

Television Networks: The Cool Medium Gets Hot

By Joan Van Tassel

The market is heating up for TV networks around the world, projects PricewaterhouseCoopers *Global Entertainment and Media Outlook: 2006-2010*. Global revenues are rising at a compound annual growth rate (CAGR) of 6.6 percent from \$164.2 billion in 2005 to \$226.6 billion in 2010. Between 2006 and 2010, Latin America will be the fastest-growing, rising at a 10.8 percent CAGR to \$11.3 billion in 2010. The U.S. – the world's largest market – will increase at a 7.4 percent CAGR to almost \$84.5 billion by 2010. Asia Pacific will grow at a 7.1 percent CAGR to \$51.2 billion in 2010. EMEA and Canada will grow at more modest rates of 5.2 percent and 4.3 percent respectively, reaching \$75.1 billion and \$4.5 billion in 2010.

Fueling this global growth is multichannel advertising, propelled by the expansion of digital households and advertising on the new channels supported by digital platforms. Free terrestrial channels will also draw more viewers with new analog, digital, and high definition channels and programming. New distribution outlets, such as mobile consumer devices and broadband TV, will expand viewing and boost advertising. Economic and political stability in Central and Eastern Europe and Latin America will also play a role in the high levels of growth that these regions will experience during 2006-2010.

The U.S.: A Competitive Climate

Networks receive a dual revenue stream from multichannel operators – from advertising and from license fees paid for their programming. Overall, license revenue will grow at a 9.1 percent CAGR from \$15.5 billion in 2005 to \$23.9 billion in 2010. This growth will be stimulated by a battle for viewers among multichannel operators – cable, DBS (direct broadcast satellite), and now telephone companies. The incumbent cable operators have given ground to DBS in previous years, so networks will see only 5 percent revenue growth from license fees, while DBS license revenues will continue to grow at a 13.1 percent CAGR. However, now both cable and DBS will face new telco entrants, which will increase their license payments by a 52.7 percent CAGR, from a very small base.

A check on the growth of license fees could arise if the Federal Communications Commission approves a la carte pricing, which means that cable companies would have to allow consumers to pay for individual channels rather than accepting bundled channels. To some extent, the decrease would be offset by increases in the fees for the individual channels.

Multichannel competition will also spur the adoption of high definition (HD) television. Operators see the value of offering HD channels and programming to entice and hold viewers. Some of these offerings will be free to consumers, who may be able to view them without HD tuners.

Some competitive struggles are over. In ad spending, cable networks surpassed broadcast networks in 2005, and will widen their lead during the 2006-2010 period. Cable networks will grow at an 8.7 percent CAGR to \$28.7 billion in 2010, while broadcast networks will grow at a 5.2 percent rate to \$23.3 billion in 2010. A key reason for cable's continuing advantage is its

larger inventory of ad availabilities, despite the industry's slowdown in new subscribers due to market saturation.

One new revenue stream is product placement. While the growth of this income is limited by the possibilities for inserting products into programming, PwC expects it to grow from \$750 million in 2005 to \$2 billion in 2010, when it will constitute about 4 percent of broadcast and cable advertising revenues.

Torrid Zones

In Latin America, the CAGR during 2006-2010 will be a strong 10.8 percent, rising to \$11.3 billion in 2010 from \$6.8 billion in 2005. Mexico is the region's largest market, at \$2.6 billion in 2005, but in 2009 it will be surpassed by Brazil. However, both countries will expand at double-digit compound annual rates. Venezuela will be the fastest-growing market, at a 14 percent CAGR, partly fueled by high inflation. Argentina, Colombia, and Chile will experience single-digit growth.

Other territories also have their hot spots and cooler climes. For example, the 5.2 percent CAGR (to \$75.1 billion in 2010 in Europe, Middle East, and Africa (EMEA) shows some improvement from the previous five-year increase: a 3.6 percent CAGR. But within EMEA, Central and Eastern Europe and Middle East/Africa will each average double-digit annual growth. Still, Western Europe will record the largest improvement because there will be many new digital households there.

The number of digital households in EMEA rose to 40 million in 2005, an increase from 32 million in 2004 and four times the 10 million total in 2002. PwC expects the digital universe to nearly triple during the next five years, rising to 110 million households by 2010, a penetration rate of 36 percent. Western Europe's projected 5.3 percent CAGR will be more than five times the 0.9 percent compound annual increase of the past five years - the largest improvement across EMEA.

In Asia Pacific, the television network market will expand to \$51.2 billion in 2010 from \$36.4 billion in 2005, a 7.1 percent CAGR -- nearly twice the 3.8 percent annual gain during the past five years. But within the region, China (16.7%), Malaysia (14.4%), Indonesia (14%), Philippines (12.2%), India (11.2%), and Thailand (10.4%) will all experience double-digit compound annual growth in television network market revenue.

Some of the fastest-growing countries -- China, India, and Indonesia -- are currently adopting policies to impose greater government control that limits the potential for foreign investment. Without the controls, these markets would probably grow even faster during the 2006-2010 period.