

News Release

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NO PLACE TO HIDE FROM THE DIGITAL REVOLUTION Structural not cyclical change for global Entertainment & Media industry

Over the next five years, digital technologies will become increasingly widespread across all segments of entertainment & media (E&M) as the digital migration continues to expand according to the PricewaterhouseCoopers Global Entertainment & Media Outlook 2009-2013. Though the current economic downturn has, without doubt, impacted virtually every sector of the E&M marketplace it has also accelerated and intensified the digital migration among both providers and consumers of content.

The global entertainment & media market as a whole, including both consumer and advertising spending will grow by 2.7 per cent compounded annually for the entire forecast period to \$1.6 trillion in 2013. Initially we expect to see a 3.9 per cent drop in 2009 and a mere 0.4 per cent advance in 2010, with a period of much faster growth during the remaining period to 7.1 per cent in 2013. What we are sure about is that this recession will last longer than previous ones due to a steeper downturn and that the impact on consumer spending will be much steeper than in the past. E&M is not immune to that trend - consumer spending in E&M will fall by a projected 1.2 per cent in 2009, remaining weak in 2010 and seeing only relatively low growth at 3.2 per cent in 2011.

Responses to the recession will vary from country to country and region to region with some territories showing little ill effects while others experience steep declines. Latin America and Asia Pacific remain the fastest growing regions increasing at an annual compound rate of 5.1 per cent and 4.5 per cent through to 2013 reaching \$73 billion and \$413 billion respectively.. Excluding Japan, the dominant country in the Asia Pacific region which accounted for 45 per cent of total spending in 2008, E&M spending in Asia Pacific will increase at a projected 7.1 per cent compound annual rate over the period of the Forecast.

THE DIGITAL MIGRATION

However the economic downturn does not change the underlying drivers for digital migration and will more likely influence their pace and power and hence the timing of industry change. In short, making it more difficult to hide from the digital migration.

During the period under review, the switch to digital will drive divergences in revenue performance between different segments and geographies. Change will impact the managing of brands, characters, titles and talent across distribution platforms supported by new commercial models.

The case for digital migration, however, will continue to vary across geographies depending on the availability of efficient and cost-effective broadband and mobile infrastructure.

Marcel Fenez, Global Leader Entertainment & Media practice, PricewaterhouseCoopers, said:

“In some ways this could be called “the perfect storm”. Inside every cloud is a silver lining and in this case, a digital one. Companies who grasp the opportunities which are appearing in this fast changing marketplace and are agile enough to adapt their business models will be able to take full advantage of the potential and new revenue models as they emerge.”

CONSUMER BEHAVIOURS

The accelerated migration to digital technologies has reinforced and proliferated new consumption habits and “digital behaviours” as consumers seek more control over where, when and how they consume content while, more than ever, watching the pennies and seeking the best value from the choices they make. The advances in digital are enabling this with ease.

Marcel added:

“In previous years we have talked about the Net Generation and how their demands are driving the industry towards new business models. Interestingly, in this “income elastic” climate where spending power has to stretch even further than before, this younger generation is now exerting influence over older generations who are, in turn, taking a growing interest in new and emerging platforms. End-user spending through digital/mobile platforms accounted for 23.4 per cent of the overall consumer/end-user/ access market in 2008 and we expect this to account for 78 per cent of total growth during the next five years.”

Consumers are taking control in various ways. They are adopting “time-shifting”, using digital video recorders and video-on-demand to free them up from the TV schedule enabling them to watch what they want when they want. Increased broadband penetration is enabling them to get what they want from wherever they want while improvements in technology allow better downloading and streaming. Growth in mobile access is allowing consumers to access the Internet from any location and giving rise to the popularity of high-end devices such as smartphones, iPods, and the Kindle that combine mobility and access. The advances in digital music are also allowing consumers to purchase songs individually through digital channels (unavailable in physical format) and generating growth in sideloading, which allows consumers to buy music less expensively online, then transferring that music to mobile devices.

Tapping into the massive collective buying-power of online communities is an increasingly central focus of consumer marketing campaigns globally. However, companies are still struggling to adapt their current business models to ensure that they are monetizing their digital content and capturing the revenues.

THE CHANGING FACE OF ADVERTISING

Over the next five years, as consumers receive an increasing proportion of their E&M through digital/mobile platforms, advertisers will shift their resources to reflect the increasingly fragmented ad market. In the mobile arena, opportunities across the advertising continuum will enable the growth between brands and consumers, ranging from click-through banner ads and pre-roll ads on video clips through coupons and online subscriptions. Video game ads are expected to outpace the rest of the advertising industry (albeit from a low base) at 13.8 per cent CAGR compared to an overall industry decline at a compound rate of 0.6 per cent during the forecast period. The growing proportion of Internet and mobile advertising in the overall global advertising mix will rise from around 12 per cent in 2008 to 19 per cent in 2013.

However, the migration reinforces the need for greater transparency and accuracy over audience metrics which together with accountability for ad results, is becoming a “must have” in this new media world. An ability and willingness to collaborate with partners on revenues to open up and exploit new areas, and ongoing cost-sharing to operationalise the shared benefits will also be vital. Going forward the successful models will be those that provide enough product differentiation from free or low-cost substitutes to generate revenue from either consumers, advertisers or, more likely, both.

EMBRACING THE UPTURN

Accelerated digitization coupled with growing divergence between the revenue performance of different segments and markets will create an E&M landscape characterised by a myriad of business models and a far more tailored approach. An approach which works with one particular type of consumer, form of content or national marketplace may not work in others. The current decline in revenues is not because of declining demand. In fact, demand for E&M appears to be increasing. The challenge is to identify ad models that are able to withstand the downward pressure on ad rates in the digital environment and on subscription models that capture the consumers’ preferences for premium content.

Added Marcel:

“Though operating in challenging and fast-moving times, this has never been such an exciting time for the industry. The accelerating digitization is why there is no place to hide from new models and dynamics across the industry. The winners will be those players who focus on driving and leading change that delivers real value for consumers. Segments will have to consolidate, the least loyal customers will have already left, higher quality products will be valued by both consumers and advertisers, and digital distribution will have become main stream, commanding fees more in line with its value. But for each of the industry’s diverse segments to participate fully in this growth, they will first need to embrace the digital future.”

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Notes to Editor:

About the Outlook

PricewaterhouseCoopers' Global Entertainment & Media Outlook 2009-2013, the 10th annual edition contains in-depth analyses and forecast of 12 major industry segments across four regions of the globe: North America (USA, Canada), EMEA (Europe, Middle East, Africa), Asia Pacific and Latin America. To order copies go to: <http://www.pwc.com/outlook>.

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