

Entertainment and Media Outlook: Gaining Momentum

By Kevin Zimmerman

The entertainment and media industry is well into a recovery pattern and should post stronger growth in the second half of the decade than it did during the first half, according to PricewaterhouseCoopers' *Global Entertainment and Media Outlook: 2006-2010*. The principle conclusions of the report are:

- Digital and mobile distribution will become a significant component of the entertainment and media market, fueled by rising broadband and wireless subscribership.
- Economic growth will support spending in the near term, but higher gasoline prices are increasing the cost of purchasing products away from home, and maturation in the recovery will lead to slower entertainment and media growth during 2009-10.
- Physical formats will continue to dominate, but growth will be slow as consumers migrate to digital and mobile distribution.

The total global entertainment and media industry will increase from \$1.3 trillion in 2005, rising at a 6.6% compound annual growth rate (CAGR), to \$1.8 trillion by 2010. Globally, the Internet will be the fastest-growing segment during the next five years, rising at a 12.9% CAGR; the segment is expected to become the largest by 2010, at an estimated \$265.6 billion. The filmed entertainment sector, meanwhile, will grow at a 5.3% CAGR to \$104.1 billion, with television network revenues growing more quickly, at a 6.6% CAGR to \$226.6 billion. TV distribution will rise at an 8.3% CAGR to \$230.3 billion.

The Outlook notes that piracy, while continuing to adversely affect legitimate sales, will see its growth slowed during the next five years due to more aggressive enforcement of existing laws and more aggressive actions by industry trade associations. Growth in the number of young people in Asia Pacific and Latin America will contribute to advertising growth in those regions, while large increases in the number of people in their prime earning years in all regions will contribute to end-user spending growth.

The U.S. will remain the largest region, but will also be the slowest-growing, due in part to a relatively mild growth in its population aged 18-to-49. Still, U.S. revenues will grow at a 5.6% CAGR, rising from \$553 billion in 2005 to \$726 billion in 2010. Other established markets will grow at a steady rate, with EMEA increasing from \$430 billion to \$580 billion, at a 6.1% CAGR, and Canada growing from \$31 billion to \$41 billion, at a 5.9% CAGR.

The High Road in China

In keeping with the latest trends, Asia Pacific is expected to record the highest growth rate of all regions, increasing from \$274 billion to \$425 billion, a 9.2% CAGR. That growth will be led by double-digit increases in the Internet, TV distribution, casino and other regulated gaming, and video game segments. The region will also have the fastest overall economic growth, which in turn will support steady increases in each of the other segments.

Remaining an important market to watch is The People's Republic of China (PRC), which was the fastest-growing E&M country in the world in 2005, with a 26% CAGR. While Japan has long been the market leader in the region – totaling \$104 billion in 2005 – it will be surpassed by PRC by 2009. Indeed, the PRC's 18% CAGR increase to \$137.4 billion in 2010 is the biggest increase by a single nation during the forecast period.

Improved economic conditions in Japan and South Korea will lead to faster entertainment and media growth in those countries during the next five years, with Japan expanding at a projected 3.4% CAGR (compared with only 0.7% growth in 2005) and South Korea increasing at a projected 4.8% CAGR (compared with 1.9% in 2005). In addition to the PRC, double-digit average increases are expected in India, Indonesia, and Pakistan during the next five years.

Also showing a healthy growth rate is Latin America, which was the fastest-growing region in 2005 at a 10.7% CAGR. The region is expected to expand at an 8.5% CAGR during the next five years, from \$39.8 billion to \$59.8 billion. Double-digit increases in Internet access and advertising (expected to grow at a 14.6% CAGR), casino and other regulated gaming (12.1% CAGR), TV networks (10.8% CAGR), and TV distribution (10.8% CAGR) are expected to lead the way, with new consoles enhancing the video game market (predicted to grow at a 9.5% CAGR), mobile music propelling recorded music (8.3% CAGR), and an expanding economy benefiting radio and out-of-home advertising (8.1% CAGR). Filmed entertainment is expected to grow at a more modest 5.1% CAGR.

Digital, Wireless Lead the Way

Nearly every segment of the entertainment and media industry will continue to be significantly influenced by distribution of content online or to mobile devices, or by digital technologies in general. The impact of developing technologies such as HDTV, TV content distributed to mobile phones, and advertising revenue for terrestrial digital audio broadcasting (DAB) radio has yet to be assessed. Nevertheless, global spending on online rental subscriptions and digital streaming in filmed entertainment; licensed digital downloads and mobile music in recorded music; online and wireless video games; electronic books; and online casino gaming generated a collective \$19 billion in 2005 and is expected to rise to \$67 billion by 2010.

Digital and mobile content will have a significant impact on overall spending in those five segments, accounting for 41% of total growth in those segments during the next five years. Collectively, the segments will expand at a 6% CAGR.

Online distribution is being facilitated by rapid growth in the number of broadband households: from 30 million households in 2001, the broadband universe has grown to 187 million in 2005 and by 2010 is expected to total 433 million. With the broadband market increasing some 43% during the next five years, demand for content distributed online will soar.

The universe of wireless telephone subscribers is also expanding rapidly, with 2005's global total of 1.8 billion expected to rise to 2.8 billion by 2010. With more and more existing wireless telephone subscribers upgrading their handsets, a larger percentage will be able to download music, play video games, and watch TV programs – again fueling demand for content.

The potential promise of such technological improvements becoming more of a reality each day, and with improving economic conditions in most regions, the global entertainment and media market finds itself in a strong position – and growing ever stronger.