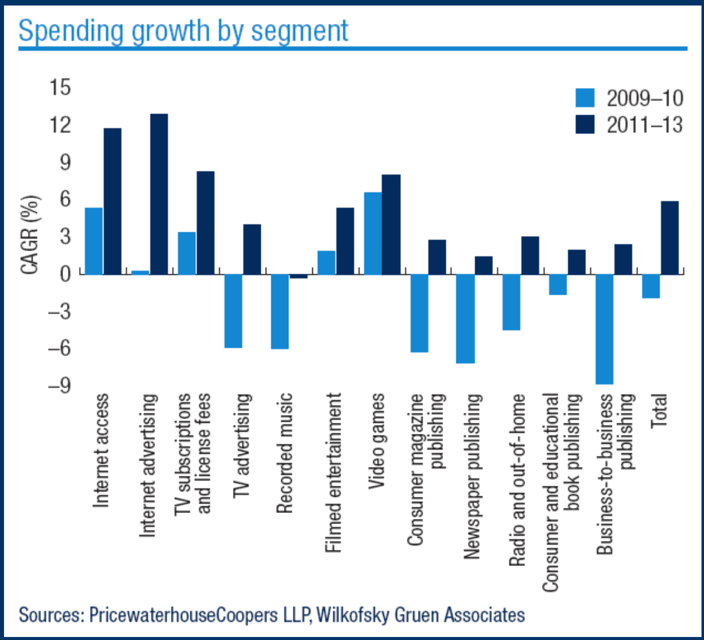
Viewpoint

Drive for digital sees segments' performance diverge

With digital services acting as the driver of industry growth during the next five years, E&M segments' differing exposures to digital -- and their varying abilities to tap into digital revenues quickly -- will see the revenue and growth performances between different E&M segments diverge. This trend, combined with the uneven impact of the global economic downturn through to 2011, will result by 2013 in significant changes in the segments' relative shares of overall E&M revenues.

The chart below compares the relative growth rates we are forecasting for the various industry segments during both the downturn of 2009–10 and the anticipated recovery in 2011–13. While the global E&M market as a whole will grow at an average rate of 2.7 percent compounded annually over the five years, this will include a period of much faster growth during 2011–13, when the aggregate rate of expansion globally will leap to 5.9 percent compounded annually, more than offsetting the overall decline experienced in 2009-10.



As the comparison in the chart illustrates, the growth rates of more digitally driven segments such as Internet access, Internet advertising, and TV subscriptions will outperform the industry as whole during both the downturn and the recovery.

For other segments, such as newspaper publishing, the upturn will coincide with a return to growth, albeit from a lowered base. Only recorded music, beset by its own specific issues, will decline in both the downturn and recovery.

An ongoing rebalancing of the industry

Indeed, our projections show that four E&M segments -- recorded music, business-to-business publishing, newspaper publishing, and consumer magazine publishing -- will suffer actual declines in total global revenues during the forecast period as a whole. These falls will be in stark contrast to compound annual growth in excess of 6% in Internet access, Internet advertising, video games, and TV subscriptions and license fees, and of 4% in filmed entertainment, which will become an increasingly digitally-driven segment.

During our five-year forecast period, these contrasting growth rates and digital's rising share of spend will drive an ongoing rebalancing of the industry's overall revenues, with E&M market share and revenues shifting towards those segments -- such as Internet advertising and video games -- whose growth is powered by the successful exploitation of digital opportunities. Meanwhile, segments such as business-to-business publishing and consumer magazine publishing will suffer ongoing revenue reductions in absolute terms, reflecting the inability of their new digital revenue streams to offset ongoing deterioration in traditional, non-digital revenue sources.

Significantly, the rising digital revenue opportunity in many segments will be heavily influenced by growth in Internet access spending. Internet access is not an E&M segment in itself, but is becoming an increasingly pivotal driver of spending in other digitally-driven E&M segments. Global spending on Internet access -- both wired and mobile -- will rise from $215 billion in 2008 to $334 billion in 2013. This represents a 9.2 percent rise compound annually, more than three times the growth rate of the E&M market as a whole.