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SPECIAL REPORT GLOBAL ENTERTAINMENT & MEDIA OUTLOOK 2016–2020

A World of Differences

Entertainment and media companies can tap into many pockets of growth and opportunity. Our intensive analysis of five shifts roiling the industry can help you identify them.

BY CHRIS LEDERER AND MEGAN BROWNLOW

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A WORLD OF DIFFERENCES

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Entertainment and media (E&M) companies are making great strides in pivoting to serve digital consumers around the world. However, at first glance, the outlook for E&M companies worldwide still may seem troubling. Declining pricing power, disinflation, and the trend toward free media and sharing all make it fundamentally challenging to grow organically. Despite growing 5.5 percent last year, this US$1.7 trillion global industry is likely to have difficulty keeping up with the economy as a whole. The Global Entertainment and Media Outlook 2016–2020 projects that E&M will rise at a compound annual growth rate (CAGR) of 4.4 percent in nominal terms through 2020 — lagging behind overall economic growth (*see Exhibit 1, next page*).

Illustration by Guy Billout

Chris Lederer
chris.lederer@pwc.com
advises senior management in the media industry on issues of strategy and growth for Strategy&, PwC's strategy consulting business. He is a principal with PwC US based in New York. He has published previously in *Harvard Business Review* and with Harvard Business Publishing.

Megan Brownlow
megan.brownlow@pwc.com
focuses on market diligence and strategy for the entertainment and media sector at PwC. She is a principal with PwC Australia, based in Sydney.

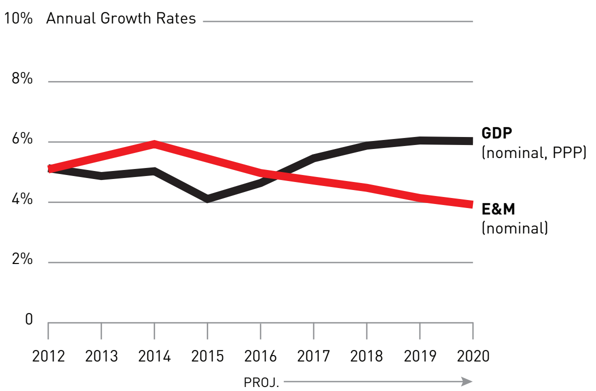
But a closer examination brings a different picture into focus. E&M is a dynamic, diverse industry with steady and sustainable growth. Although the strong aggregate growth is not shared equally by all participants, impressive growth and opportunities can be found in many areas of the industry. Drastic slowdowns in some areas and stagnation in others coexist with spectacular expansion in "hot" countries, regions, and sectors. Which is to say: This global media landscape is multi-shifting.

In fact, for the majority of the countries we looked at — 36 out of 54 — E&M spending is growing more rapidly than GDP, often by a factor of more than 50 percent. Venezuela tops the list; E&M spending growth there is likely to outpace GDP growth by more than 14 percentage points in 2016. Many of the most populous E&M markets, including Brazil, Pakistan, and Nigeria, will also produce comparatively higher E&M growth rates (*see Exhibit 2*). But that's just the beginning of the story.

At a global level, one of the most significant shifts evident is a reordering of the industry's sectors (*see Ex-*

Exhibit 1: **Growing but Slowing**

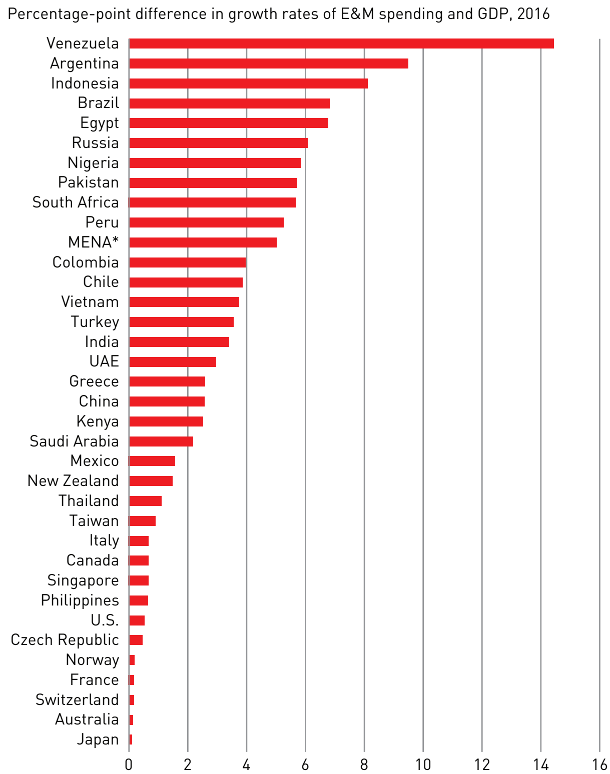
Over the next five years, growth in spending on entertainment and media will lag overall economic growth.



Source: Ovum, IMF

Exhibit 2: **A World of Differences**

In many developing markets, E&M spending is growing more rapidly than the economy at large.



*MENA (Middle East and North Africa) = Algeria, Bahrain, Jordan, Kuwait, Lebanon, Morocco, Oman, and Qatar. Saudi Arabia, UAE, and Egypt are broken out separately.

Source: Global Entertainment and Media Outlook 2016–2020, PwC, Ovum

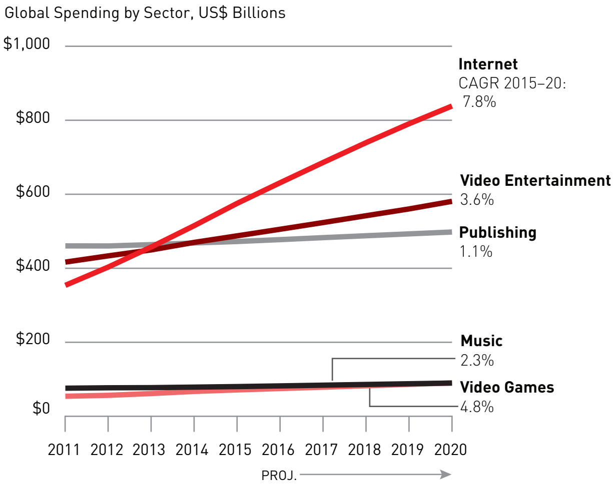
FOR THE MAJORITY OF COUNTRIES WE LOOKED AT, E&M SPENDING IS GROWING MORE RAPIDLY THAN GDP.

hibit 3). On the left of the exhibit, we've aggregated segments into five broad groups: Internet, video entertainment, publishing, music, and video games. As the chart shows, revenue across E&M is steadily shifting from publishing businesses to video and Internet businesses — in particular those that provide over-the-top (OTT) services and monetize consumer data. When we break down global spending by business model on the right of the exhibit, direct consumer spending models remain strong, while spending on Internet access, including mobile data, will rival advertising. This development creates more fertile ground for new entrants and traditional players alike — think OTT video and new e-commerce offerings, for example — to jump directly into new markets and segments.

We expect the transitions we've described to continue, as powerful macroeconomic, technological, and social trends work to change the face of many industries, not just E&M. But the obvious changes under way throughout E&M mask a series of counterintuitive shifts that are apparent only to those deeply immersed in the industry. Each year, in putting together the Global Entertainment and Media Outlook, we and our colleagues collect and aggregate an immense amount of data, gain insight through discussions with colleagues and industry leaders, test hypotheses, and

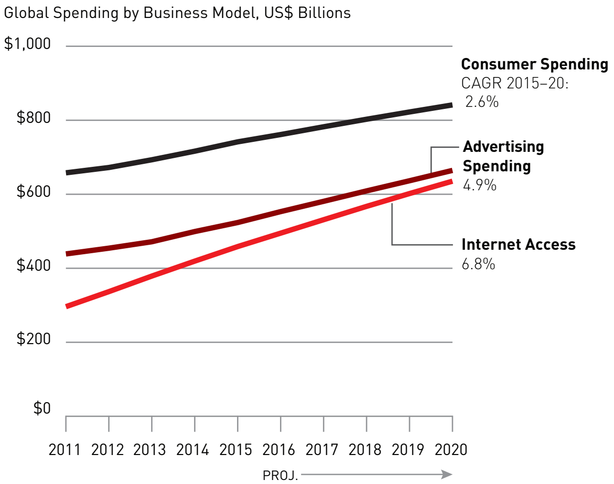
Exhibit 3: **A Decade of Divergence**

Differential growth rates for sectors and business models are reshaping the E&M industry.



Note: *Internet* includes Internet access, search, and online classified advertising. *Video entertainment* includes TV/video, TV advertising, and cinema. *Publishing* includes magazines, newspapers, business-to-business, and books. *Music* includes music and radio.

Source: Global Entertainment and Media Outlook 2016–2020, PwC, Ovum

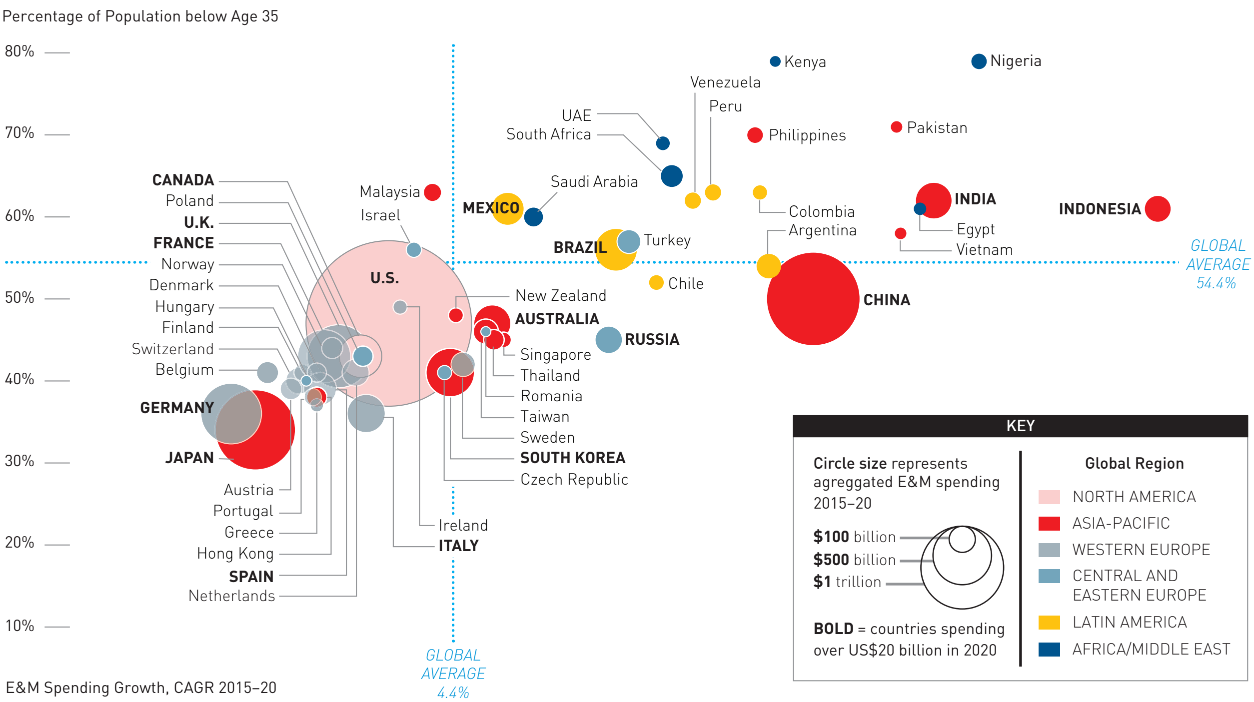


Note: *Consumer spending* includes subscription revenues (from TV and radio), ticket sales, and product purchases (books, video games, etc.). *Advertising spending* includes advertising revenue from TV, publishing, radio, Internet advertising, and out-of-home advertising. *Internet access* includes Internet subscription fees.

Source: Global Entertainment and Media Outlook 2016–2020, PwC, Ovum

Exhibit 4: **Youth Movement**

Across countries, there is a strong correlation between the relative size of the under-35 population and growth in E&M spending.



Source: Global Entertainment and Media Outlook 2016–2020, PwC, Ovum

formulate strategies. This process enables us to pinpoint shifts that few others can see — and the ones we've identified this year promise a host of opportunities across the E&M sector. They should serve as a serious call to action for many of the industry's incumbent leaders, which can take control of their future.

The biggest of these shifts are occurring in five dimensions of the global E&M landscape: demography, competition, consumption, geography, and business models. Simultaneous and interrelated, they influence and play off one another. We'll look at each shift in turn.

Shift 1. Demography: Youth Will Be Served

A great deal is made — in the U.S. in particular — of the financial struggles of millennials. But the cultural trope of 20-somethings living in their parents' basement and cutting the cord on cable TV obscures a larger trend. We've all seen the speed at which younger consumers adopt new consumption behaviors and their startling ability to multitask in different media. These same attributes allow them to lead the way in setting trends and driving consumption in E&M markets around the world. Companies may find it easier and more comforting to pitch their products and services at putatively more affluent older people. But our data suggests that in many countries in many parts of the world, the young will propel E&M growth through 2020.

As shown by our mapping of 54 countries' population percentage under 35 against their projected E&M spending growth rates, there's an almost perfect correlation between markets with more youthful populations and those with higher E&M growth (*see Exhibit 4*).

THE OPPORTUNITY FOR MEDIA COMPANIES IS TO UNDERSTAND THE YOUNG AND BE ABLE TO PREDICT, FOR EXAMPLE, WHEN THEY WILL PIVOT FROM MUSIC DOWNLOADS TO STREAMING.

Why? Here's our hypothesis. Younger people consume more media than older people, and are more open to adopting digital behaviors — and therefore more open to digital spending. Although some analog segments remain robust, digital media is where aggregate growth is strongest globally. In addition, many of the most youthful markets have rapidly growing middle classes whose discretionary spending power is on the rise — and E&M spending is usually discretionary. The opportunity for media companies is to understand how the young spend on digital content, and to be able to predict, for example, when they will pivot from paying for music downloads to streaming music services.

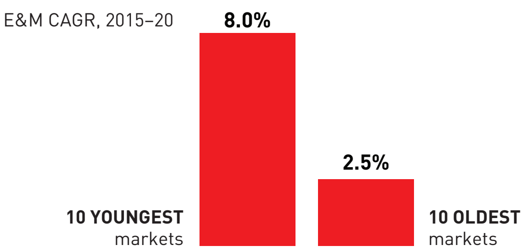
Of course, E&M providers entering new markets or seeking to accelerate growth in existing ones should take into account a country's demographics along with its wealth or rate of economic growth. A number of lower-growth, relatively older markets, such as the U.S., remain fundamentally important because of their size and absolute growth. In older, less digitized markets, it may make sense to focus more on managing the decline of legacy media — in other words, in these markets, a large base of consumers comfortable with traditional media will make it possible to sustain profitability for some time, whereas pushing new technology too hard will risk alienating the considerable number of older consumers. In Japan, for example, the average daily newspaper circulation is 45.6 million, a number that has declined by only 6.3 percent in the past four years. There's no immediate rush for Japanese newspaper companies to go all-digital.

In younger markets, by contrast, there will be a significant incentive for providers to shift completely to digital media, or to offer bundles, the better to target the large number of youthful consumers with less ingrained habits and preferences. India's growing middle class has supported print newspaper growth. But the ranks of Indian social media users surged by 26 percent in 2015, to 134 million. That suggests more digital reading is imminent. (See "India's Triple Play," by Suvarchala Narayanan, page 20.)

Our analysis of total E&M revenue growth in the world's 10 youngest and oldest markets in demographic terms further underscores the vital importance of youth (*see Exhibit 5*). On average, E&M spending in the 10 youngest markets is growing three times as rapidly as in the 10 oldest markets. In Pakistan, where around 70 percent of the population is under 35, E&M spending is projected to grow at a 10 percent CAGR through 2020; by contrast, Germany and Japan — two much wealthier countries with among the lowest proportions of people under 35 — sport a meager E&M CAGR of about 2 percent. Put another way, growth in E&M spending is more influenced by the age of a country's population than by its comparative wealth. So youth will be served.

Exhibit 5: **Age Matters**

Between 2015 and 2020, E&M spending will grow far more rapidly in the world's youngest markets than in the oldest ones.

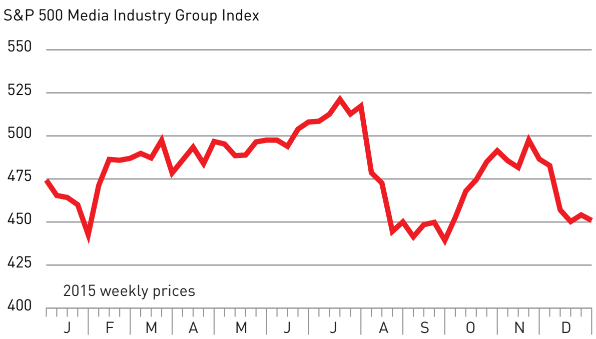


Source: Global Entertainment and Media Outlook 2016–2020, PwC, Ovum

MUCH OF THE E&M INDUSTRY IS GROWING MORE GLOBAL, BUT CULTURES AND TASTES IN CONTENT REMAIN STEADFASTLY LOCAL.

Exhibit 6: **Content Struggles**

In 2015, stocks of media companies encountered significant headwinds.



Source: S&P Capital IQ

Shift 2. Competition: Content Is Still King

In 2015, the stocks of many of the world's largest traditional media conglomerates, especially those based in the U.S. and Europe, suffered in comparison to both technology-driven platforms such as Netflix and communications platforms such as Verizon. Declines in media stocks were especially significant in the summer (*see Exhibit 6*).

Content was deemed to have taken a backseat to technology and communications. The symptoms: slowing ad markets for traditional, content-producing media; big ratings declines for cable and broadcast television; the currency drag from a strong dollar; and a slowdown in TV affiliate fees. As a result, it might seem that the mantra from the 1990s, "content is king," had become outdated. But in fact, in an important yet widely overlooked shift, we believe that content will reign supreme as platforms seek to differentiate and expand internationally.

In a world in which Netflix can launch its streaming services in 130 new countries in a single day, it's easy to assume that content is becoming more globally homogeneous. But the reality is that content is being redefined by forces of globalization and localization simultaneously. In the global coffee market, a homogenizing force such as Starbucks, now present in 70 countries around the world, can thrive alongside local chains and coffee shops. The same holds true in E&M. Netflix, for example, has said that locally produced content is its future.

Much of the E&M industry is growing more global, but cultures and tastes in content remain steadfastly local. The international opening weekend of *Batman v Superman: Dawn of Justice* (in March 2016) grossed $254 million globally on 40,000 screens in 66 markets outside the U.S., the fifth most successful international opening in history. But the year's biggest opening in China thus far, the Hong Kong–produced fantasy comedy *The Mermaid*, grossed $120 million on its opening weekend in February 2016.

Content-based business models across the world are being transformed to support this coexistence of global and local content offers. South Africa–based Naspers has an impressive portfolio including pay-TV operations that serve 48 African countries, and Nation Media is the biggest media house in East Africa, having expanded from its origins in Kenya to build major operations in Uganda and Tanzania. Such companies thrive by blending international reach and local focus. A host of global television formats are produced domestically, in local languages with local talent. More than 100 international variations of the British-created quiz show *Who Wants to Be a Millionaire?* have been produced since the original U.K. version debuted in 1998. Talent shows, dating shows, and cooking shows have also proven to have universal appeal, but they succeed in domestic markets largely because of their local characteristics.

The dichotomy of global and local may be seen most clearly in those markets that combine well-developed digital distribution infrastructure and platforms with strong local content industries. The preference for local content over "global" (often code for *U.S.-produced*) content is evident even in a mature, developed, English-speaking country such as Australia, where locally produced sports, reality shows, news, and drama offerings, such as Shaun Micallef's political satire *Mad as Hell*, rank as the 10 most-watched television programs every year. Local tastes are even more prevalent in India, the world's most prolific producer of movies; in Nigeria, where Nollywood produces about 1,000 films a year (more than U.S. studios do); and in China, which will overtake the U.S. in 2017 as the world's largest market for box office revenue.

These factors carry implications for media companies' strategies. In particular, it's important not to assume that past patterns in spending on "global" content in mature markets are a valid guide to future spending in emerging markets, which often have their own, even more deeply held tastes in content and cultures, on top of a variety of native languages. As companies tailor their decisions about market entry, they also need to consider the mix of global versus local brands they will deploy in order to build audiences.

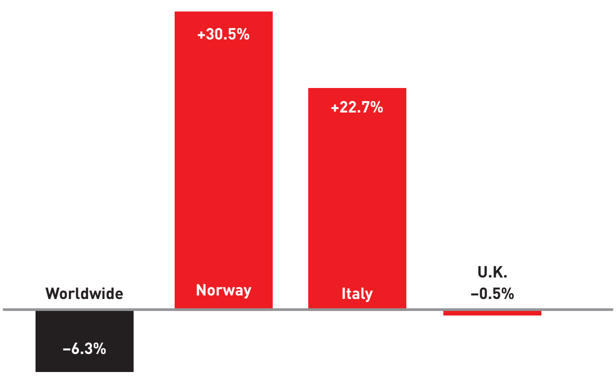
A particularly striking example of counterintuitive trends driven by local content demand can be seen in physical recorded music revenues in 2015. Global spending on physical recorded music — mainly CDs and vinyl — fell in 2015 by 6.3 percent. Yet spending on physical music formats in the U.K. was almost flat, which is quite an achievement considering the downward trend. And in Italy and Norway, the spending growth was remarkable: 22.7 percent and 30.5 percent, respectively (*see Exhibit 7*).

What happened? In each market, the impact of global music streaming was offset by specific local tastes. In the U.K., Adele's new blockbuster album, *25,* which was not made available for streaming, was almost single-handedly responsible for the strength of physical music; the legions of fans among Adele's countrymen and -women were willing to pay for CDs. In Italy, a strong domestic repertoire, led by the 13th studio album of singer–songwriter Jovanotti, *Lorenzo 2015*

Exhibit 7: **Local Tastes Dominate**

Consumers in three European countries bucked the trend of sharply declining sales of physical recorded music.

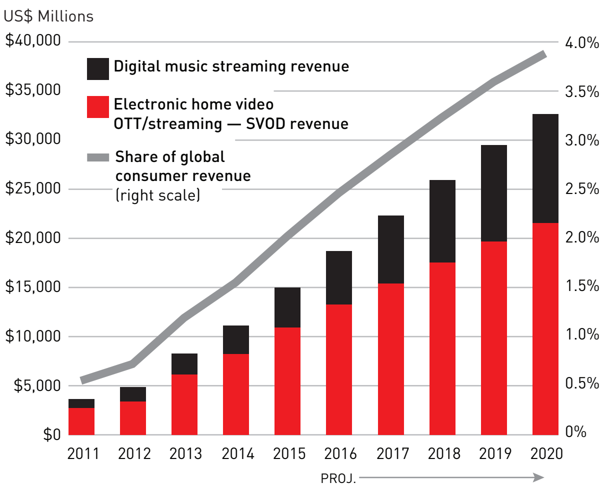
2015 Spending on Physical Recorded Music



Source: Global Entertainment and Media Outlook 2016–2020, PwC, Ovum

Exhibit 8: **A Stream Runs Through It**

Revenues for streaming services are growing rapidly.



Source: Global Entertainment and Media Outlook 2016–2020, PwC, Ovum

CC, accounted for the rebound in physical music. And in Norway, where the popular electronic dance music scene promotes record-spinning DJs as rock stars, vinyl sales accounted for 24 percent of all physical music revenue, a high proportion compared with vinyl's 2 percent share of music revenue globally. Faced with an array of choices, consumers decide at the local — and indeed personal — level what to purchase. And that leads to wildly different outcomes, even in markets that might appear superficially similar.

Shift 3. Consumption: The Joy of Bundles

The ability to design and curate your own media diet has been one of the most powerful trends to emerge in the industry. Whether in the U.S. or Uzbekistan, consumers have never had a greater ability than they do now to curate their own playlists — through apps, YouTube, streaming services, social media, and OTT offerings. Broadly speaking, many pundits have proclaimed the end of the bundle — the set of offerings that radio stations, cable and record companies, or even newspapers and magazines have traditionally sold together. And indeed, the rise of subscription content streaming services has been a major feature of the E&M landscape in recent years (*see Exhibit 8*). Global subscription spending on Netflix and other OTT subscription-video-on-demand (SVOD) services grew by 33.8 percent in 2014 and 32.3 percent in 2015 — that's 77 percent in two years. The launch of Apple Music provided a major boost to digital music streaming revenue, and other streaming companies, such as Tidal, Beatport, Deezer, Earbits, Pandora, Spotify, and Rhapsody — to name but a few — arguably saw a boost due to the enhanced awareness Apple Music created among consumers. Partly as a result, global music streaming spending rose by 41.8 percent in 2015, to $4.07 billion.

But the bundle isn't dead, not by a long shot. The rapid growth in on-demand streaming revenues is starting from a very low base, and even today on-demand streaming accounts for little more than 2 percent of global consumer E&M revenue. Meanwhile, video and cable incumbents, which were initially slow off the mark, are fighting back with gusto by offering their content on an integrated omnichannel basis, on TV, laptop, tablet, and smartphone. In numerous markets, many consumers — including cord cutters — still love the convenience of having their content aggregated in one place, rather than needing to root it out across a bunch of disconnected services. In the U.K., Sky's Now TV stand-alone streaming service

IN 2017, WHEN CHINA OVERTAKES THE U.S. IN BOX OFFICE REVENUE, IT WILL BE THE FIRST TIME THE U.S. HAS NOT HELD THE LEADING POSITION IN AN E&M SEGMENT.

had more than 700,000 subscribers in early 2015. But Sky also offers those who subscribe to their main service a new multidevice streaming capability.

As such services gain traction, it's clear that some consumers may opt for a set of "pure" à la carte offerings to keep costs down. And fewer will pay a premium price for a mundane collection of channels that they can watch only on television. But the traditional bundlers are adapting rapidly, and they have substantial advantages and large customer bases. As a result, we believe the bulk of digital OTT mass-market services will gradually be reabsorbed into aggregated offerings that will echo the traditional analog-style bundle, but that will be more flexibly priced and available on a full range of devices. These offerings will have features such as intelligent integration, which permits a consumer to watch part of a movie on one device and then finish it on another.

When this happens, the competitive battle may move up a notch from the OTT service level to the realm of service aggregators, which range from giants such as Apple, Google, and Verizon to small entrants such as WeShow and Aggrega. The big battles will no longer be fought mainly over networks, cable channels, and upstarts gaining access to content. The new battles will be among cable incumbents, technology giants, and telecommunications companies, fighting over gaining access to distribution. The heightened importance of ownership of broadcast spectrum will make spectrum auctions such as the one currently under way in the U.S. potentially pivotal. Whoever buys and owns spectrum may be better placed to enter and win the race to offer streaming bundles. As bandwidth comes up for grabs, so too will the role of aggregator.

We also see bundles popping up, or reappearing, in other sectors. In Europe, newspaper publishers are enabling custom bundles by mashing content onto new digital platforms. Blendle, based in Utrecht, the Netherlands, launched an English-language version in March 2016 with 20 high-caliber publishing partners including the *New York Times* and the *Economist*. This experiment, which leverages micropayments, may prove attractive to digital consumers used to paying small amounts for apps, songs, and mobile games.

Shift 4. Geography: Growth Markets

Generally, companies have had one set of expectations about developed markets (slow growth, low regulation, easier to access) and another about developing markets (rapid growth, high regulation, more difficult to access). The result was that a company might have one strategy for developed markets, and another, somewhat generic strategy for developing markets. But the dynamics are shifting rapidly. In 2017, for example, when China overtakes the U.S. in box office revenue, it will mark the first time the U.S. has not held the leading position in an E&M segment. China is also well advanced in segments such as digital advertising. In 2016, three countries — China, the U.K., and Denmark — will become the first to reach the tipping point at which total digital advertising revenues surpass their non-digital equivalent.

Disruption is pushing markets to develop in different ways. The divergences are being driven by several factors. One is the differential growth rates among sectors. The table in Exhibit 9 (page 17) demonstrates that beyond zeroing in on the fastest-growing markets, such as Indonesia, India, and Peru, E&M companies must

REGIONAL INCONSISTENCY IN REGULATION AFFECTS BUSINESS MODELS, THE SHAPE OF THE MARKET, AND THE REVENUE OUTLOOK IN DIFFERENT TERRITORIES.

focus on those that are generating the greatest *absolute* dollar growth — namely, the U.S. and China. In addition, in every country, different sectors are driving growth to different degrees. The result of these divergences is that "opportunity" economies — even within the same region — can display significantly varied growth patterns.

In addition to understanding the where and how of growth by country, companies must grasp the importance of a third factor: regulation. In the E&M context, regulatory interventions include blocking entry of international companies, requiring a certain percentage of airtime to be dedicated to local market content, mandating government review and approval of content before content can be aired, and imposing different tax structures for local and international companies. And once again, the conventional E&M wisdom is often undermined by the facts on the ground. Simply put, some of the most heavily regulated markets are also those with the most growth.

In China, companies may face significant obstacles due to regulation. The websites of U.S. companies such as Facebook, Google, and Netflix are blocked, and the number of foreign films shown annually is limited. Yet China remains one of the most robust markets for E&M growth in terms of absolute dollars. The more restrictive environments tend to limit what media companies can broadcast and publish, and also limit who owns them, with a common focus on maintaining indigenous ownership and control. This often takes the form of governments funding local content or enacting regulations to prevent "excessive" outside cultural influence and protect local artists.

Regional inconsistency in regulation and market access affects business models, the shape of the market, and the revenue outlook in different territories. German publisher Axel Springer quit the Russian market in 2015 owing to foreign ownership limits. But other countries are improving the regulatory environment for E&M companies. In Nigeria, which in 2014 created an online copyright registration system, the government is working to enact legislation to protect publishers more effectively against copyright infringement. Malaysia's government has blocked tariffs on books in order to promote reading and literacy.

The fundamental and ingrained differences between markets represent a key factor that E&M companies must take into account when planning their global strategies. And it's clear that despite globalization, such differences won't go away anytime soon. The challenge for E&M companies is how to navigate around or through the barriers and thus gain access to these markets' expanding consumer opportunities and growing revenues. One option is creating new, tailored business models and local joint ventures or partnerships, and then localizing content and advertising experiences to comply with local regulations on such issues as decency and public health, as well as to suit local tastes.

Shift 5. Business Models: Transforming with Trust

In 2013, Netflix CEO Reed Hastings (now) famously said he wanted to build Netflix into a company that actually resembled a premium cable network. This was a technology company racing to become a new kind of hybrid content company. Meanwhile, traditional publisher Time Inc. is emerging as a hybrid technology company. In March 2016, it acquired the data-driven marketing specialist Viant Technology. Such moves

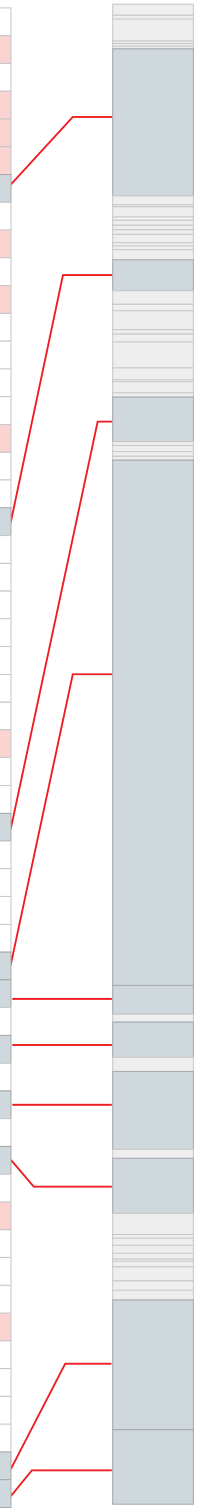
Exhibit 9: **Hot Spots**

In every country, a different mix of factors is propelling growth.

TOP 10 rank in category

BOTTOM 10 rank in category

COUNTRY	E&M SPENDING	INTERNET	VIDEO GAMES	VIDEO ENTERTAINMENT	MUSIC	PUBLISHING	E&M SPENDING 2015 US$ MILLIONS
	COMPOUND ANNUAL GROWTH RATES 2015–20						
Indonesia	13%	21%	8%	15%	4%	4%	$12,672
Nigeria	11%	15%	12%	4%	7%	2%	$4,311
India	10%	14%	11%	12%	7%	4%	$25,126
Egypt	10%	15%	7%	13%	11%	1%	$2,859
Vietnam	10%	13%	5%	12%	2%	3%	$3,103
Pakistan	10%	14%	5%	9%	9%	2%	$3,066
China	9%	12%	7%	9%	6%	1%	$168,826
MENA	9%	14%	4%	7%	7%	0%	$10,180
Kenya	8%	9%	14%	10%	7%	4%	$2,254
Argentina	8%	9%	9%	10%	9%	4%	$11,645
Peru	8%	12%	9%	8%	9%	2%	$3,944
Philippines	8%	12%	7%	9%	5%	2%	$5,675
Venezuela	8%	12%	6%	6%	11%	3%	$5,135
Colombia	7%	10%	10%	7%	8%	2%	$5,264
South Africa	7%	13%	6%	6%	5%	1%	$9,567
UAE	7%	10%	9%	5%	4%	-1%	$3,785
Chile	7%	10%	7%	5%	5%	3%	$4,340
Turkey	7%	10%	8%	6%	6%	2%	$11,533
Brazil	6%	10%	11%	5%	4%	2%	$35,657
Russia	6%	10%	6%	6%	0%	2%	$15,380
Saudi Arabia	5%	6%	8%	14%	6%	-1%	$7,472
Mexico	5%	7%	4%	4%	6%	3%	$21,616
Singapore	5%	9%	5%	3%	2%	2%	$5,148
Thailand	5%	8%	7%	6%	5%	2%	$9,005
Australia	5%	8%	3%	4%	0%	1%	$29,856
Taiwan	5%	8%	2%	1%	5%	2%	$13,685
Romania	5%	9%	7%	2%	1%	2%	$2,171
Sweden	5%	11%	4%	3%	5%	-1%	$12,767
New Zealand	4%	10%	5%	3%	1%	1%	$4,784
South Korea	4%	6%	6%	2%	6%	0%	$51,107
Czech Republic	4%	7%	6%	2%	0%	2%	$4,351
Malaysia	4%	8%	6%	3%	4%	2%	$7,321
Israel	4%	7%	4%	2%	0%	0%	$5,110
Ireland	4%	9%	5%	2%	4%	-1%	$4,476
U.S.	4%	8%	4%	1%	2%	2%	$602,973
Italy	3%	6%	4%	3%	1%	-1%	$32,751
Poland	3%	7%	6%	2%	0%	1%	$9,196
Canada	3%	7%	4%	1%	2%	2%	$40,329
Netherlands	3%	7%	5%	2%	2%	0%	$16,402
U.K.	3%	6%	3%	2%	1%	1%	$89,428
Norway	3%	7%	2%	2%	3%	-1%	$10,023
France	3%	6%	2%	2%	0%	1%	$63,493
Spain	3%	4%	3%	4%	4%	0%	$24,215
Greece	3%	6%	5%	2%	4%	-1%	$4,056
Denmark	3%	7%	4%	1%	2%	-1%	$8,304
Hong Kong	3%	5%	6%	1%	4%	0%	$8,797
Portugal	3%	4%	6%	3%	0%	-1%	$6,738
Hungary	3%	4%	7%	3%	2%	1%	$2,564
Finland	3%	7%	3%	1%	1%	0%	$6,413
Switzerland	3%	6%	4%	3%	2%	-1%	$16,055
Austria	2%	7%	3%	3%	1%	-1%	$10,655
Belgium	2%	5%	2%	2%	2%	0%	$11,242
Japan	2%	3%	5%	3%	-3%	-1%	$148,961
Germany	2%	4%	3%	2%	2%	0%	$85,712
GLOBAL ►	4.4%	7.8%	4.8%	3.6%	2.3%	1.1%	$1.7 TRILLION



Note: *Internet* includes Internet access, search, and online classified advertising. *Video entertainment* includes TV/video, TV advertising, and cinema. *Publishing* includes magazines, newspapers, business-to-business, and books. *Music* includes music and radio.

*MENA (Middle East and North Africa) = Algeria, Bahrain, Jordan, Kuwait, Lebanon, Morocco, Oman, and Qatar. Saudi Arabia, UAE, and Egypt are broken out separately.

Source: Global Entertainment and Media Outlook 2016–2020, PwC, Ovum

E&M COMPANIES THAT COMBINE TECHNOLOGY WITH INDUSTRY-CENTRIC ASSETS — SUCH AS RELATIONSHIPS, CUSTOMERS, AND KNOWLEDGE — WILL THRIVE AND EVOLVE.

highlight another noteworthy shift. In many areas, the growth of technology and digitization acts as a powerful centrifugal force — breaking up existing relationships; pushing large, generalist entities to give way to smaller specialists; and allowing smaller, nimble competitors to beat out incumbents. But the reality is that the historic shifts now under way are forging the creation of new business models, and perhaps even new industries. Those that are able to integrate the capabilities and approaches that create value for customers will continue to thrive.

Let's take advertising as an example. The rise of large integrated data sets, smart analytics, and new visualization and delivery platforms — combined with the growth of programmatic advertising and the advent of native content — would seem to significantly undermine the role of the traditional agency and media company. This view is reinforced by a migration of advertising revenue away from companies whose core product is "the big idea" and toward those, like Google and Facebook, whose differentiator is their algorithmic buying platform. At the same time, multichannel networks, social media, and content marketing businesses are seeking to grab a slice of the advertising pie.

But what if all these changes are creating an opportunity for incumbent agencies to reorient themselves to become invaluable to markets? One might argue that the established agency holding companies are uniquely well positioned to bring together programmatic capabilities, analytics, data aggregation, and native content. And in fact, they're already doing it. The biggest holding companies are scaling world-class programmatic capabilities, while also developing software to buy digital advertising faster and more efficiently. What they cannot build, they buy or access through partnering. Enter the new "super" agency.

In September 2014, the advertising holding company WPP injected $25 million and the ad server platform from its programmatic media arm Xaxis into ad technology provider AppNexus, in return for a significant stake in the business. (See "Thought Leader Interview: Sir Martin Sorrell," by Deborah Bothun and Daniel Gross, page 58.) Announcing the deal, WPP, whose Kantar unit represents one of the largest consumer retail data sets available, said the move continued its strategy of investing in fast-growing sectors such as ad technology and programmatic media buying. Other savvy, forward-looking agencies also have large and valuable data assets, and are working to evolve them to world-class levels. For instance, Publicis bought Sapient, which includes SapientNitro and Razorfish, thus enabling the company to build a portfolio of leading technology and digital assets.

As these players in the advertising value chain develop their data strategies, the new linchpin for competitive advantage could be bundling in content marketing (or, as some say, "brand to demand") at scale. This next-generation marketing strategy offers promise not just to the agencies, but to content creators as well. In Australia, the three biggest newspaper publishers — News Corp, Fairfax, and APN News and Media — have all set up or bought a content marketing business in the last couple of years. These organizations may be very well suited to capture this opportunity because of the trust equity that lives in the brands, especially when it comes to assuring consumers who have privacy concerns. Globally, revenues from the creation and provision of content marketing grew 13.3 percent in 2014, to reach $26.47 billion, according to PQ Media. E&M companies that embrace technology and combine it with industry-centric assets — such as relationships, customers, and knowledge — will thrive and evolve.

Navigating Multispeed Markets

As the five shifts that we've described play out, so will changes in the E&M landscape. This industry is learning from experience and becoming nimble; more and more, it will position itself to seize the opportunities that appear. The E&M industry is getting used to the new normal — a multispeed marketplace that expects and plans for disruption.

Why do we say this? From the vantage point of today, it might seem that any strategy for the next five years will be rendered not just obsolete but irrelevant by 2018, let alone by 2021. Just think about how E&M companies' five-year pro forma plans from 2011 look today in light of the disruption we've seen.

Even so, E&M companies are learning, acting, and, in many parts of the world, thriving. Each of the shifts we've highlighted can help companies plan and do business better. The power of youth, the primacy of localized content, the resilience of a new kind of bundle, the deepening of developing markets, the potential for new business models: All are taking place against the backdrop of steadily growing industry-wide revenues.

For E&M companies with the right strategies and insights, the opportunities are legion. And the shifts play to the strengths of companies with big market positions, capital they can invest, strong brands, and strength in understanding local tastes and preferences. If they make the right calls, incumbents can position themselves to capitalize on the next phase of change and drive growth.

To do this, they'll need to ensure that their capabilities are both up to the job individually and aligned such that they add up to more than the sum of their parts. Strong brands must be underpinned by the best talent, which must be empowered by low-friction digitized processes that enable them to glean and use deep consumer insight from data. Companies that combine these attributes and establish positions in high-growth markets will be the most likely to succeed. +

Resources

Edward H. Baker, "The Surprising Endurance of the Boob Tube," *s+b*, Sept. 9, 2015: Author Michael Wolff's argument about why television maintains its audience.

Christopher A.H. Vollmer and Matt Egol, "Five Rules for Strategic Partnerships in a Digital World," *s+b,* Dec. 22, 2014: For leading companies in E&M, the future depends on the capabilities and insights they can tap by working with others.

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