value creation from an audience gratification perspective focussing on audiences’ perceived value of the local news

product and their willingness to invest time and money in it. Bringing these different perspectives together, the model exposes value flows and value flow gaps between local newspaper businesses, audiences and society that emerge from converging and conflicting interests between these three parties.

To develop the model, I emphasize exemplars and empirical findings from Norway. With its combined commercial and public subsidy press structure (Skogerbø 2020) and relatively high levels of the population (42%) indicating payment and/or use of paid news content online (Newman et al. 2020), the Norwegian case serves as a “laboratory” for examining and theorizing local newspaper organizations’ diverse value creation in a triple market setting. The majority of Norway’s more than 220 newspaper operations, mostly small and local (Østbye 2019), have online editions with a paywall (Høst 2020) and the majority of Norwegians who claim to pay for online news, subscribe to local and regional newspapers online (64%) (Newman et al. 2020).

In the following sections, the key concepts of value creation, value capture, value flows and value flow gaps are laid out as a foundation for building the model. The aforementioned value creation perspectives are then presented and employed in the development of the integrated value creation model. The paper concludes with a discussion of the implications of the value flows and value flow gaps emerging between audiences and local newspaper businesses in the model.

### Clarifying Key Value Creation and Local Newspaper Concepts

Value creation refers to how a source (e.g. local newspaper businesses) generates and proposes value for a target (e.g. audiences and society) and how value is captured and shared in the process (Lepak, Smith, and Taylor 2007). Stimulating audiences to pay for local news by implementing paywalls is an example value capture among local newspaper businesses. This study distinguishes between local newspapers as organizations and products. The organization, i.e. the value source, is referred to as local newspaper businesses, operations, or publishers. The product offered by these organizations is referred to as local newspaper products, local journalism, or local news and information. Since this research is concerned with value creation in the digital realm, the product under study is the online offering rather than the printed local newspaper product.

Value creation encompasses different activities and players which generate *value flows*, i.e. a transfer of value between the involved parties in the value creation process (Bowman and Ambrosini 2010; Hlady-Rispal and Servantie 2018). Value can be created for and by individuals, organizations and society, i.e. all three can be both sources of value creation and targets in the value creation process (Lepak, Smith, and Taylor 2007). When there is a mismatch between the value intended and designed by a company and customers’ perception of this value, a perception gap occurs (Van der Haar, Kemp, and Omta 2001). This would typically be the case where the local news publishers’ product does not meet audiences’ wants and needs. As a result of this mismatch, customers are unwilling to make significant temporal and monetary expenditures on the company’s offering (Picard 2010), and there is no value flow between the customer and the company. Such a gulf in the value flow is defined as a *value flow gap*,

i.e. a breach in the value flow between sources and targets resulting from diverging interests between the parties.

Robert Picard (2010) describes how news media must create value from both a moral philosophy and an economic perspective. The moral philosophy perspective concerns ideals of news organizations' role in society and virtuous benefits that these media must deliver to individuals and society. On the societal level, news media create value when they provide journalism that contributes to an informed and educated public, to social interaction, engagement, and participation in public life, as well as correction of errors and resolution of conflicts in society. On the individual level of media users, value creation concerns functional benefits such as informing audiences and helping them understand their place in the world and events around them. It also concerns emotional benefits such as stimulating feelings of involvement, belonging and community, and self-expressive benefits such as providing opportunities for participation through various forms of interactivity (Ibid). These characteristics of newspapers' value creation resonate with social responsibility ideals of journalism in a Western liberal democratic context (Baker 2001; Christians et al. 2010). The economic perspective concerns the ability of news businesses to propose use value and generate exchange value based on a market logic, and it concerns customers' willingness to invest resources in the news businesses' offerings. Use value refers to the perceived usefulness of goods or services' in achieving individual or societal goals (Picard 2010), whereas exchange value is the price paid for the perceived use value of goods and services (Bowman and Ambrosini 2000). Even if a journalistic product has substantial value from a moral philosophy perspective, it may have little exchange value in a commercial market (Picard 2010). This potential conflict between value perspectives is an important premise for the integrated value creation model. It suggests that news media's value creation is not a friction free process but rather a complex set of interactions between parties and interests that may or may not be aligned. In the following sections, this relationship is detailed by combining research on local news media's social responsibility with business model as well as uses and gratification literature. By combining theoretical and empirical contributions from these strands of literature, the integrated value creation model emerges.

## **Developing the Integrated Value Creation Model**

### ***Step 1: Identifying Local Newspapers' Ideal Value Creation for Society***

The idea that news media provide value by serving social responsibility functions in society is deeply embedded in journalists' self-perception and professional ideals, in academic assessments of journalistic performance, and in the norms guiding media policy formulation (Baker 2001; Roppen and Allern 2010). The concept of socially responsible media dates back to the Hutchins Commission Report (1947) in the US, later restated as a normative theory of the press by Siebert, Peterson, and Schramm (1956). This tradition retains freedom and self-regulation as basic principles for how the media should operate. However, the public also has rights and legitimate expectations of certain services from the media, particularly with regard to the provision of information (Nordensteng, et al. 2006). Social responsibility has been criticized both as

a media system theory (e.g. Nerone 1995), as standards for media performance (e.g. Baker 2001) and as a basis for media regulation – or lack thereof (e.g. Pickard 2015). While this broader debate is beyond the scope of this study, social responsibility remains a defining ideal of journalism (Deuze and Witschge 2018), both as a set of legitimate public expectation (Kovach and Rosenstiel 2014) and as ‘lines of accountability’ that attach news media to the social environment in which they work (McQuail 2006). This legitimizes different levels of media regulation to achieve acceptable services to the public (Nordensteng, et al. 2006). At the local level, such services include providing vital information to citizens about events and issues in the locality, serving as arenas for local political and social discourse and mediating local identity and a sense of belonging (e.g. Hess and Waller 2016; Napoli et al. 2017; Skogerbø and Winsvold 2011). By providing audiences with a common basis of issues and knowledge, local news media contribute to the citizenry’s self-perception as one collective for identity-building and political participation (Kösters and Jandura 2017). This integrative force has been conceptualized as the social glue function of local journalism. The glue metaphor refers to a certain type of societal accountability in the local journalism context, namely that of connecting the community, seeking to resolve conflict, bringing people together, performing boundary work towards the wider world and upholding expected social and moral norms in the community (Hess and Waller 2016). Acting as advocates for local interests and engaging in local boosterism is also part of this glue function (e.g. Gutsche and Hess 2018). Another metaphor associated with local media’s social responsibility, specifically their information role, is that of the watchdog that holds power to account, exposes conflicts and scrutinizes corruption and political scandals in line with “Fourth Estate” ideals of the press (Nielsen 2015; Nygren 2020). There is an inherent tension between the glue and watchdog ideals of local journalism. However, both types of social responsibility are regarded as important for healthy local democracies (Engan 2015).

The social responsibility perspective theorizes a value transfer from local newspaper operations to audiences and from audiences to society: When local news publishers provide audiences with journalism that serves information, integration and arena purposes, this generates value – a value flow – from the news organization to its audiences. By consuming such local journalism, audiences create shared value for society in line with democratic ideals of an informed and educated public. This causality concerns what economic theory refers to as positive externalities, i.e. the value local journalism creates for those who do not directly pay for it or consume it (Ali 2016). For example, when citizens become better informed by following the news, they do not only profit personally, but society as a whole benefits because news consumption is seen to stimulate better informed decisions that serve the interests of the collective (Picard and Pickard 2017; Van der Wurff 2012). This can be conceptualized as a value flow from audiences to broader society.

The idea of a value flow from local newspaper operations to audiences and subsequently from audiences to society underpins a substantial body of empirical journalism research. However, results regarding this value transfer are mixed. With respect to local newspapers’ information role, several studies have demonstrated that local news media seldom live up to their watchdog aspirations. Instead of delivering critical,

investigative journalism, local newspapers are more likely to operate as guard dogs serving the interests of those with power, resources and influence, thus conserving existing social structures (Nielsen 2015). A Norwegian study found only five percent of local news content to be critical or investigative journalism and there was otherwise extensive use of “one source” news stories indicative of superficial journalistic investigation among local news media (Mathisen and Morlandstø 2019). Similarly, a Swedish study concluded that thorough investigation and disclosure of political wrongdoings barely existed in local journalism (Ekström, Johansson, and Larsson 2006), and a Danish study found that local journalism was hardly hard-hitting and investigative (Nielsen 2015). Still, local newspapers are repeatedly found to play an important role in keeping people informed about their local communities. The aforementioned Norwegian, Swedish and Danish studies demonstrate how local news media, including newspapers, are important providers of information, despite the lack of investigate watchdog journalism. Without these media, information about politics and local governance would be less accessible to citizens (Mathisen and Morlandstø 2019). Studies of audience use patterns in different national contexts confirm that local newspapers remain important in keeping people informed even though social media platforms are increasingly popular as sources for local news (Gulyas, O'Hara, and Eilenberg 2019; Nygren 2019; Park, Fisher, and Lee 2020; Pew Research Center 2019). Convergence in use of news sources has been identified as a key dimension of people's public connection, which in turn represents a precondition for democratic engagement (Couldry, Livingstone, and Markham 2010). In Norway, local online newspapers remain the most popular sources for local news and information (Olsen 2020a). The way audiences converge or congregate around local newspaper products suggests that these media serve as a common basis for issue awareness and knowledge in local communities and thus constitute an integrative force (Ibid). These findings align with a rich body of research which has demonstrated the role of local news media in facilitating community integration and civic involvement. For example, Friedland (2001) demonstrated ways in which local news media help create communicatively integrated communities. Yamamoto (2011) found a positive association between community newspaper reading and a sense of social cohesion, indicating that these media are important for community engagement, and Buchanan (2009) and Hess (2015) documented ways in which local news builds a sense of place and connects people in local communities. Compared to other sources of local news and information, local newspaper products are most strongly associated with information, integration, and arena roles by their audiences, i.e. functions rooted in social responsibility ideals (Olsen 2020a).

Supplementing this, research has demonstrated how closure of local news outlets has had a negative effect on access to information and representation of different interests in a local community (Harte, Howells, and Williams 2018; Usher 2019), on voting behaviour and accountability in local politics (Darr, Hitt, and Dunaway 2018) as well as citizens' sense of community and belonging (Mathews 2020; Park, Fisher, and Lee 2020). This is a growing concern in much of the democratic world given market forces are currently eradicating local newspapers, leaving entire regions and issues uncovered (Pickard 2019). In the US, where local newspaper death is particularly salient, disinformation-masquerading-as-journalism and hyper-partisan journalism have

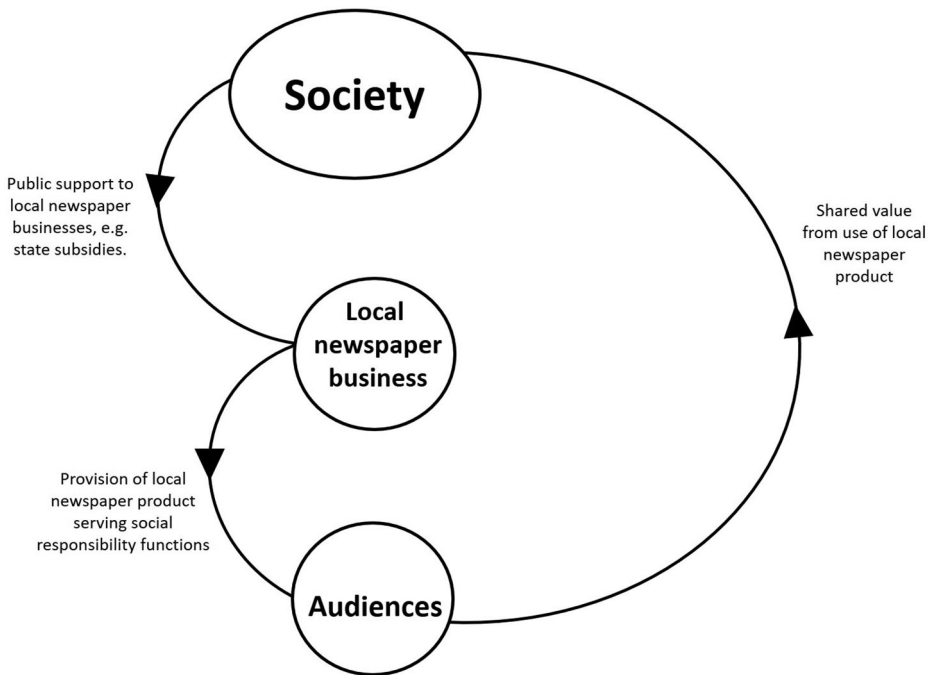


emerged on the local level, hijacking the information role that local newspapers previously held (Napoli 2020) and making it more difficult for audiences to distinguish between fake news and quality news reporting. This is creating concern over growing polarization in the population and distortion of democratic processes (Ibid). There is also concern over technological advances that may negatively affect local newspapers' democratic role. Specifically, the prevalence of personalized news recommender systems based on artificial intelligence has raised concern over the declining capacity of local news media to shape common experiences among audiences and promote shared discourses required by a well-functioning local democracy (Holand and Engan 2020). On the other hand, such news recommender technology can also build on social responsibility values to increase popular engagement with news and strengthen the democratic role of the media (see Helberger 2019 for discussion).

Various incentives can be built into a policy system to counter the negative effects of market forces (Picard and Pickard 2017; Murschetz 2020) and to stimulate news media to create value by serving social responsibility functions. State subsidies to local newspapers is one such measure (Nygren 2020). Thus, social responsibility ideals define local news publishers' value creation in the subsidy market. Subsidies, as well as regulatory conditions that provide structure and stability to the benefit of news operations, represent a value flow from society to commercial local newspaper businesses. Norway serves as an example of how the state provides favourable value creation conditions for local newspaper operations by means of subsidies. The country has one of the most generous media support regimes in the world (Kammer 2016). In this support system, non-market leading local or regional newspaper operations that represent an alternative to the dominant newspaper outlet, as well as newspaper operations that are too limited in terms of circulation and/or frequency to be economically sustainable, are eligible for direct subsidies from the state. Newspaper businesses also receive indirect subsidies in the form of VAT exemption on their digital and printed product sales (MediaNorway 2019). Supporting local news publishers has become an increasingly prominent political goal in Norway. In the 2019 White Paper on Media policy, small local newspapers' key role as local democracy infrastructure is accentuated and increased support schemes to small local news outlets have been introduced (Solberg-Government 2019). State support has contributed to a diverse press structure in Norway (Skogerbø 2020), which in turn is regarded as a prerequisite for diverse media consumption among citizens. The media policy is explicitly modelled on the assumption that there is a causal relationship between a diverse supply of ideas and opinions from a diversity of media outlets and the use of this supply to the benefit of local democracies (Solberg-Government 2019).

Based this collective body of literature and empirical observations, we can conceptualize a value flow cycle between society, local newspaper operations and audiences. The cycle captures how local newspaper operations contribute to value creation for individuals by providing journalism in line with social responsibility ideals (value flow from newspaper businesses to audiences), and for society by keeping people informed and connected with public life (value flow from audiences to society). Moreover, it captures how society can contribute to this process by providing favourable value creation conditions for news organizations such as subsidies and regulatory measures





**Figure 1.** Step one of the integrated value creation model development. Identifying local newspapers' ideal value creation for society. Value flows between local newspaper businesses, audiences, and society according to social responsibility ideals.

(value flow from society to local newspaper businesses). This cycle expresses the essence of how local newspaper operations create value in the subsidy market according to social responsibility ideals. The value flow cycle is visualized in [Figure 1](#).

The social responsibility perspective is not concerned with how local newspaper businesses aim to capture exchange value, nor with the perceived use value of the local newspaper product among audiences. The local journalism that news publishers provide is perceived as important for individuals and society, regardless of supply and demand dynamics in a commercial marketplace. In line with this reasoning, the local news product can be categorized as merit goods, i.e. the positive benefits that local journalism engender for both individuals and society, have such value for a well-functioning democracy that this service should be provided even if audiences systematically underappreciate it (Ali 2016; Pickard 2015). However, if we ignore supply and demand when theorizing local newspapers' value creation, we fail to capture important factors that influence value flows between newspaper businesses, audiences, and society, and potentially create value flow gaps between the parties. To account for these factors, we need to add local news publishers' business perspective on value creation and audiences' gratification perspective in the model.

### ***Step 2: Adding Local Newspapers' Business Perspective on Value Creation***

The business model concept provides a productive framework to capture local news publishers' business perspective on value creation. In marketing and management

research literature, a business model is described as the architecture for how a firm makes or will make money by creating and delivering value to customers and by capturing value by converting payments received into profits (e.g. Teece 2010; Zott, Amit, and Massa 2011). In essence, the business model represents “the money earning logic of a firm” (Osterwalder 2004, p. 47)<sup>1</sup>. For commercial news organizations, this means integrating resources into a marketable journalistic service that entices audiences’ engagement and willingness to pay and attracts the right audiences for advertisers while simultaneously minimizing costs (Picard 2010).

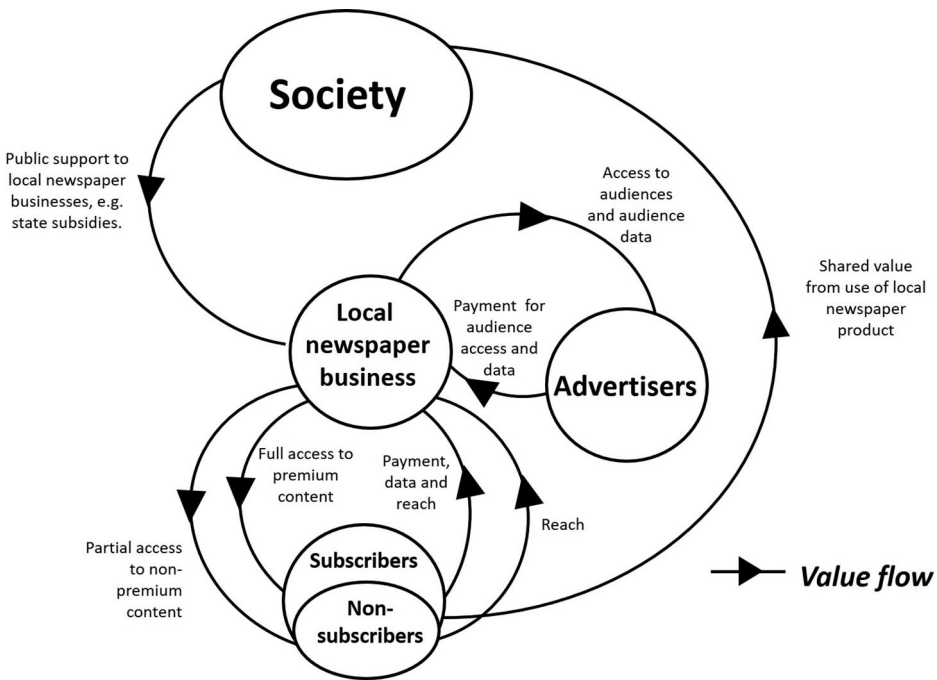
The business model is often described as a set of interrelated building blocks (Osterwalder and Pigneur 2010). Synthesizing different conceptualizations of these components and relating them to the newspaper industry, Hognaland and Saebi (2015) identify four interrelated parts of a business model. These are a company’s choice of (1) *value proposition*, which describes what the company can offer to its customer; (2) *customer segment* referring to who the customers are and how the company interacts with them; (3) *key processes*, which concern what the company does to deliver its value proposition and the resources used to generate value for customers and (4) *revenue structure*, i.e. how the company captures exchange value. For local news organizations operating in triple markets, audiences, advertisers, and the state can be conceptualized as three distinct customer segments. The value proposition to audiences is news and information. The value proposition to advertisers is access to those audiences by means of advertising space in the newspaper product and information about audiences. The value proposition to the state is the contribution local newspapers’ news and information service makes to a well-functioning democracy. Exchange value from these customer segments represents local newspaper businesses’ revenue structure in a triple market model. Key processes concern production and distribution of journalistic and advertising content.

There is some converge between the social responsibility ideal of local newspapers’ value creation and the business value creation perspective of these organizations, since providing information, serving as local debate arenas and contributing to social integration and a sense of belonging are key elements in commercial news operation’s value proposition to their audience customers. As described by Matthews (2017), serving the good of the community is the central pillar of the established business model for the local newspaper industry. However, the drive towards efficiency and profits motivates local newspapers to pursue economies of scale and scope by means of cost cutting, centralization and streamlining of news production (Jenkins and Nielsen 2020), thus giving priority to bottom line performance over journalism’s civic mission (Abernathy 2020). The industry is encouraged to simplify news by demanding it be produced as cheaply as possible (Matthews 2017). Moreover, commercial newspaper operations are accused of choosing more popular and less expensive content over important and expensive-to-produce content to maximize audiences and attract advertisers who seek cost efficient access to mass audiences (Van Aelst et al. 2017). Research on local newsroom practices has demonstrated how the push to increase traffic stimulates light-weight content over more serious local news reporting (Blanchett Neheli 2018) and how “clickability” rather than public interest or normative news values determines what is covered and how (Morrison 2020). The business

model's emphasis on profit may thus result in journalism that generates exchange value for the newspaper business but contributes little to an informed and educated public (Picard 2010). In this case, there is a conflict of interests between local news publishers' moneymaking logic and their social responsibility. Specifically, the value proposition that local newspaper businesses are making to audiences is conflicting with the value proposition they are expected to provide according to social responsibility ideals.

In recent years, studies of the business of local news have been concerned with the transition from print to digital and experiments with diversified commercial strategies. In a study covering Finland, France, Germany, and the United Kingdom, Jenkins and Nielsen (2020) describe how local newspapers aim to operate as 'ambidextrous organizations' that exploit the print products of the past while exploring digital innovations that may help sustain them in the future. Such innovations include implementing paywalls and using data and analytics to personalize news and advertising. Nurturing user payment by means of online paywalls could stimulate more exclusive and local journalism with improved information value as this output is easier to monetize (Ibid). As such, the pursuit of a loyal, albeit smaller, user base willing to pay for local news could encourage a value proposition more aligned with social responsibility ideals. Research from Norway demonstrates how local newspaper operations aim to secure their relationship with existing print subscribers and transfer subscription relationships from print to digital without significant loss of reach for their news websites (Olsen and Solvoll 2018a). A differentiation approach whereby the most valuable local content is reserved for paying audiences has been implemented to achieve this (Kvalheim, 2020). For subscribers, local newspaper businesses offer full access to the most resource demanding, in-depth and investigative local news reporting, local opinion pieces and hyperlocal content. For non-subscribers, they offer mainly headlines and pictures on the front page of the website and in some cases commodified news content that people can also find elsewhere on the Internet. The latter has been described as a less valuable offering but potentially "good enough" for some audiences to encourage continued visitation to the local newspaper website, thus contributing to maintained audience reach (Olsen and Solvoll 2018a). This differentiation of value propositions motivated by business interests, demonstrates how the value flow from local newspaper businesses to audiences depends on audience group: Full access to premium content for subscribers and partial access to non-premium content for non-subscribers.

The money paid to access local journalism behind a paywall represents a value flow from audiences to local newspaper businesses. Taking the Norwegian newspaper industry as an example, reader revenue has increased over the last years owing to a growth in digital subscriptions. In 2019, reader revenue reached close to 6.9 billion NOK, accounting for 60% of the industry's total revenue (Medietilsynet 2020). In addition to direct payment, audiences contribute to local newspaper businesses' revenue by engaging with content, thus generating user data, which can be sold to advertisers. Such knowledge about individual consumers' characteristics and behaviour, is the main currency in today's data-driven advertising world (Ohlsson and Facht 2017). Paywalls, which require users to log into the local newspapers' website to access



**Figure 2.** Step two of the integrated value creation model development. Adding local newspapers' value creation from a business perspective and exposing value flows between local newspaper businesses and different customer groups.

news, play a key role for collecting such user data and for “weeding out” non-local audiences that are not relevant for local advertisers (Olsen and Solvoll 2018a). With paywalls in place, newspaper businesses can potentially offer advertisers more relevant and valuable local audiences and user behaviour insights. These benefits are important for advertisers seeking to minimize “waste” and maximize return on their investment (Myllylahti 2016). Global players such as Facebook and Google offer sophisticated analytics which have rendered ‘simpler user data’ such as traffic volumes and clicks less attractive and more difficult to monetize (Ohlsson and Facht 2017). Still, audience reach has remained vital for local newspaper businesses’ value proposition to advertisers, and maintaining online traffic continues to play a key role for local newspapers’ digital business (Jenkins and Nielsen 2020; Olsen and Solvoll 2018a). This means that both audience size, audience relevance and audience data constitute a value flow from newspaper businesses to advertisers, whereas the revenue paid for these audiences constitutes a value flow from advertisers to the local newspaper business. In the Norwegian case, the newspaper industry generated 4.1 billion NOK in advertising revenue in 2019, accounting for 36% of the newspapers business’ commercial revenue (Medietilsynet 2020, p. 29).

To account for the business side of local newspaper operations’ value creation, we need to add these value flows to the ones envisioned by the social responsibility perspective. This is visualized in Figure 2. Here, local newspaper businesses’ value propositions to audiences and advertisers are detailed as distinct value flows. Moreover, the differentiation of value propositions to paying and non-paying audiences is specified

as two separate flows, adding more nuance to the conceptualization of the value transfer from newspaper businesses to audiences. The superior value service offered to paying subscribers and the lower quality service offered to non-subscribers demonstrate how this value transfer is only partly aligned with social responsibility ideals. This has implications for local newspaper businesses' value creation in the subsidy market since parts of the public are provided a better local information service than others. This is visualized by the adjustment of the value flow from audiences to society whereby this value transfer now specifically involves subscribers who receive the higher quality news service rather than audiences in general. In addition to this important adjustment, value flows from audiences and advertisers to local newspaper businesses are incorporated in the model. Different value flows are specified from subscribers and non-subscribers as the first group contributes with direct payment as well as user data and reach, whereas the latter group, who visit local newspapers' content without paying, contribute to reach.

The value flow from paying audiences is increasingly important for local newspaper businesses due to the sharp decline in advertising revenue. Research in the Nordic region shows that advertisers are reconfiguring their advertising budgets from investment in national legacy media to global search and social media (Ohlsson and Facht 2017). In Norway, newspapers lost 30% of their advertising revenue from 2015 to 2019, mainly due to competition from global super players such as Facebook and Google (Medietilsynet 2020). There is considerable pessimism in the research literature regarding the local newspaper industry's increasing dependency on reader revenue (Hess and Waller 2016). Earlier studies have concluded that the prospect of funding journalism by means of paywalls is poor (Franklin 2014) since selling access to online news has generated limited revenue (Pickard and Williams 2014; Myllylahti 2014; Chyi and Ng 2020) and paywalls may drive away audiences and reduce advertising revenue (Chiou and Tucker 2013; Carson 2015). This encourages news operations to sometimes drop their paywall (Ananny and Bighash 2016). There is also concern over growing inequalities between citizens who are willing and able to pay for news behind a paywall and those who are not (e.g. Benson 2019; Moe 2019). Audiences have never been particularly interested in paying for news (Picard 2010) and there is a risk that local newspaper operations are unable to provide local journalism that audiences can afford or are willing to pay for (Ali, Radcliffe, and Donald 2020). When companies lack a clear understanding of customers' requirements and preferences in a competitive marketplace, they will promote product and service features that provide little or no benefit to target customers or products which lack superiority relative to alternative offerings (Anderson, Narus, and van Rossum 2006). Simply put, the company claims to offer superior value in its products and services that customers do not recognize. If newspaper businesses' news and information service is perceived as too expensive or not attractive or superior enough compared to alternative content offerings, the business perspective on value creation conflicts with audiences' value perspective; more specifically with needs and wants that motivate media use. As argued by Costera Meijer and Kormelink (2020), understanding what audiences appreciate about the news product is an urgent matter for news media as businesses as well as democratic institutions. In line with this, a third value perspective needs to be incorporated into the value creation model, namely that of audiences.

### **Step 3: Adding Audiences' Gratification Perspective on Value Creation**

By changing the perspective on local newspapers' value creation to that of the audience, the analytical focus shifts from the newspaper organization and how it operates to the newspaper product and how it is perceived. To understand audiences' perception of value in relation to the local newspaper product, the rich tradition of uses and gratification (U&G) research provides a productive framework. According to this research paradigm, audiences select media to fulfil their needs and wants, which leads to different patterns of media exposure and gratifications (Katz, Blumler, and Gurevitch 1973; Ruggiero 2000). As such, the U&G literature offers a "bottom-up", rather than a "top-down" approach to local newspaper businesses' value creation by focussing on people's experiences with news media in their everyday lives, i.e. what audiences perceive to be valuable about the local newspaper product in a competitive media environment. U&G represents a framework for capturing more or less conscious value assessment processes, which are conditioned by situational, motivational, individual and structural factors (Wadbring and Bergstrom 2017). This makes this research paradigm well suited to identify audience interests that either converge or diverge with the interests of local newspaper operations and their business perspective on value creation, as well as the public interests expressed in the social responsibility perspective. In one specific strand of U&G literature, Schröder and colleagues (e.g. Schröder and Kobbarnagel 2010; Schröder and Steeg Larsen 2010) have proposed the concept of perceived worthwhileness of news media, which denotes individuals' subjective assessment of whether a medium is worth their while or not. Specifically, media users make everyday judgements of whether any given news source is worth their while by weighing the resources demanded to use that particular source (such as time and money) against the benefits it provides (such as knowledge and social connection). The more favourable that ratio is for the individual media user, the more likely he or she is to engage with the news source. This cost versus benefit assessment connects the worthwhileness construct with research literature on willingness to pay for news since price constitutes an important factor in the individual's worthwhileness assessment and purchasing behaviour (Kammer et al. 2015).

Another closely related strand of research is concerned with what audiences experience as 'valuable journalism' (Costera Meijer, [forthcoming](#)). Valuable local journalism is described as journalism which, in addition to providing reliable information and good storytelling, helps audiences maintain their social network as well as their identity as citizens, i.e. their public connection. This includes journalism which helps people understand their area and navigate their local environment, which serves as a collective memory, contributes to a sense of belonging and holds the community together while also recognizing differences and diverse interests in society (Costera Meijer 2020). Moreover, audiences expect local media to serve as watchdogs holding local elites to account, as 'good neighbors' who care about their community (Nielsen 2015), and even as a "good friend" who is attentive to audience needs (Costera Meijer, [forthcoming](#)). Local newspapers' way of serving collective, almost ceremonial functions as a civic institution, is important for how people value these news sources (Nielsen 2016). The research on valuable (local) journalism combined with the rich body of U&G research demonstrating how information, personal identity and integration/social

interaction are main gratifications sought among audiences (see e.g. Lee 2013 for overview), indicate convergence between audiences' needs and wants and the roles that local newspaper organizations should ideally perform according to social responsibility norms. This overlap suggests that audiences will perceive local newspaper content that aligns with social responsibility ideals as valuable and use this content in line with social responsibility ideals.

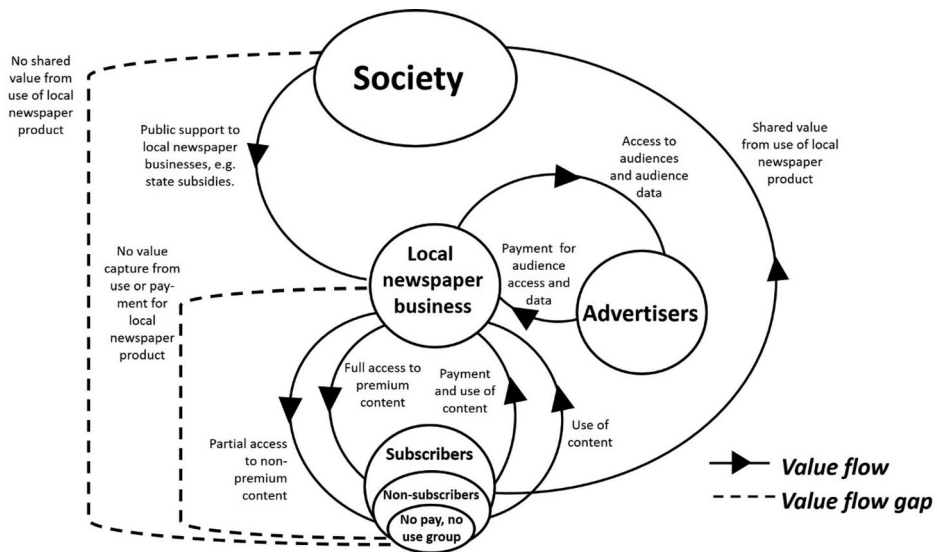
On the other hand, news interest and engagement are unevenly distributed and the idea that the mere provision of news and information will lead to individually informed citizens is criticized for being simplistic and unrealistic (see Moe 2020, for a discussion of the informed citizen ideal). Research has demonstrated peoples' preference for soft news and lightweight content at the expense of serious news reporting (Van Aelst et al. 2017) and exposed tendencies of news avoidance among audiences in a high choice media environment (Skovsgaard and Andersen 2020). There is also evidence of partisan selective exposure among audiences, and of news media becoming more biased and oriented towards affirmative journalism to appeal to partisan audiences (e.g. Kovach and Rosenstiel 2014). These factors have contributed to concern in the research literature over increasing polarization, fragmentation, and information inequalities among audiences (Van Aelst et al. 2017). Moreover, the interplay between the value capture strategies of local newspaper businesses and the worthwhileness perceptions among audiences may have a negative effect on news consumption. If people do not perceive news media's value proposition to be of superior value in a high-choice information abundant environment, if other offerings are more attractive or more aligned with their needs and wants, or the cost of consumption is too high in terms of required resources, they are unlikely to spend time let alone money on these news media (Picard 2010). Previous research showing low willingness to pay for online news (Chyi 2012; Chyi and Ng 2020) as well as decreasing audience reach for local newspapers after the introduction of paywalls (Chiou and Tucker 2013; Kim, Song, and Kim 2020) suggests that this may be the case.

Empirical findings from Norway reveal how the perceived value of the local newspaper product is experienced very differently among audiences. Qualitative research on the perceived worthwhileness of local news among people in their early adulthood demonstrates that for those willing to pay for local news, the local newspaper product is well integrated in their daily routines and vital for their sense of being informed and part of the community (Olsen 2020b). This confirms that there is a two-way value transfer between audiences and local newspaper businesses whereby perceived valuable content is exchanged for audiences' money and attention. Moreover, it confirms value flows between newspaper businesses, audiences and society as following the news is seen to have a positive impact on information levels and people's sense of belonging. However, among those unwilling to pay, the study finds that the value of local news is perceived as low and the local newspaper product is criticized for its 'smallness' and for overemphasizing insignificant matters. This is supported in other research, which demonstrates that the availability of information from all over the world has devaluated the relevance of proximity as a news value and reduced interest in 'news close to home' among young adults (Armstrong, McAdams, and Cain 2015). The aforementioned Norwegian study finds that those unwilling to pay do not



experience the local newspaper product as important for them personally, they question its quality and relevance in their everyday lives, and their consumption of local news is not very routinized and thorough (Olsen 2020b). Even though these audiences appreciate the value of local newspapers for the community where they reside, they are unwilling to invest time and money in the newspaper product due to a perceived lack of personal value (Ibid). Based on these findings, a value flow gap can be identified between audiences that are unwilling to pay for local news and the local newspaper business, as these audiences do not contribute to the news publishers' revenue by means of direct payment, reach or user data. Similarly, a value flow gap is exposed between individuals and society when audiences support the need for local newspapers as information sources, debate arenas, and integration resources in the community, but do not perceive these media to play an important role in their own lives and do not consult them for news and information. In other words, a transfer of value from society to local newspaper operations, onto audiences and back to society in line with social responsibility ideals, is broken at the audience level.

A growing body of paywall research provides additional refinement of the conceptualization of value flows and value flow gaps between audiences, newspaper businesses and society. These studies demonstrate with different methods and measures that paying for news online depends on individual factors such as age, education, income, news interest, free mentality and perceived quality of the news product among audiences (O'Brien, Wellbrock, and Kleer 2020). As demonstrated by Goyanes (2020), older readers tend to be more prone to pay for local news services, especially when they are concerned about the financial situation of local outlets. Among younger people, willingness to pay for local news is lower (Goyanes 2015; Kammer et al. 2015). Younger audiences are annoyed that they have to pay for content in their local newspaper online edition and support the idea that online local news should be free (Kristensen and Solvoll 2019). Several studies find lower levels of interest in local news and use of local newspaper products among younger people (Park, Fisher, and Lee 2020; Pew Research Center 2019; Wadbring and Bergstrom 2017) and there is a misalignment between local newspaper businesses' value proposition and the value perception and willingness to pay for paywalled news, particularly among younger audiences (Olsen and Solvoll 2018b). Consequently, changing the value capture and value creation strategies among news publishers by means of paywalls is seen to favour middle-aged audiences who were already subscribing to the printed newspaper product. This group of people with the highest score on local news interest, income and education has stayed loyal to the local newspaper and embraced paywalled content. Consequently, they are the ones generating exchange value for local newspaper businesses by paying for and using paywalled content. For those who are younger, have lower news interest, and income, and are less likely to subscribe, paywalls have had a negative effect on their relationship to the local newspaper, resulting in a decreased consumption of local journalism as these audiences claim to read fewer stories and use alternative news sources more (Ibid). There is also evidence of lower willingness to pay for online news among people with lower education suggesting that news that is free to users matters as a resource for the citizenship of specific social groups (Moe 2019).



**Figure 3.** Step three of the integrated value creation model development. Completing the model by adding audiences' gratification perspective and exposing value flow gaps between certain audience groups, local newspaper businesses, and society.

Drawing on these empirical insights, we can detail a value flow gap between local newspaper organizations and *certain* audience groups. These groups are those who do not engage with or pay for the local newspaper product. Subsequently, a value flow gap also occurs between these groups and society, since they do not create shared value for society by engaging with the local newspaper product. This provides a more nuanced understanding of local newspaper businesses' value creation. On one hand, these media represent an integrative force in local communities as many people still use the local newspaper product and perceive it as superior in terms of supporting their public connection (Olsen 2020a). On the other hand, we also need to accommodate alternative value perceptions and use patterns as some audiences are discouraged from paying for and engaging with the local newspaper product.

In Figure 3 these value flows and value flow gaps are incorporated into what now emerges as the integrated value creation model, which encompasses social responsibility, business as well as audience interests. The audience part of the model has been further refined by visualizing audiences who are detached from the local newspaper, i.e. groups who do not pay for, and do not use local newspapers' output. Moreover, value flow gaps have been added to the model between this "no use, no pay" audiences, local newspaper business, and society. In sum, the model visualizes the complex and interdependent nature of local newspaper value creation as commercial operations, as service providers and as societal institutions, specifically how news operations' value capture strategies influence transfer of value to audiences and from audiences to society.

## Discussion and Conclusion

In countries around the world, local news publishers are struggling to survive the transition from print to digital. Against this background, the present paper has

conceptualized local newspapers' value creation both as societal institutions serving public interests and as businesses operating according to a commercial logic. Moving beyond a two-sided market model of news media, the integrated value creation model dissects the dynamics of value creation in a triple market setting where newspaper organizations receive financial support from the state in return for serving public interest functions while simultaneously conducting commerce as business operations. By exposing the interplay between local newspaper businesses' value capture tactics and the perceived value of their offering among audiences, and by confronting this interplay with social responsibility ideals of local journalism, the model visualizes how local newspapers' failing capacity to attract certain audiences represents a threat not only to their commercial operation but also to their role as societal institutions. It also demonstrates how local newspapers' moneymaking logic motivates uneven value flows to citizens whereby some people receive better information services than others. These dynamics are more or less overlooked in the functionalist social responsibility view on local newspapers' societal role, particularly the factors that discourage audiences from engaging with their local newspaper. Extending previous work by Picard (2010) on news organizations' value creation, the integrated value creation model shows how local newspapers' contribution to an informed and educated public, to local debate and to a sense of belonging among people, depend not only on the provision of local journalism that meets these normative ideals, but on the cost of consumption for the individual and the perceived relevance of the news product in people's everyday life. This in turn, influences their willingness to engage with local journalism. As such, the integrated value creation model casts audiences in a role as active co-creators of value, rather than passive recipients of a value delivery. If audiences engage with the local newspaper product, if they invest time and money in it, they contribute to exchange value for local newspaper businesses and shared value for the broader society. Conversely, if audiences detach themselves from the local newspaper, both newspapers' value creation as businesses operations and as societal institutions are threatened.

This problem is exacerbated in the digital realm where information abundance and unparalleled access to free content from national as well as international media, stimulate audience fragmentation and increase the impact of personal preferences on people's media diet. The model shows how the combined impact of business and personal interests increases information inequalities among citizens and excludes certain groups of people from the communality that local newspapers still represent. While these dynamics bring to the fore a fundamental conflict between economic and public interests, the model also captures how local newspaper businesses hold a unique position in terms of providing vital information and connecting people to their local community. As such, the business of news plays a key role for the supply of journalism required in a healthy local democracy as demonstrated by the value flows from local newspaper businesses to audiences and onto society. Fixing local news publishers' revenue crisis is thus not merely a question of securing an industry's economic interests but of saving the media that most clearly serve the interests of the public. Since advertising revenue decreasingly subsidizes journalism, audiences are required to bear more of the costs. Consequently, the value flow from audiences to newspaper

businesses is becoming increasingly important for upholding this democratic infrastructure. The integrated value creation model captures this complexity in the relationship between local newspapers, audiences, and society.

For the field of digital local journalism research, the audience value perspective in the integrated value creation model represents a “missing link”, which can help us understand not only what role local newspapers *should* ideally play, but also what role they *could* play in a high-choice, digitally advanced media environment. The integrated value creation model invites further examination of the needs and wants of individual media users by means of a bottom-up, rather than a top-down understanding of local newspaper organizations’ value creation. Nuancing and challenging the view that local journalism is important regardless of market demand, the integrated value creation model illustrates how demand cannot be ignored as we theorize the role that local newspapers should ideally play in society. Without losing sight of normative ideals, the integrated value creation model calls for a better understanding of factors that make digital local journalism valuable for people, rather than what *should* make it valuable. Moreover, the model illustrates how social responsibility is incorporated in local newspaper businesses’ value proposition for paying audiences. Simply put, local newspapers are selling public connection functions to citizens, and the newspapers’ offering is superior to alternatives in this respect. Moving forward, this dimension of how local newspapers do business deserves more scholarly attention. Digital local journalism research will benefit from a nuanced approach whereby media business interests as well as audiences’ gratification interests are interpreted - not simply as threats to journalism’s democratic role - but as its preconditions.

For the local newspaper industry, the model highlights problems with how local newspaper businesses currently aim to create and capture value echoing previous research by Pickard and Williams (2014), Myllylahti (2014); Chyi and Ng (2020), Chiou and Tucker (2013) and Carson (2015) on paywalls and people’s willingness to pay. The value flow gap between the local newspaper organization and certain audience segments is a call to action for the industry. When younger audiences with low willingness to pay for local news describe how local newspapers fail to meet their needs and wants and how they experience local news as too small and unengaging, we are reminded that digital local journalism is currently assessed against the richness of news, information and entertainment available online. This abundance increases demands on presentation formats and content, and it encourages local news publishers to improve the relevance of their journalistic product particularly for younger audiences. As such, the model illustrates how being sensitive to what audiences truly appreciate is an urgent objective for news operations, as argued by Costera Meijer and Kormelink 2020. The youth problem, apparent in the value flow gap between audiences and newspaper businesses, represents a big challenge for local newspaper operations. To build a sustainable business for the years to come, they need to recruit new, young subscribers, particularly those in their early adulthood. Without increased relevance to younger people, local news publishers will not be able to recruit these people as readers, let alone as subscribers. The integrated value flow model provides a structured framework for addressing these challenges, specifically local news publishers’ ability to close the gap to younger audiences.

For the media policy field, the patterns of value flows and value flow gaps in the model encourage a critical assessment of the assumption that supply alone stimulates actual use of local journalism in a high-choice media environment. The shift in news consumption upon the introduction of online user payment strongly suggests that the role of local newspapers as contributors to a diverse media diet is weakened by paywalls. The model demonstrates how the combined impact of access restrictions to online local news and low perceived value of this content among certain audiences have a negative impact on use, contrary to explicit policy goals. These dynamics affect local newspaper businesses' value creation in the subsidy market negatively and motivate a discussion of regulatory schemes that directly stimulate diversity in use on the level of the individual in addition to support on the industry level. Free access to news for specific social groups as suggested by Moe (2019), may be one such measure. In Norway, "value cards" providing free access to local news media for low-income groups have been suggested as a supplement to industry subsidies (Berg and Tryggestad 2020). The integrated value creation model provides a framework to further the discussion on these and other media subsidy measures, potentially by adding another value flow from society directly to the media user to capture subsidies on the individual media user level. This demonstrates how the model can be extended to encompass additional value flows and players involved in local newspapers' value creation. As calls for state support of original journalism are made in several countries, the model and its emphasis on exemplars from a national context with a well-established state support regime for the news industry, can inform the discussion on the possibilities and perils of such subsidies.

The step-by-step model building conducted in this article has been concerned with the value creation dynamics between local newspaper businesses and revenue generating customers. This has sharpened the focus of the analysis, but it is also a limitation that should not be ignored. I call on future research to extend the examination of local journalism's value creation to a broader set of stakeholders, such as journalists, local politicians, and advertisers. The way local newspaper businesses differentiate between high value and low value journalism and aim to harness user payment as well as reach, calls for further examinations of how this balancing act affects local journalists' work in the newsroom. Moreover, when certain audiences detach themselves from the local newspaper product upon the introduction of paywalls, we are encouraged to ask if this has affected local politicians' perception of newspapers' value as arenas for public discourse. Similarly, we need a better understanding of how the local newspaper products' declining capacity to attract certain audiences influences the perceived value of local newspapers among advertisers. With the increasing dominance of Facebook and Google as advertising platforms, future research should examine how local advertisers assess local newspaper businesses' value proposition since advertising remains an area of strategic importance for the local newspaper industry in the digital realm. That said, the model should also be extended to non-commercial media contexts to explore value flows and value flow gaps between non-profit news operations (e.g. public service and donation-based media) and their different stakeholders. Finally, even though the integrated value creation model demonstrates how state support on the industry level may be insufficient to stimulate actual use of local news and

information among certain citizens, we cannot conclude that such state support does not have a positive effect on local news consumption and information levels in the population. Future studies are strongly encouraged to examine this connection by applying the integrated value creation model to different national contexts. In this way, the model can serve as a framework for comparative studies of news media's value creation for individuals and society across countries and media systems.

## Note

1. Notably, there is also a research strand concerned with business model conceptualizations that are not oriented toward profit-maximization (e.g. Randles & Laasch, 2016). However, in the present context I will align with conceptualizations from the mainstream business model literature and the moneymaking logic described by Osterwalder (2004).

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