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Perspectives from the Global Entertainment and Media Outlook on Business Models

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adaptation is the name of the game

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Business models

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PERSPECTIVE: **In aggregate, the amount of money consumers and advertisers are spending on E&M is still growing modestly. For the industry as a whole, the outlook is relatively stable. But in many of the Outlook's segments, we may be at a tipping point of significant changes in how consumers and advertisers allocate their choices and dollars. Yes, companies must continue to battle for market share in their traditional delivery platforms. But to capture their fair share of the new growth streams, they'll have to ramp up their flexibility and innovation. They can do so by focusing on emerging business models that can drive growth through building creative partnerships and greater brand and franchise loyalty.**

The major studios face steep declines in home entertainment revenue.

Cinema

Cinema serves as a prime example of how revenues are being diverted from existing channels into new ones. The major studios face steep declines in home entertainment revenue. As Exhibit 13 shows, global revenue from the rental and sales of physical home video, which has already been falling sharply, will decline at an 8.8 percent CAGR through 2021. In response to such changes, and in recognition that viewers are increasingly agnostic as to the size of the screen on which they view films, many major studios are considering new ways to shorten the traditional delay between the cinematic release of films and their availability for home viewing. In 2016, Napster cofounder Sean Parker and celebrity backers including Steven Spielberg announced their investment in a startup that would allow people willing to pay a premium to watch new movies at home on the same day they hit theaters. Although the project has since lost traction, the debate between studios and exhibitors about shortening release delays has continued.

Exhibitors also have an opportunity to redefine their value proposition and adapt to these changes. For example, movie theater owners, faced with stagnant box office sales for first-run films, can expand their menu of content to include remote-viewing experiences for fans of opera, the symphony, sporting events, and pop festivals. In emerging markets with a rising middle class,

companies can use promotions and rebates to boost admissions, and can expand the use of in-cinema advertising, as is common in South Africa, to increase revenue over the long term.

Advertising

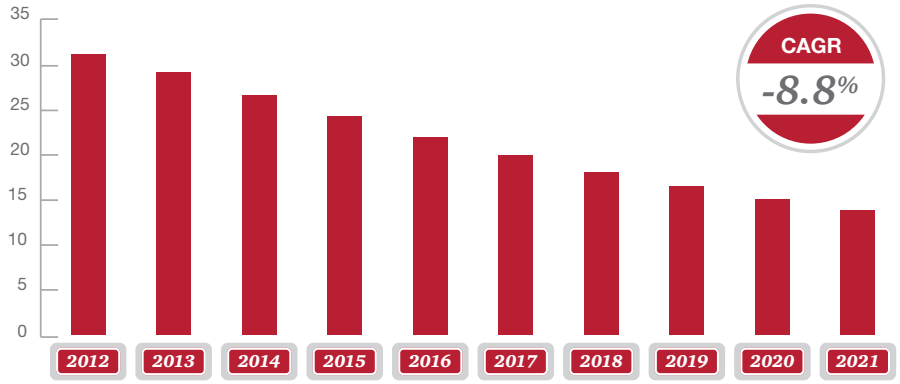
Pressures on ad-supported business models reflect two stark realities. First, many consumers, especially among the most attractive demographic segments, such as high earners and millennials, prefer ad-free environments, especially when they are viewing or reading high-quality content. This shift is evident in the rising use of ad-blocking and ad-skipping technologies and the rapid growth of ad-free/ad-light subscription revenues.

- A 2015 study by Sourcepoint and comScore found that whereas 10 percent of users block ads in the U.S. and U.K., about 25 percent do so in France and Germany. Younger and wealthier users also have a greater propensity to use ad blockers.
- By 2021, Internet video — defined as consumer spending on streaming services, such as Netflix, that do not require a pay-TV subscription — will grow at an 11.6 percent CAGR to $36.7 billion.

Concurrently, media businesses and premium advertisers are not migrating to digital advertising as fast as viewers are diverting their attention to digital media — primarily due to a lack of trust, transparency, and brand relevance.

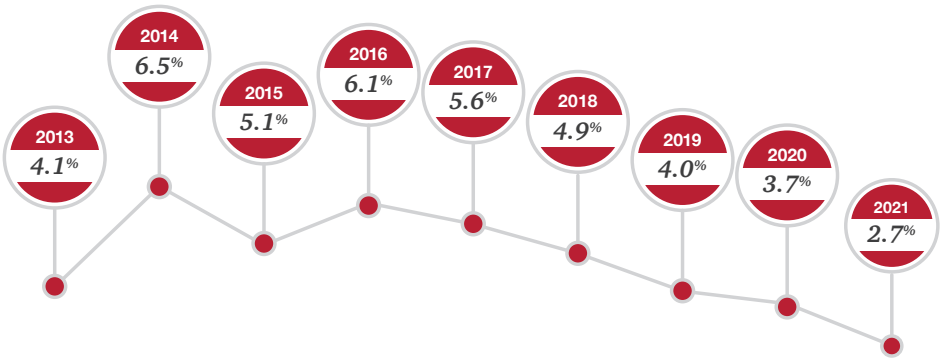
These twin challenges are not leading to a decline in Internet advertising, however (*see Exhibit 1*). In fact, overall advertising growth is now overwhelmingly driven by Internet advertising, which will grow at a CAGR of 9.8 percent through 2021. By contrast, non-digital advertising is forecast to grow

Exhibit 1: Global physical home video revenue (US$ billions)



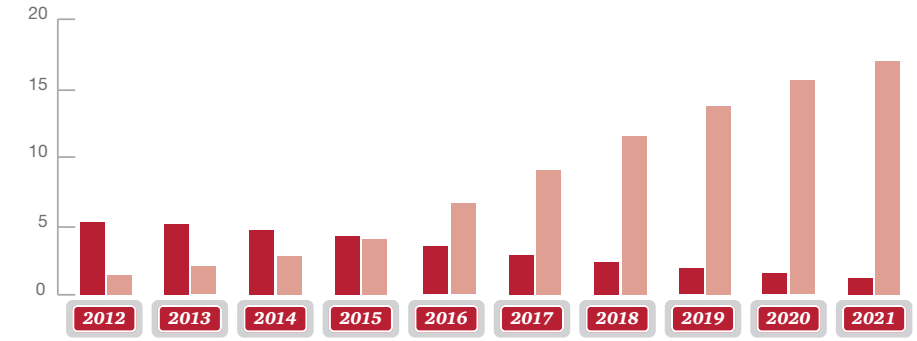
Source: Global entertainment and media outlook 2017–2021, PwC, Ovum

Exhibit 2: Total global advertising growth rates (%)



Source: Global entertainment and media outlook 2017–2021, PwC, Ovum

Exhibit 3: Global digital music downloading revenue vs. digital music streaming revenue (US$ billions)



Source: Global entertainment and media outlook 2017–2021, PwC, Ovum

at just a 0.3 percent CAGR. Although advertisers are still willing to spend within the rapidly growing Internet advertising market, we see a remarkably high level of concentration of ad tech companies controlling that spending. According to eMarketer forecasts, Google and Facebook will account for almost 50 percent of advertisers' total global digital ad spending in 2017, and China's Tencent, Alibaba, and Baidu will capture approximately 15 percent. That's five companies harvesting 65 percent of total global digital advertising revenues. This concentration is forcing digital and traditional publishers alike to rethink how content is distributed, consumed, and monetized over third-party platforms, and to pursue new types of partnerships and business models as a result.

Music

Revenues in the global music industry, which had remained flat from 2012 through 2015, are rising thanks to the success of new business models. Built on freemium models, streaming plans in 2016 led the global music industry to its second straight year of growth. And as streaming gains momentum, we forecast that recorded music revenues will rise at a 4.2 percent CAGR through 2021. This seemingly modest growth is quite impressive — particularly given the continued decline in digital music downloading revenues (*see Exhibit 3*). In 2017, streaming will become the dominant revenue source for recorded music. Concurrent with the growth in streaming, major labels are reaping gains in performance rights royalties. Global performance rights will increase at a 6.4 percent CAGR through 2021.

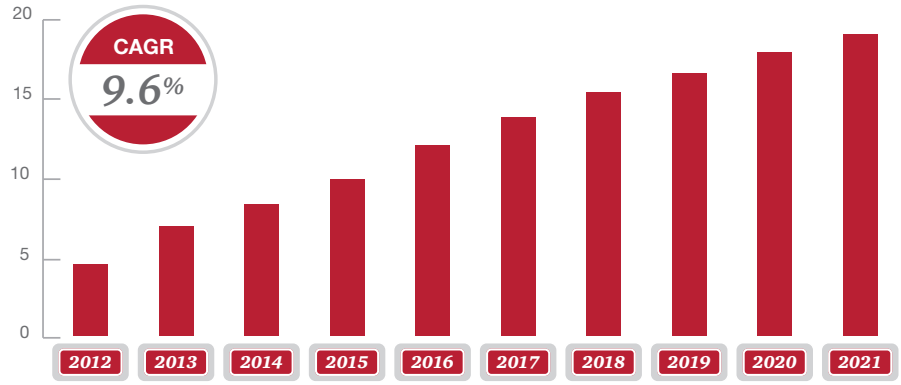
Overall, the music industry seems much healthier than it was a few years ago. In addition to the growth in streaming, there's also strong growth in live music events; ticket sales are forecast to grow at a 3.2 percent CAGR between 2016 and 2021. But the music business also faces some unique challenges. Although growth accelerated considerably with the launch of Apple Music in 2015, competition is intensifying. New entrants with deep pockets, such as Amazon, are putting more emphasis on the *free* in *freemium*, subsidizing consumer costs on the backs of other business models. Moreover, similar to what we see in video content, music is very much a "short tail" business. As we note elsewhere in this report (see "Content strategy," page 32), when consumers are presented with expanded choices, they often fall back on the familiar. The top 50 songs account for almost all the streaming activity, yet the companies are paying music publishers for access to catalogs with hundreds of thousands of songs.

U.S. television distribution and Internet access

A particularly notable challenge to current business models exists in the U.S. market, where cable TV and telecoms bundling strategies for pay-TV and Internet access are coming under pressure.

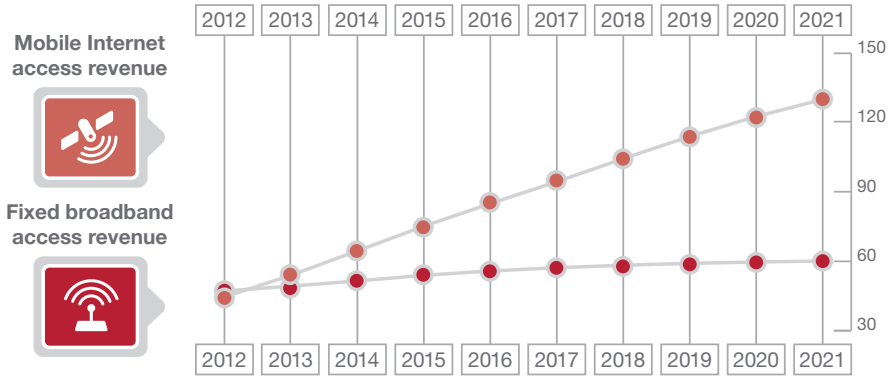
Pay-TV challenges. As streaming platforms and networks proliferate, sports has been a powerful magnet keeping consumers attracted to traditional pay-TV subscription models. But that's changing. Viewership for many of cable's top sports properties — the NFL, the Olympics, Major League Baseball, and NASCAR — is shrinking. And as more consumers have been cutting the cord, some premium cable channels have seen their number of

Exhibit 4: U.S. Internet video revenue (US$ billions)



Source: Global entertainment and media outlook 2017–2021, PwC, Ovum

Exhibit 5: U.S. Internet access revenue (US$ billions), fixed broadband vs. mobile Internet



Source: Global entertainment and media outlook 2017–2021, PwC, Ovum

subscribers fall. It's not that people are watching fewer events, it's that they've migrated to digital platforms — and to the ever-expanding array of available streaming services and apps. The growth options for both television networks and pay-TV providers can be seen in the proliferation of "skinny bundles," direct-to-consumer digital distribution models, and mobile apps that enable viewing of sports highlights and statistics.

Broadband provider challenges. U.S. cable providers are capturing gains from a growing high-speed fixed broadband market. Over the next five years, the market will expand from 63.3 million households to 72.2 million households, representing a 3.7 percent five-year CAGR. In time, the shift to 5G wireless networks and IPv6 protocols will pose a significant threat to cable companies' reliance on revenue from wired broadband. However, in the near term, overall broadband penetration has reached saturation at 85.8 percent of all U.S. households in 2017. The main threat today is wireless substitution for slower-speed fixed broadband services as telcos introduce unlimited wireless offerings of 4G services and as public Wi-Fi becomes ever more prevalent. As Exhibit 17 shows, we expect U.S. spending on mobile Internet access to rise at an 8.9 percent CAGR through 2021 while spending on fixed broadband Internet access will grow at a 1.5 percent CAGR. Still, innovation and competition in plan designs and access to speed may slow the pace at which consumers decide to move from wired to wireless.

Appendix

Global entertainment and media outlook

PwC's Global entertainment and media outlook 2017-2021 provides a single comparable source of five-year forecast and five-year historic consumer and advertiser spending data and analysis, for 17 entertainment and media segments, across 54 countries. It's a powerful online tool that provides deep knowledge and actionable insights about the trends that are shaping the E&M industry. You can access the full segment definitions or subscribe to the Global entertainment and media outlook at www.pwc.com/outlook.

Historical data collection

All forecasts have been built starting with the collection of historical data from a variety of sources. A baseline of accurate and comprehensive historical data is collected in the first instance from publicly available information, including from trade association and government agencies. When this data is used directly, these sources are cited accordingly. In addition, interviews with relevant associations, regulators and leading players have been held to gather insights and estimates not available in the public domain. When this information is collected, it is used as part of calculations, and the sources are proprietary.

Forecasting methods

All forecasts are prepared as part of a collaborative, integrated process involving both quantitative and qualitative analysis. The forecasts are the result of a rigorous process of scoping, market mapping, data collection, statistical modeling, and validation.

Note: The only source of all consumer and advertising spend data is the Global entertainment and media outlook; however, all the data, charts, and graphs (unless stated otherwise) in this publication are taken from the Global entertainment and media outlook.

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Many other professionals from the PwC entertainment and media practice, across 54 countries, reviewed and added local expertise to this article.

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