



News release

Date **Embargoed**
New York: 00.01 hrs, 12th June 2012
London: 05.00 hrs, 12th June 2012
Hong Kong: 12.00 hrs, 12th June 2012

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THE END OF THE DIGITAL BEGINNING: CHALLENGE FOR MEDIA COMPANIES NOW LIES IN HOW TO IMPLEMENT THEIR DIGITAL STRATEGIES

Digital migration is increasingly playing out differently across the various segments and geographies of the entertainment and media industry says PwC's Global Entertainment and Media Outlook 2012-2016

12 June 2012 – Despite ongoing economic uncertainty, the past year has seen global sales of tablets and smart devices reach record levels once again, underlining the growing revenue opportunities from digital delivery of entertainment and media (E&M) content and advertising to increasingly connected, and particularly mobile, consumers.

According to PwC's annual *Global Entertainment and Media Outlook 2012-2016*, released today, digital opportunities are now well understood by media companies, advertising agencies and advertisers themselves: the industry is approaching the 'end of the digital beginning' as rising comfort levels with digital mean that it is becoming business-as-usual. Although the 'fog' experienced in the past few years around strategic options is lifting, there is more to be done: today's challenge is in the implementation of those digital strategies.

A world of difference

PwC believes that though the focus may still be on digital migration, challenges for E&M companies differ according to diverging market pictures across segments and geographies.

Tipping points and contrasting market development rates highlighted by this year's *Outlook* data and analysis show:

- Global entertainment and media spending on digital advertising and consumer formats increased by 17.6 percent in 2011 compared with only a 0.6 percent rise in non-digital spending. Digital's share of total spend will grow from 28 percent in 2011 to 37.5 percent in 2016, and digital spending will account for 67 percent of total E&M spending growth to 2016.
- Digital maturity varies widely at a segment level. For example, global spending on digital recorded music formats will overtake physical distribution in 2015, reaching 55 percent of total revenues in 2016. And global spending on online and wireless video games will overtake console and PC games revenues in 2013. By contrast, the digital component of consumer magazines will account for only 10.4 percent of spending by 2016, up from 3.1 percent in 2011.
- Global spending on music rose 1.3 percent in 2011, the first gain in many years, thanks to growth in the concert and music festival market and a slower decline in recorded music. Rises in digital music spending mean that overall, global spending on recorded music will finally begin to increase in 2013.

- Mobile internet access subscriber numbers, a key driver of digital spending, will more than double during the next five years to 2.9 billion by 2016, of which almost 1 billion will be in China. In India, mobile internet subscribers will increase from a low base at a compound annual rate of 50.8 percent to 2016, making it the fastest growth market for mobile internet in the world.
- By 2016, global mobile internet advertising revenues of \$24.5 billion will grow at 36.5 percent compounded annually, to almost match the size of the classified internet advertising market. However, paid search at \$78.1 billion and banner/display at \$46.6 billion will retain the lion's share of the market in 2016. China's mobile internet advertising market will grow at a compound rate of 68.4 percent to reach \$6.2 billion in 2016, making it the second largest market in the world behind the United States at \$9.4 billion.
- The newspaper publishing segment illustrates diverging trends across mature and growth economies. There will be ongoing declines in some territories such as the United States (declining 1.4 percent compounded annually to 2016, and expected to be worth 43.8 percent less in 2016 than 2007), but strong growth in countries where the digital infrastructure is less mature, such as Argentina (11.9 percent growth compounded annually to 2016), Indonesia (11.2 percent), and India (9.6 percent).
- France passed the United Kingdom and Germany in 2011 to become the second largest TV subscriptions market in the world behind the United States, driven by a 76 percent rise in IPTV households. In the TV advertising segment, spending in Russia surged by 20.2 percent in 2011; by 2016, Russia will overtake the UK, Germany, Italy, and France to become the largest TV advertising market in EMEA (Europe, Middle East and Africa).
- In the worldwide filmed entertainment market, over-the-top/streaming services will grow at a 21.0 percent CAGR to \$11 billion in 2016, and will overtake spending through TV subscription providers in 2012.

Marcel Fenez, Global Leader, Entertainment & Media, PwC, said:

“The various segments of the E&M sector are at different stages of digital development, but they are all embracing digital to meet the ever-changing demands of consumers effectively and profitably. Entertainment and media companies have reached what we're calling the ‘end of the digital beginning’: they've made the commitment to a digital future, and are now striving to make the necessary changes to their products, distribution and organisations.”

Entertainment and media companies reshape and retool for life in the digital new normal

According to the *Outlook*, the challenge now for E&M companies in a world where digital is established as ‘business as usual’ – and in those markets where the infrastructure is suitably developed to support digital distribution and consumption – is to focus on planning out and executing their digital strategies. Uncertainty in past years triggered by digital migration is giving way to a sharper focus on identifying, choosing and executing the business models, organisational structures and skill sets to harness new consumer behaviours and deliver rising future value.

- ***A finger on the consumer's pulse***
E&M companies need more than ever to understand consumer behaviours and motivations in order to engage with and immerse consumers in their connected, multi-screen environment. Data analytics tools are required to mine the mass of customer data, however the development of such tools may be triggering consumer fears over risks to their privacy. PwC believes that avoiding this will require a shift of industry mindset from ‘customer ownership’, towards facilitating a position where the customer is ‘in control’.

Companies will find that giving consumers more control over how their personal data is used may deliver higher benefits back to consumers, encouraging them to volunteer even more information, as well as providing better value for advertisers and higher rewards for media owners. Businesses need to aim for a win-win model in which the medium, the advertiser and the consumer all collaborate and benefit. Ultimately, the only person who ‘owns’ the customer – and the customer's data – is the customer him or herself.

- ***New roles emerge across the E&M value chain***
E&M companies need to identify the role or roles they will occupy as new structures emerge across the digital value chain, and work collaboratively with other providers with complementary capabilities.

According to the *Outlook*, these roles could include:

- ❖ acting as the online destination or physical auditorium that hosts the customer experience (the 'venue')
- ❖ aggregating and filtering consumers' content requirements (the 'community curator')
- ❖ providing exclusive content (the 'content monopoliser')
- ❖ being the 'device developer'
- ❖ acting as the consumer's trusted content companion across devices (the 'digital services champion')
- ❖ being the third-party specialist supporting experimentation, innovation and execution (the 'ideas generator')

For creative and media agencies, the rise of unpaid or earned media reflects an innovative new fusion of advertising, content and analytics, and presents an opportunity for sweeping change in their roles and business models. Advancing socialization is feeding into the widely-accepted concept among agencies and advertisers of "bought, owned and earned" advertising. A fourth category is emerging -- "managed" advertising, (the orchestrated use of social media, such as engagement via bloggers). Everything that agencies do for their clients now has an embedded digital component and agencies are directing clients' attention toward output measures such as earned/unpaid media reach, and purchasing intentions.

There are therefore opportunities for agencies to act as digital marketing and brand consultants, guiding their clients with insights into opportunities around the aggregation of data, socialization and content – particularly as the historical distinction between traditional and digital disappears.

- ***The benefits of reorganising around digital***

To date, many E&M businesses have developed digital as an adjacent operating group, with separate infrastructure, solutions and staff. But in the 'new normal', PwC believes that companies need to move away from this siloed approach, instead embedding and integrating their digital operations into the main enterprise, and driving improvements in three key areas: profitability, by reducing operational costs through common platforms and integrated business processes; scalability, gaining greater agility to grow and flex the business; and innovation, through integration, automation and talent.

To realise these benefits, companies will have to tackle challenges around rights, royalties and piracy – areas where many E&M companies are often burdened by rigid, complex, bespoke legacy systems. There are additional issues in leading and marshalling the talent and culture of innovation, needed to make digital implementation a reality, particularly in meeting the distinctive employment needs and expectations of the Millennial generation.

Added Fenez:

“As the walls of the silos come down, individuals within these organisations will need to adapt to new performance indicators and operating behaviours or face the risk of being left behind as the digital generation moves past them.”

The end of the 'digital beginning' arrives

In the face of sweeping change and uncertainty, the E&M industry has spent the past few years seeking effective business and operating models for the new world, through a cycle of constant experimentation, ongoing innovation and targeted analysis of the results. This will continue. But with digital now at the core of business-as-usual, PwC believes that experimentation and execution are no longer sequential but will proceed in parallel, enabling E&M companies to press ahead into the 'new normal' with confidence.

Said Fenez:

“We've reached the point at which talking specifically about 'digital' increasingly misses the point. As digital becomes the standard, its rising penetration ceases to be a topic for discussion in itself. What matters now is how companies capitalise on it and operate within it.”

ENDS

Key stats from PwC's *Global Entertainment and Media Outlook 2012-2016*:

- **Global spending:** Over the next five years, global spending on entertainment and media is projected to rise from \$1.6 trillion in 2011 to \$2.1 trillion in 2016, a 5.7 percent compound annual advance. This growth lags some way behind below the projected 6.6 percent compound annual increase in nominal GDP over the same period, reflecting the ongoing shift from higher-priced physical distribution to lower-priced digital distribution.
- **Largest 13 E&M markets:** There were 13 countries in 2011 with total E&M spending (combined advertising and consumer/end-user revenues) above \$25 billion, led by the United States at \$464 billion, Japan at \$193 billion, China at \$109 billion, and Germany at \$99 billion. China passed Germany in 2011 to become the third largest E&M market in the world. Of the leading countries, China and Brazil will be the fastest growing with projected compound annual increases of 12.0 percent and 10.6 percent, respectively. Brazil overtook South Korea in 2011 to move into ninth place, and during the next five years will pass Canada and Italy to become the seventh largest market.
- **Advertising spending:** The most cyclically sensitive E&M spending stream, advertising spending increased by 3.6 percent in 2011. This represented a slowdown from the 7.0 percent gain in 2010 that was augmented by advertising associated with the FIFA World Cup and Winter Olympics, and by the rebound from a sluggish 2009. In spite of growth during the past two years, advertising still remained lower in 2011 than in 2007, the beginning of the *Outlook's* reported period. Overall global advertising will increase at a 6.4 percent compound annual rate from \$486 billion in 2011 to \$661 billion in 2016.
- **Advertising segment growth:** Internet advertising will be the fastest-growing advertising category with a 15.9 percent compound annual increase, followed by the small video games advertising market, at 11.2 percent. Television advertising will average 6.6 percent compounded annually through 2016, out-of-home advertising will grow at a projected 5.0 percent compound annual rate, followed by radio at 3.8 percent compounded annually. The print segments—newspapers, consumer magazines, trade magazines, and directories—will average less than 3.5 percent compounded annually.
- **Consumer/end-user spending:** Overall consumer/end-user spending will rise from \$802 billion in 2011 to \$966 billion in 2016, a 3.8 percent compound annual increase. Video games are expected to rebound and become the fastest-growing segment of consumer/end-user spending during the next five years with a 7.0 percent compound annual increase, followed by TV subscriptions and license fees at 6.2 percent compounded annually. The remaining segments (see notes) will grow at rates of 4 percent or less.
- **Internet access spending:** Internet access—whether wired or mobile—is not an entertainment and media segment in itself, but is a fee to access content and is a key driver of entertainment and media spending in most segments. Global Internet access spending will rise from \$317 billion in 2011 to \$493 billion in 2016, a 9.3 percent compound annual increase.
- **Mobile Internet access:** Spending on mobile access increased from 26 percent of total global Internet access spending in 2007 to 40 percent in 2011—and will account for 46 percent in 2016, almost catching up with wired access spending.
- **Consumer magazines:** Overall global spending declined during the past four years, although annual decreases in 2010–11 were less than 1 percent. The market is expected to begin to increase in 2012, averaging 1.3 percent compounded annually to \$80 billion in 2016 from \$75 billion in 2011.
- **Consumer and educational books:** global spending on electronic books will rise at a CAGR of 30.3 percent to \$20.8 billion in 2016, taking electronic books' share of total global book spending from 4.9 percent in 2011 to 17.9 percent in 2016.
- **Out-of-home advertising:** Indonesia, Russia, and India will be the fastest-growing countries for out-of-home spending through 2016, with CAGRs of 11.2 percent, 11.0 percent, and 10.9 percent, respectively.

Notes to Editor

Press access to *Outlook* content online

To request press access to the online *Global Entertainment and Media Outlook 2012-2016*, contact Radhika Nanda at radhika.nanda@uk.pwc.com. This will allow you to illustrate this and other media stories both by extracting detail from the full *Outlook* dataset and analysis at a segment and territory level, and by creating charts on-screen that can be exported for use with your stories.

Outlook spokespeople

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About the *Outlook*

PwC's *Global Entertainment and Media Outlook 2012-2016*, the 13th annual edition, contains in-depth analysis and historical and forecast data for advertising and consumer/end-user spending in 13 major industry segments across 48 countries. Find out more at <http://www.pwc.com/outlook>.

Segments covered by the *Outlook*

Business-to-business, Consumer and educational books, Consumer magazine publishing, Filmed entertainment, Internet access spending: wired and mobile, Internet advertising: wired and mobile, Newspaper publishing, Out-of-home advertising, Radio, Music, Television advertising, TV Subscriptions and license fees, Video games.

Digital Spending

Digital spending consists of broadband and mobile Internet access; online and mobile Internet advertising; mobile TV subscriptions; digital music; electronic home video; online and wireless video games; digital consumer magazine circulation spending; digital newspaper circulation spending; digital trade magazine circulation spending; electronic consumer, educational, and professional books; and satellite radio subscriptions.

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