

Perspectives from the Global Entertainment and Media Outlook on Regulation

Market contrasts, net neutrality,
and privacy



Regulation

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PERSPECTIVE: Regardless of where they operate, companies must adapt to the evolving regulatory landscape. And although companies increasingly operate on a global scale, it is vital to understand the crucial changes afoot at the local level. Whether it's foreign ownership restrictions in some markets, a Republican-controlled Federal Communications Commission (FCC) in the U.S., the forthcoming introduction of the General Data Protection Regulation (GDPR) in Europe, or debates over net neutrality, the regulatory docket is full of both opportunities and challenges. Although it's difficult to predict what the impact will be on future E&M spend levels, these shifts could alter the climate for many investors and businesses.

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Impacts in specific countries

China, the world's most populous country and the second-largest E&M market, is on the radar screen of every major E&M organization. But censorship and other regulatory constraints play a significant role in inhibiting investments. Although both Netflix and Amazon expanded their services "globally" in 2016, neither will compete directly in the highly regulated Chinese market. In withdrawing from its original plan to operate in China, Netflix announced it will instead license content to existing online distributors in the country.

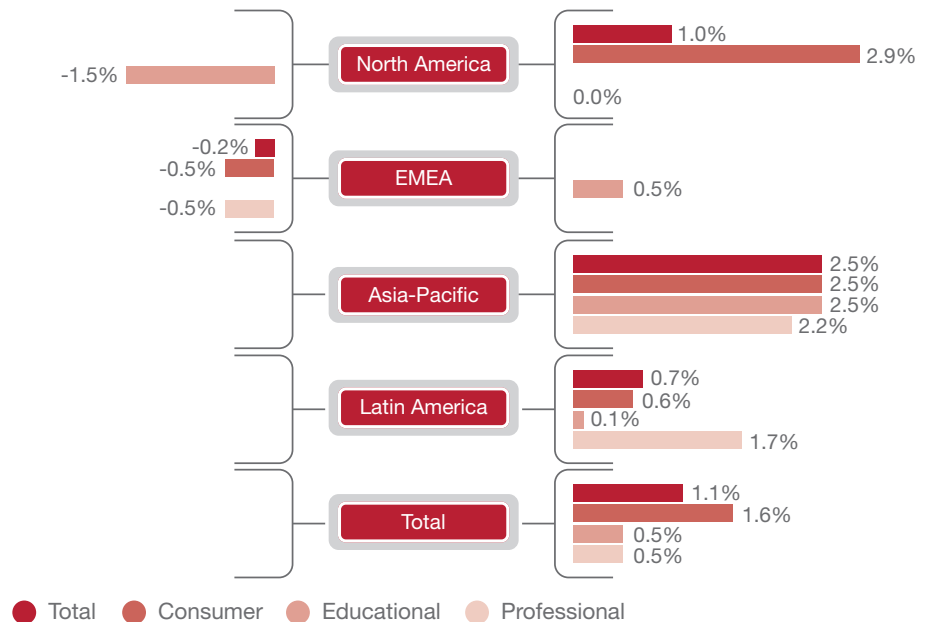
China's streaming markets are not the only markets where new regulations affect local strategies. For example, in

Russia, a 2014 ruling that banned pay-TV advertising was amended in February 2015 to avoid a collapse of multichannel advertising. But the amendment stipulated that channels must show 75 percent local content (many top sports channels have been given an exemption).

Another example can be seen in the book industry (*see Exhibit 1*). In many markets, a sharp increase in online book sales (of both print and digital books) has compensated for a decline of sales in retail channels. But because so many countries in Europe, the Middle East, and Africa (EMEA) have fixed-price book laws, consumers in those countries have not been able to take advantage of deep discounts from online publishers.

Exhibit 1: Total, consumer, educational, and professional books revenue CAGR (%) by region, 2016–21

EMEA will shrink while other regions see growth



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

Governments and regulatory bodies in many markets are taking steps to reduce the dominance of incumbents and increase competition in both fixed and mobile Internet coverage. Efforts are notable in some Latin American and MENA countries.

Global uncertainty over net neutrality

In the U.S., the FCC sets the standards for Internet service providers. These standards encompass net neutrality — and there may be changes under the Trump administration. In November 2014, President Obama opposed the practices of blocking or throttling content, or offering higher speeds to customers willing to pay for them. Following various court decisions backing the principle of net neutrality between 2014 and 2016, the FCC pressed ahead with its regulatory agenda, including proposals to “unlock” the set-top box to usher in a more competitive environment for video content. The FCC has launched a proposal to roll back the nation’s net neutrality rules and set the stage for tech companies and Internet service providers to reopen the debate over the future of the Web.

Outside the U.S., net neutrality laws have been passed in many markets and are under consideration in others. The Dutch government is taking a tougher stance in its interpretation of European Union (E.U.) rules on net neutrality than many other E.U. member states; it favors banning online service providers from paying for preferential access. At the same time, governments and regulatory bodies in many markets are taking regulatory and legal steps to reduce the dominance of incumbents and increase competition in both fixed and mobile Internet coverage. Efforts are particularly notable in some Latin American and MENA countries that have been slower to open to competition than those in other parts of the world.

Privacy

Privacy regulation continues to have major implications for E&M user experiences and the role of brands within E&M digital media ecosystems. Companies continue navigating the fine line between delighting customers and annoying them — or even alienating them. In the U.S., President Trump recently signed congressional legislation that repeals FCC privacy protection for Internet users. This means that, like Internet service companies, telecom providers will not be required to ask consumers for permission to collect, store, share, or sell certain types of customer data. The change puts Verizon, Comcast, and AT&T on a level footing with tech giants such as Google, Facebook, Amazon, and Netflix, but it was viewed as a setback for consumer privacy by many Internet activist groups. Ironically, it comes at a time when E.U. regulatory changes are driving toward greater protection of the personal data of E.U. citizens. The E.U.'s GDPR, due for introduction in May 2018, has data security implications for E&M companies that operate in Europe and throughout the rest of the world.

Privacy regulation is evolving elsewhere. In the 21-country Asia-Pacific Economic Cooperation (APEC) forum, for example, more members are now becoming compliant with APEC's cross-border privacy rules (CBPR) system for data. And in Latin America, countries are developing data protection laws. Some of these laws mirror E.U. data protection rules, as is the case in Argentina. But the laws under development vary from country to country.

IP protection remains fragmented

Copyright infringement remains a problem in many markets; rights holders are in a constant battle against pirates. One favored approach aimed at reducing unlawful file sharing is "graduated response" (also known as three strikes). But the use of graduated response, under which copyright violators can ultimately have their accounts suspended, is uneven, and opinions vary as to its effectiveness. Since the U.S. decided in January 2017 to shutter its program, Canada is the only country in North America that has a graduated-response regime in place to deter illicit behavior. By contrast, the U.K. set up its first graduated-response program in early 2017 as leading ISPs joined forces with content owners to start sending out millions of warnings to those engaging in infringing activities.

The U.K. initiative's effectiveness is likely to be measured against France's similar HADOPI effort. Although it has sent out 7.5 million first-warning notices since its 2009 launch, HADOPI has been criticized for its perceived failure. Meanwhile, in Russia, the authorities have been promising to close down the many popular BitTorrent sites operating in the country; telecom and media regulator Roskomnadzor vows to block leading operations. In Latin America, where piracy is a significant problem, DirecTV Latin America has joined with other subscription TV operators to create an anti-piracy group. Dubbed Alianza, it works with governments and regulators to combat the problem. By contrast, in Japan, the potential for the Internet video business is boosted by stringent regulations countering online piracy: Japanese Internet users who illegally download files face up to two years in prison and heavy fines.

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.

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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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