

# *The Business of Entertainment*

## Harnessing growth opportunities in entertainment, media, arts and lifestyle

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Conference*

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# Agenda

## *In this session, I will:*

- ✓ Highlight emerging trends in the entertainment and media
- ✓ Give an overview of the industry in Nigeria with focus on key segments
- ✓ Identify growth opportunities in the industry
- ✓ Suggest ways industry players can take advantage of the opportunities
- ✓ Explore ways technology can be used as an enabler for the sector

# *Historically, the debate in the E&M industry has revolved around these issues...*

- Content Vs Distribution, which is king? Which matters most for driving revenue growth?
  - ✓ Is it more important to control the rights and access to intellectual property ?
  - ✓ Or should the focus rather be on controlling the connection points to the audience?
  - ✓ Even more, do you need to win both?
  - ✓ Should the industry focus more intensely on a third: user experience

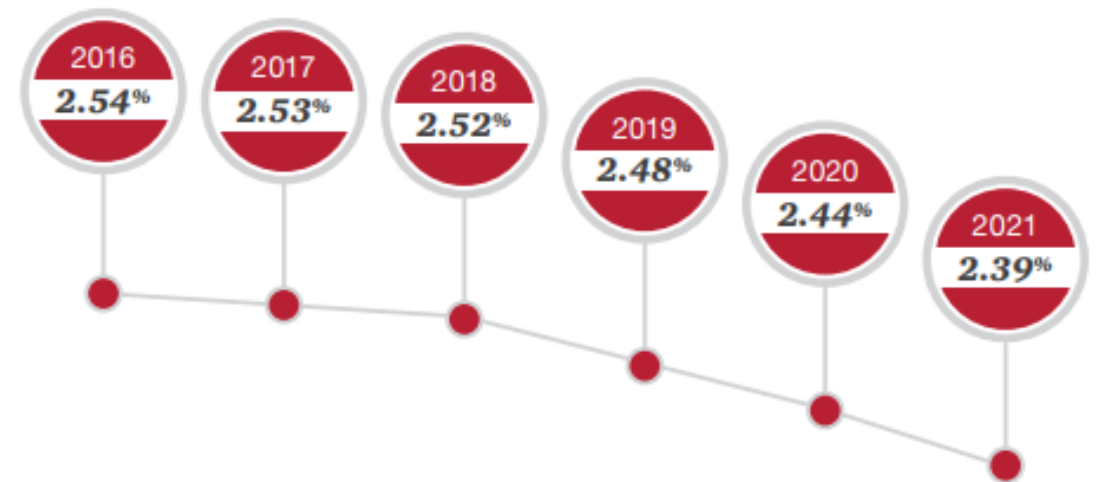


PwC's latest ***Entertainment & Media Outlook (2017-2021)*** - our annual review of the Global entertainment and media space provides some answers to some of these questions.

## *Globally we are seeing a mature industry with declining growth rates*

- Over the next five years we're projecting that annual growth in the E&M industry will average 4.2 percent, down from the 4.4 percent CAGR we forecast last year.
- Barring a step change in technology, experiences, or platforms, the growth rate of the E&M industry will be below the growth rate of global GDP
- Simply put, based on the traditional revenue streams that have driven growth historically, E&M is losing market share in the global economy
- Why is this happening? This slowdown stems from a set of challenges that are specific to E&M businesses as well as larger factors that are affecting many industries

E&M revenue will fall as a share of global GDP over the next five years



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

## *Major digital tipping-points are occurring or in prospect across all segments...*

- Internet advertising now generates more revenue than TV advertising globally
- Internet video revenues will overtake physical home video in 2017.
- In 2016, total digital recorded music revenue overtook physical – and streamed music overtook downloads.
- Virtual reality video revenue will exceed interactive application/gaming revenue in 2019.
- Smartphone traffic will exceed fixed broadband data traffic in 2020.
- Rapid advances in technology is driving direct-to-consumer strategies



## *There is significant good news for the industry in this part of the globe...*

- Rapid growth in E&M revenues over the coming five years will be in less-developed markets and economies, where entertainment and media spending on a per capita basis is generally quite low.
- While consumers in mature markets such as North America and Europe, and wealthier Asia-Pacific markets, spend a lot — more than US\$500 per capita annually — on entertainment and media, growth rates are relatively slow in these areas.

# *12.1%*

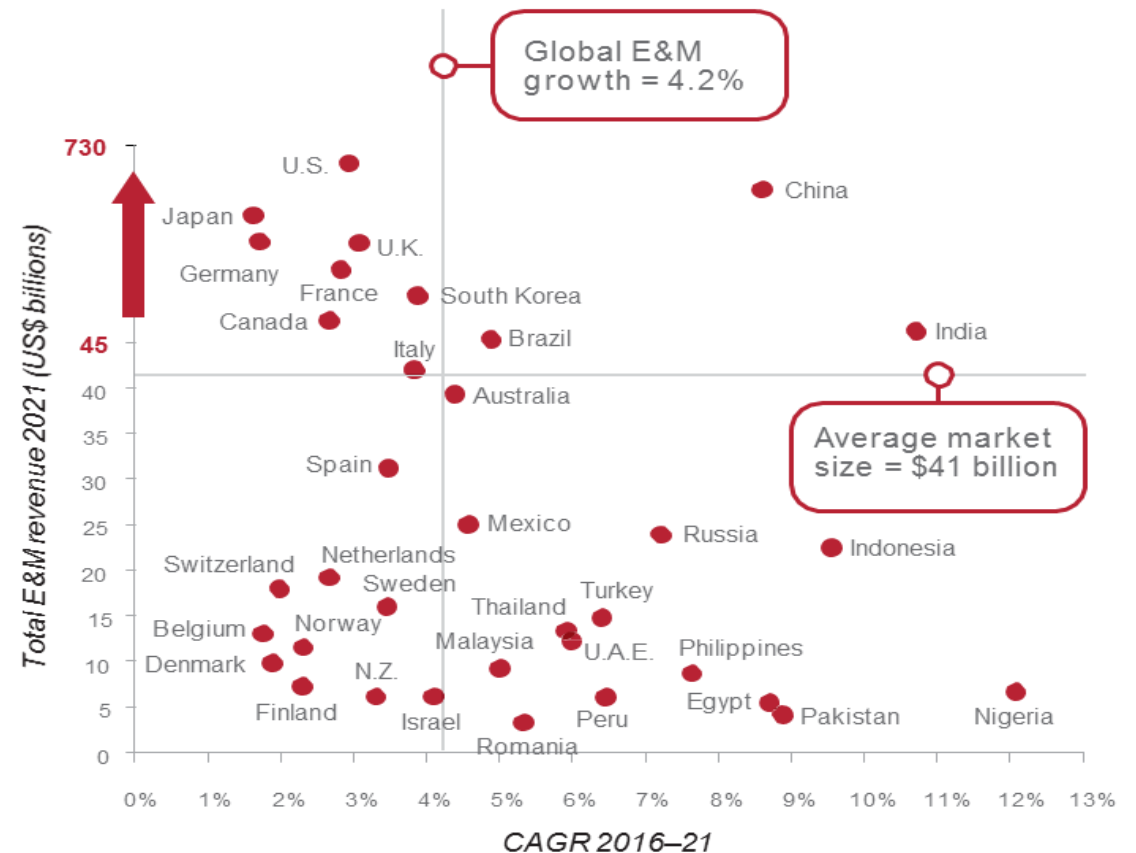
*Nigeria with a 12.1% CAGR will be the world's fastest growing E&M market over the coming five years. This growth will be strongly influenced by surging spending on mobile Internet access.*

## *There is significant good news for the industry in this part of the globe...*

- Though the industry was affected by the recession in dollar terms the market rose year on year to US\$3.6 billion in 2016, and will increase at a 12.2% (Compound annual growth rate) CAGR to 2021, reaching US\$6.4 billion in that year.
- In contrast, less developed economies feature much lower per capita spending and faster growth albeit from a very low base – less than US\$50 a year in many cases.

**Exhibit 4: A world of differences**

Scale vs. growth in global E&M markets



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

## *Filmed Entertainment*

- The Nigerian film industry continues to grow at a rapid pace.
- The local industry is estimated to employ more than 1 million people and to generate more than US\$7 billion for the national economy. According to an IMF report in the summer of 2016, the industry now accounts for 1.4% of GDP.
- Nigerian cinema is on the rebound. With new theatres opening and production quality increasing, box office revenue will increase steadily in Nigeria over the forecast period.
- Total cinema revenue is set to reach US\$22 million in 2021, rising at a 8.6% CAGR over the forecast period as Nigerian films gain international recognition and investment increases.
- The wide availability of pirated films has traditionally limited cinema visits in Nigeria, but admissions are on the rise.

2500 

Nigeria produces around 2,500 films a year, a huge figure that makes it the second-biggest global production hub behind India



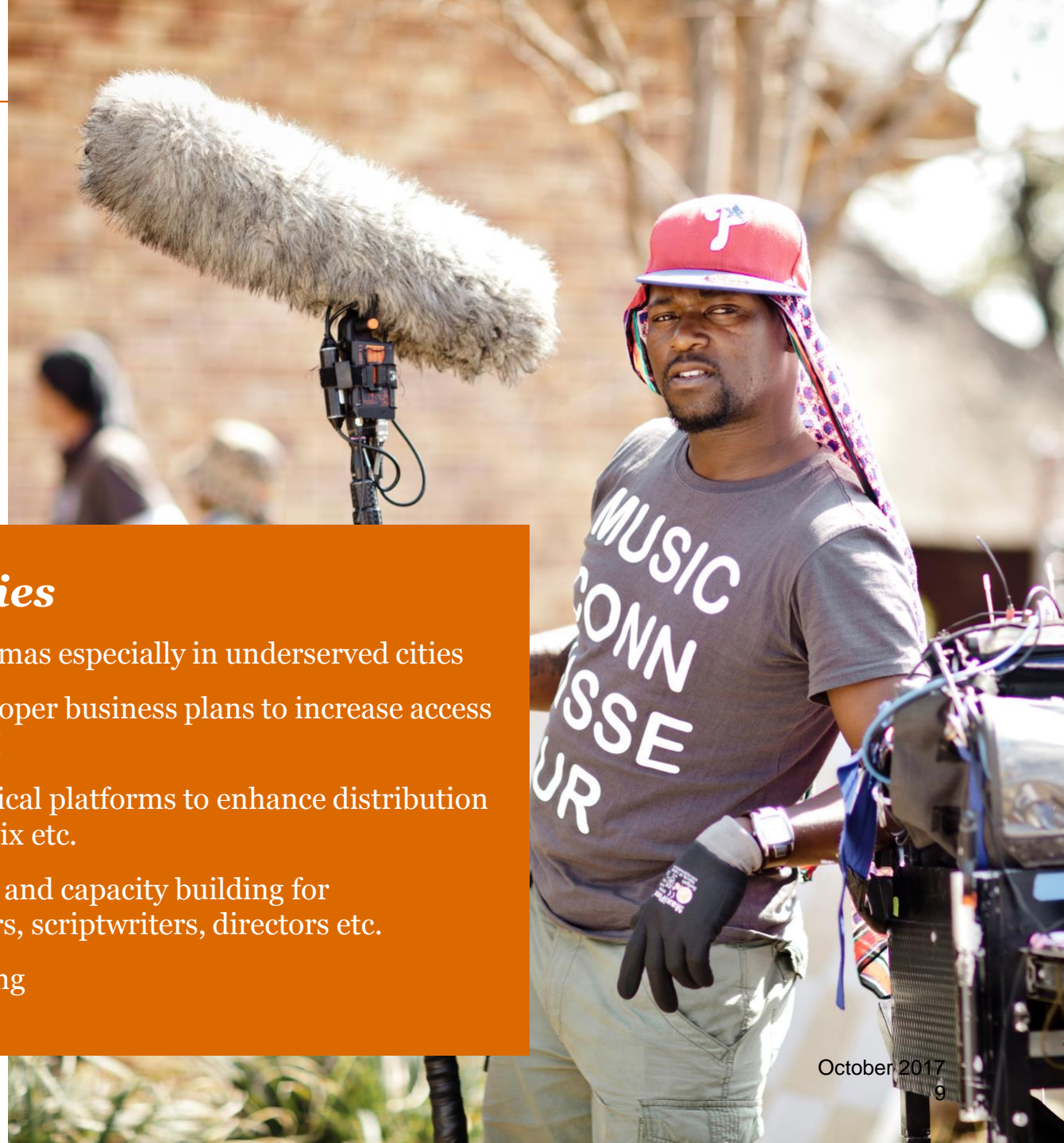
# ***Filmed Entertainment***

## ***Challenges***

- Inadequate skills and human capital
- Poor technology and movie making equipment
- Copyright infringements & piracy which is a disincentive to investment
- Shortage of platforms for exploitation of content
- Access to funds and weak Foreign Direct investments
- Industry is not well structured. There is inadequate project development & business planning

## ***Opportunities***

- Opening of Cinemas especially in underserved cities
- Structuring of proper business plans to increase access to funds and FDI
- Use of technological platforms to enhance distribution viz Irokotv, Netflix etc.
- Areas of training and capacity building for cinematographers, scriptwriters, directors etc.
- Equipment leasing



# Music



  **\$39m**

*Total music revenue in Nigeria rose 9.0% in 2016 to reach US\$39 million, and is set to rise at a 13.4% CAGR to US\$73 million in 2021.*

- Despite a number of challenges, including piracy and the difficulty in monetising services, a lot of music is created in Nigeria, with new artists emerging all the time.
- Hundreds of albums are produced annually covering a wide range of genres, and some local artists manage to clinch deals with major labels after achieving international prominence.
- Music revenue in Nigeria continues to see healthy growth.
- Although Nigeria has one of Africa's most vibrant music scenes, it struggles greatly with piracy. By comparison to its population, Nigeria's legal music sector is small, and although digital music revenue overtook physical musical revenue as far back as 2013, and is forecast to grow at a healthy pace, it is overwhelmingly derived from mobile – mostly from ringback tones.

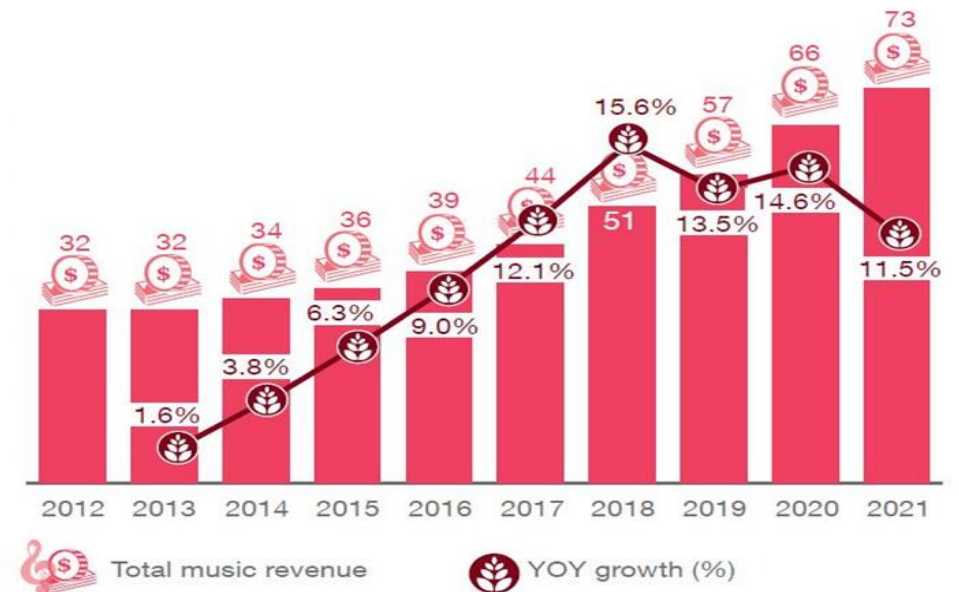
# Music

## Challenges

- Distribution of content
- Piracy
- Ability of artists to earn from their work
- Proper legal structure around contracts and record deals
- Mediocre players in the industry
- Shortage of skills
- Lack of production studios.

## Opportunities

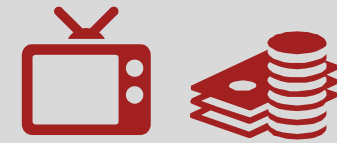
- Evolution of monetized platforms for music distribution
- Improvement in production skills and quality
- Equipment leasing
- Establishing of state of the art studios
- Hosting of musical talent shows etc.



Sources: Entertainment and media outlook: 2017–2021, An African perspective, PwC, Ovum

# Television

- Nigeria's TV market grew 2.3% to reach US\$810 million in 2016, despite the country's macroeconomic problems throughout the year. Pay-TV revenues dominate the market with TV advertising accounting for 30.7%.
- As the economy stabilises, TV market growth will be more consistent over the next five years, expanding at a 4.4% CAGR to pass the US\$1 billion mark in 2021.
- The market is driven by pay-TV subscription revenue, which accounted for 63.8% of the total in 2016. This will fall back slightly to 62.8% by 2021 due to stronger growth rates in the TV advertising sector.
- Advertising accounts for nearly a third of total TV revenue in Nigeria but so far, none of this revenue is derived from online TV advertising. Terrestrial advertising makes up over 90% of the market, as Nigeria is yet to complete its digital switchover.
- MultiChoice is a leading player in Nigeria's pay-TV industry with its DStv and GOtv services via satellite and pay-DTT (Digital Terrestrial Television). With access to key sporting content, this is unlikely to change despite competition from StarTimes.



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# Television

## Challenges

- Broadband penetration is extremely low in Nigeria, limiting development in the Internet video market.
- Availability of high quality locally relevant content
- Digital switchover still not completed

## Opportunities

- New entrants such as TSTV
- SVOD giants Netflix and Amazon entered the Nigerian market in early 2016



## Other media



### *Radio*

- Total radio revenue in Nigeria fell to US\$58 million in 2016, down -5.2% on 2015, after some cutbacks in advertising spend.
- Over the next five years, the industry will return to growth, rising year on year at a 5.5% CAGR, with revenue reaching US\$76 million in 2021.
- The Nigerian radio market is comprised entirely of advertising revenue. Advertising slots are relatively affordable.



### *Video games*

- Nigeria has a relatively small video games market, valued at just US\$41 million in 2016.
- Traditional gaming is unaffordable for most Nigerians.
- Nigeria's video games market is set to expand at a similar CAGR of 15.8% over the next five years, largely driven by social/casual revenue

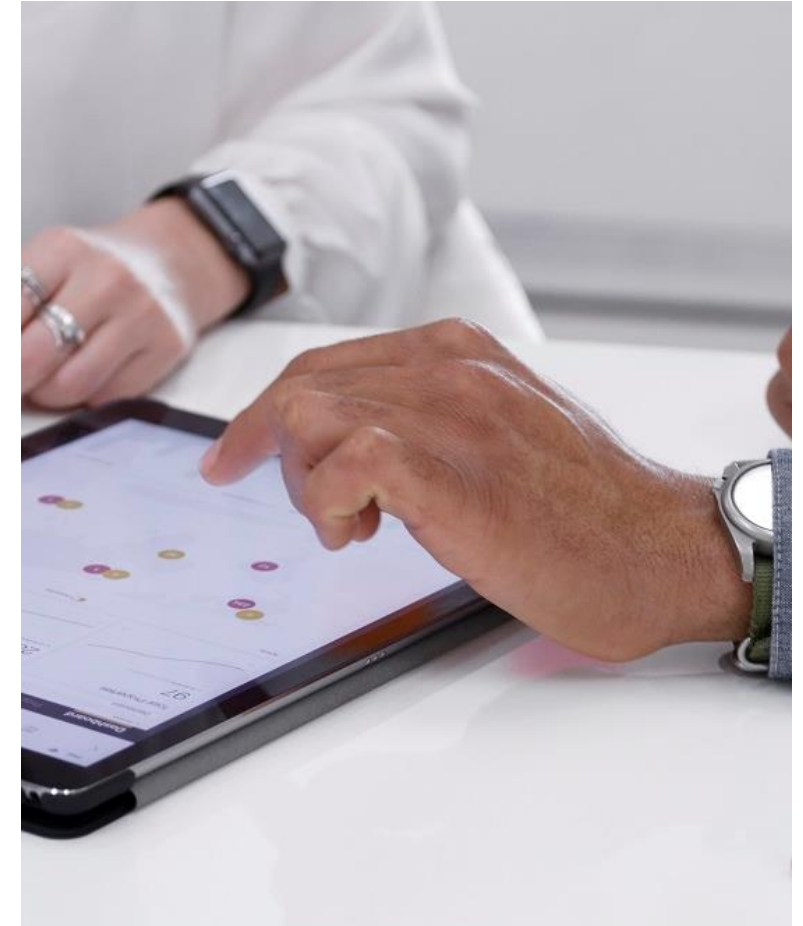


### *Out-of-home advertising*

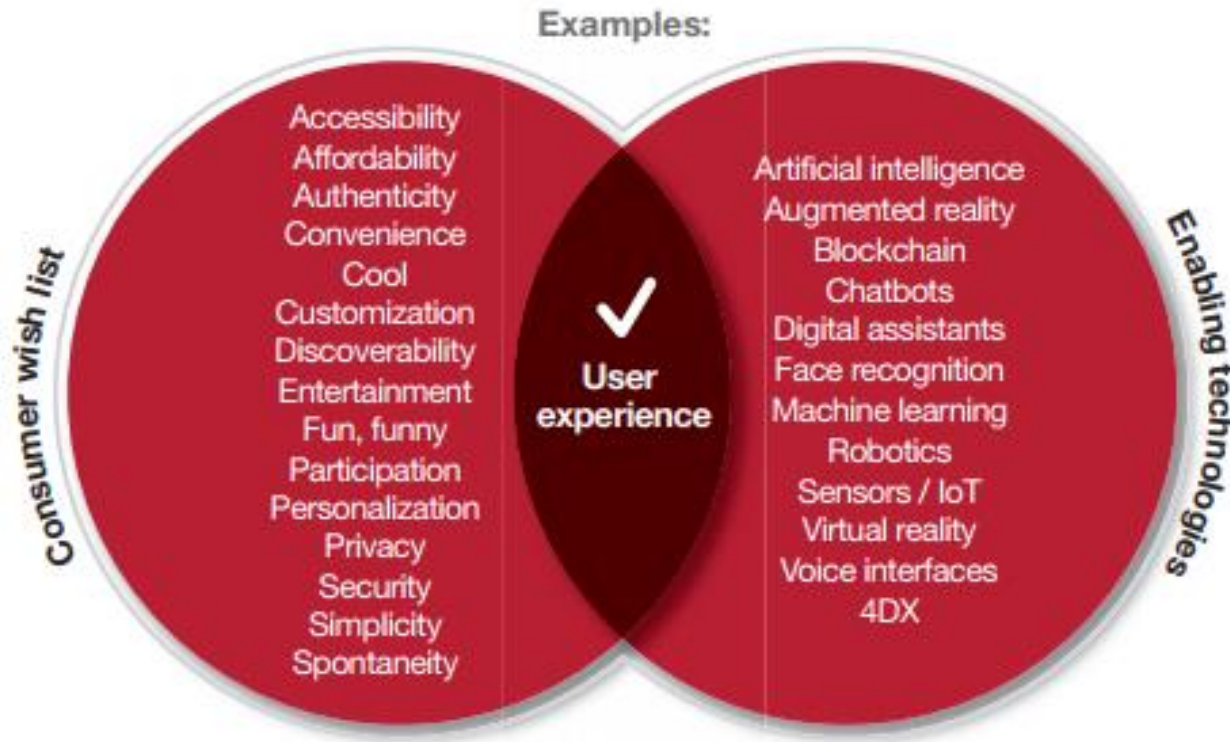
- Nigeria is Africa's second-largest OOH market
- The market is expected to expand strongly over the forecast period, growing at a CAGR of 5.4% to US\$193 million by 2021.
- Unlicensed and illegal OOH advertising is a particularly severe problem in Nigeria
- Most OOH advertising in Nigeria makes use of traditional formats, with billboards mounted beside roads or on buildings by far the most common format. Unreliable electricity supplies present a problem in many areas. Many billboards consequently incorporate solar panels in order to provide a back-up power source for night-time lighting.

## *Across all segments, there is an increased focus on the user*

- Rapid changes in technology, user behavior, and business models, have created a gap between how consumers want to experience and pay for entertainment and media and how companies produce and distribute their offerings.
- To bridge this gap, companies should pursue two related strategies:
  - (1) focus their efforts on building businesses and brands anchored by active, higher value communities of fans, who are united by shared passions, values, and interests; and
  - (2) capitalize on those emerging technologies that delight users in new ways, deliver superior user experiences, and enhance productivity
- Winning in today's Entertainment and Media environment combines making the right choices between what consumers want and what technology can enable...
- And then designing the business models to energize, amplify and monetize these choices



## *At the center of it all is User Experience*



Source: PwC

- A great user experience and advances in data and digital technology — along with great content — provide the makings of a virtuous circle.
- Increasing engagement and attention can lead to the capture of more data and more understanding about what crucial customers want.
- That understanding enables companies to further refine, target, and engage their core audiences in ways that delight and retain them.
- That ultimately creates further opportunities for value creation

## *To take advantage of the opportunities in the industry, players need to become more fan-centric*

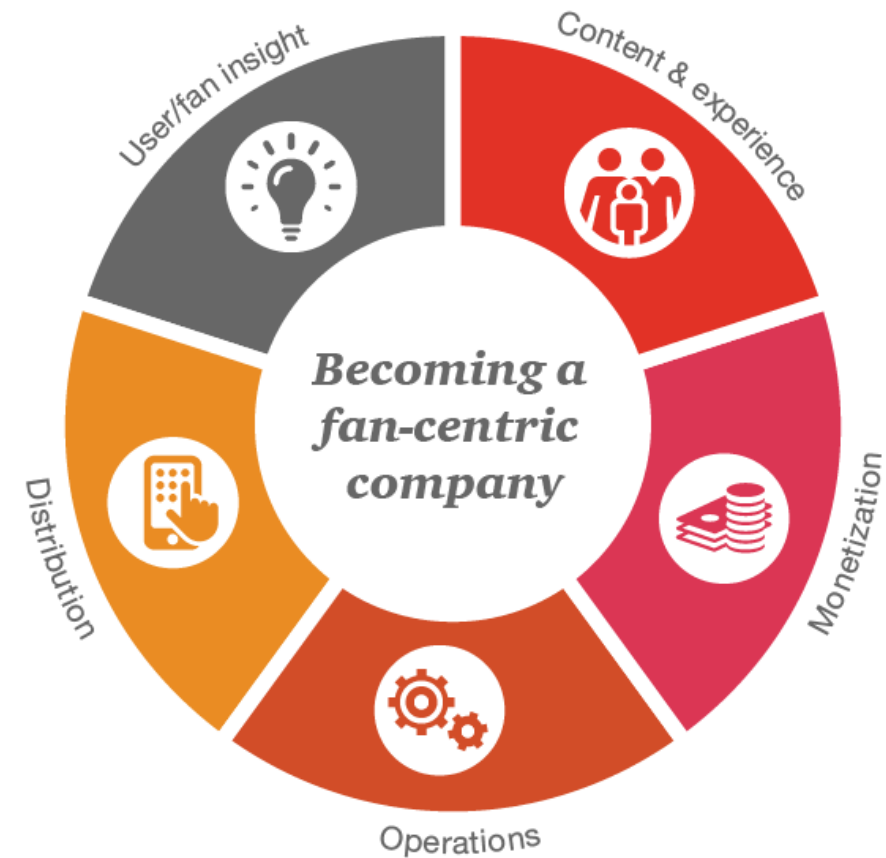
- To thrive in a marketplace that is increasingly competitive, slower-growing, and disrupted by technology, companies must develop strategies that engage, grow, and monetize their most valuable customers — i.e., their fans.
- To do so, they must combine excellent content with breadth and depth of distribution and then bring it all together in an innovative user experience, in which the content is discoverable easily on an array of screens and at an attractive price.
- Simply capturing the natural growth in consumers and their uptake of services and content with existing approaches is no longer sufficient.
- Across the industry, the resulting quest to create the most compelling, engaging, and intuitive user experiences is now the primary objective for growth and investment strategies — and technology and data lie at their center.
- Pursuing these strategies will help companies thrive in an era of complexity and slowing top-line growth from the traditional revenue streams that have nourished the E&M industry to date.



*Across the industry, the resulting quest to create the most **compelling, engaging, and intuitive user experiences** is now the primary objective for growth and investment strategies — and technology and data lie at their center.*

## *Ultimately, the most important priorities for business leaders to consider in becoming more fan-centric include...*

1. Know who the fans are
2. Focus on the content and the experience
3. Increase business agility and flexibility (Operations)
4. Monetize the total fan relationship
5. Review your approach to distribution.



## Know who your fans are...



“Companies must be able to distinguish their fans from casual users...”

- Companies must be able to distinguish their fans from casual users, understand what drives fandom for their brands, and analyze the relative value of different audience or user segments.
- This creates an imperative to build deeper user insights and better targeting capabilities. To do this, E&M companies must strengthen capabilities in data analytics, measurement, and management.
- They can then more readily analyze what converts users into higher-value fans.
- These insights can help executives concentrate resources on the initiatives that matter most for driving overall company growth and profitability.
- *Global music service Spotify shows what is possible when fan insight capabilities are more fully realized. Spotify has a database of more than 100 million users, including 50 million paid subscribers, which provides information about any artist's listeners. The Spotify Fan Insights service enables artists to slice and dice listening data and to zero in on their heavy listeners and sharers (i.e., their fans) versus their more casual consumers*

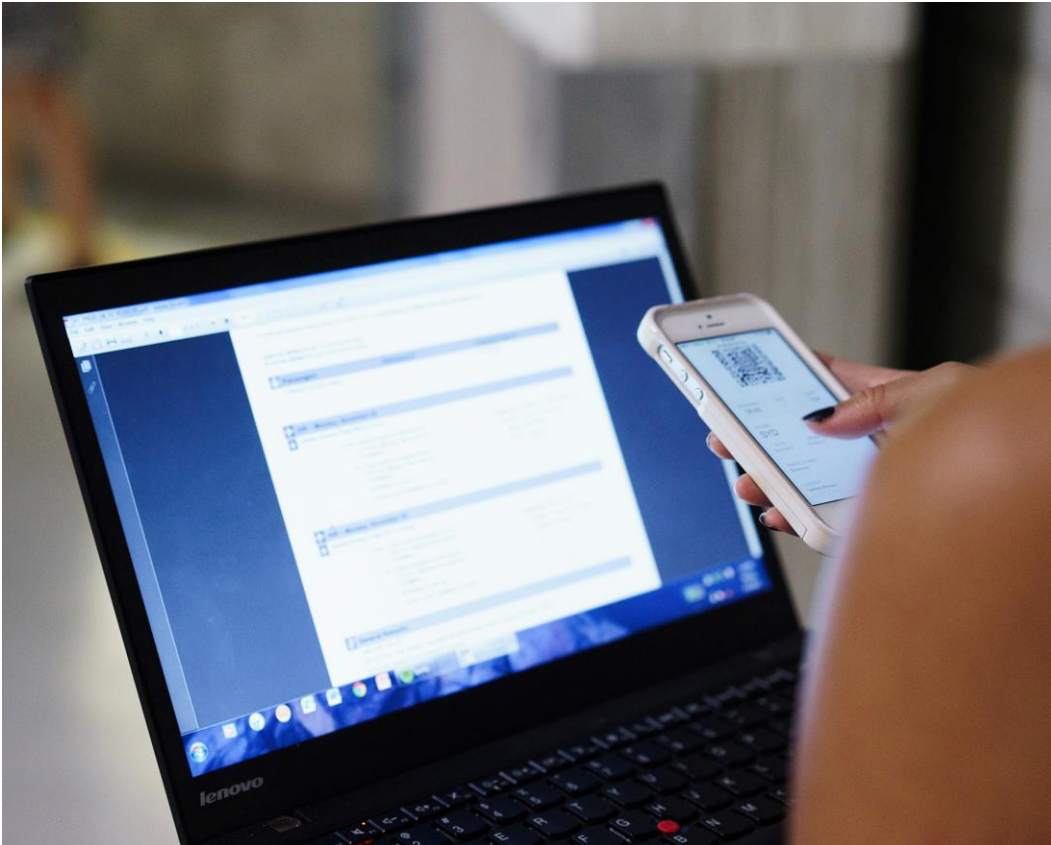
## *Focus on the content and experience*

- Fans are by definition fanatics — people whose enthusiasm or zeal is beyond normal levels of behavior. Avid fans cannot get enough of the content they love. They binge on it. They share it.
- Avid fans will seek out content fueled interactions across a diversity of experiences, provided those interactions ignite and power their emotional connection with, say, a sports team, a film, or a video game.
- For many fans, the quality of these experiences is further amplified when it translates into social connections; fan-to-fan relationships; and active communities united by shared passions, values, and interests.
- Companies that create content and experiences tailored to avid fan bases can unlock significant business value.



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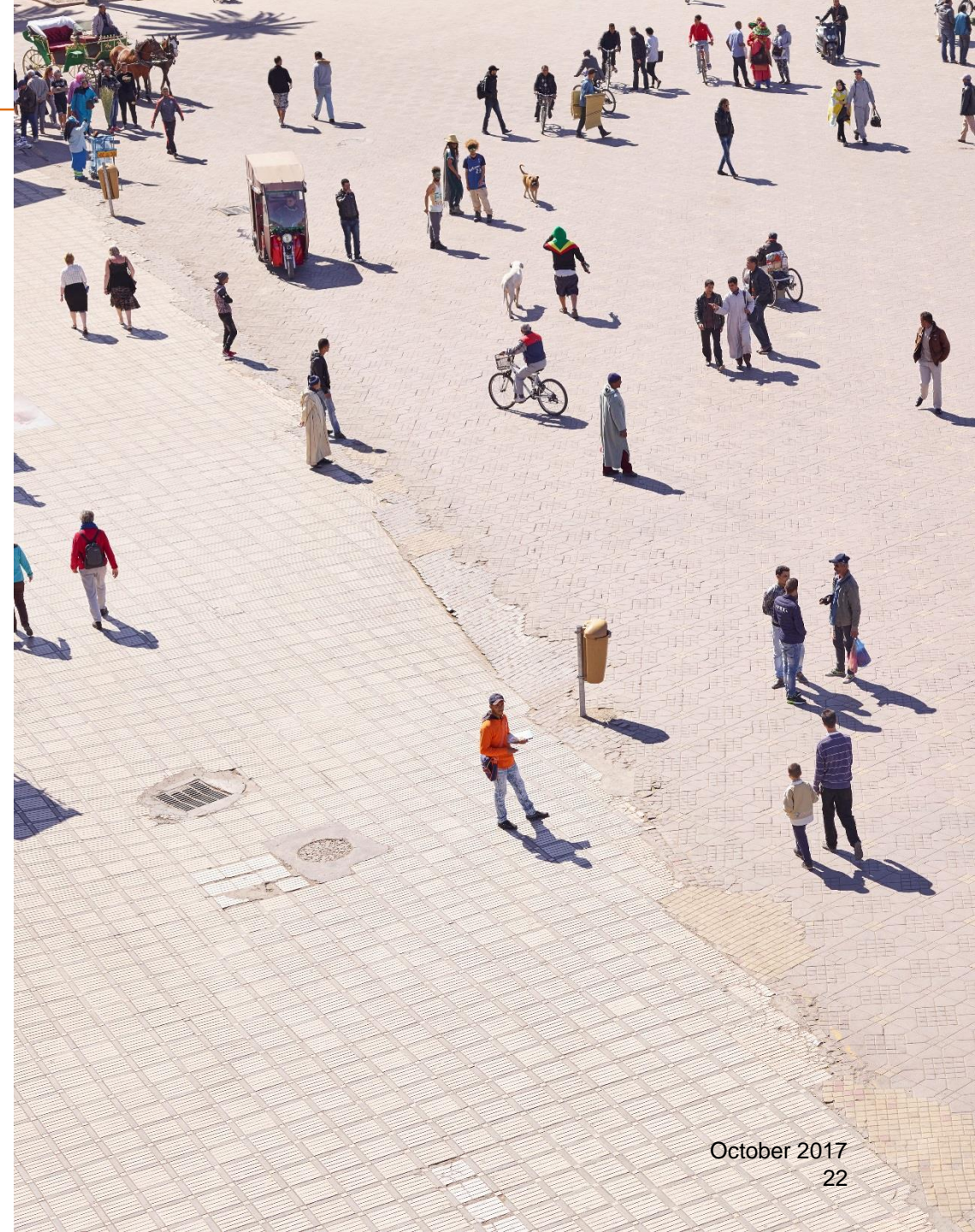
## *Increase business agility and flexibility*



- Today's fast-moving, tech and experience-driven market is compelling E&M companies to optimize their operations in new ways.
- Today's fast-changing E&M landscape further rewards companies with superior flexibility and speed.
- Organizations need to be wired so they have the flexibility to respond faster to new user preferences, new business models, and new technologies.
- Teams must be more multidisciplinary in their approaches — bringing together expertise across content, product, technology, distribution, and sales more smoothly than ever before.
- For many E&M businesses, this means transforming organization structure, teaming models, and company culture.

## *Monetize the total fan relationship*

- Fans want to do more with their favorite E&M brands than just watch.
- Companies that build fan bases have to be able to capture their premium value effectively
- Companies must develop sales structures, processes, and decision rights that extend not only across a company's entire portfolio, but also into business partners' properties.
- Sales teams need to know how to translate the factors that drive relevance and emotional connection with their fans into compelling “fit-for-purpose” solutions for their marketing customers.
- Finally, sales teams must ensure that their advertising and promotional efforts amplify the quality and intensity of a fan's experience.
- Following fan passions creates a natural pathway to identifying new revenue opportunities for E&M companies



## ***Review your approach to distribution***

- As user behavior and content consumption — especially among younger users — trend more toward social media, mobile devices, and streaming, E&M companies have to adapt to ensure they are building and strengthening their fan bases.
- For many players, this means developing powerful owned and operated showcase destinations, and designing experiences on partner platforms that grow and deepen the fan base.
- Even the largest, most well regarded E&M content brands need the distribution scale that third parties can generate.
- Companies should thoughtfully select distribution partners that can create robust fan value versus lower-value eyeballs.



## *Driving incremental growth through innovation*



Across many segments,  
**data is evolving into a  
form of currency,**  
transforming the ways E&M  
companies monetize both  
content and distribution.

- The accelerating speed of technological change creates a macro-level risk for most businesses.
- But in the E&M industry it's also opening up a large opportunity for innovation in product offerings, brands, and business models that revolve around the user experience.
- We see it in emerging segments with rapid growth such as virtual reality and e-sports.
- In addition, across many segments, data is evolving into a form of currency.
- Data allows for personalization, customization, segmentation, and greater ROI and brand equity.
- The growing volume of data and the technologies that allow companies to mine and deploy it are transforming the ways E&M companies monetize both content and distribution.

# Companies are leveraging emerging technologies to enhance the user experience

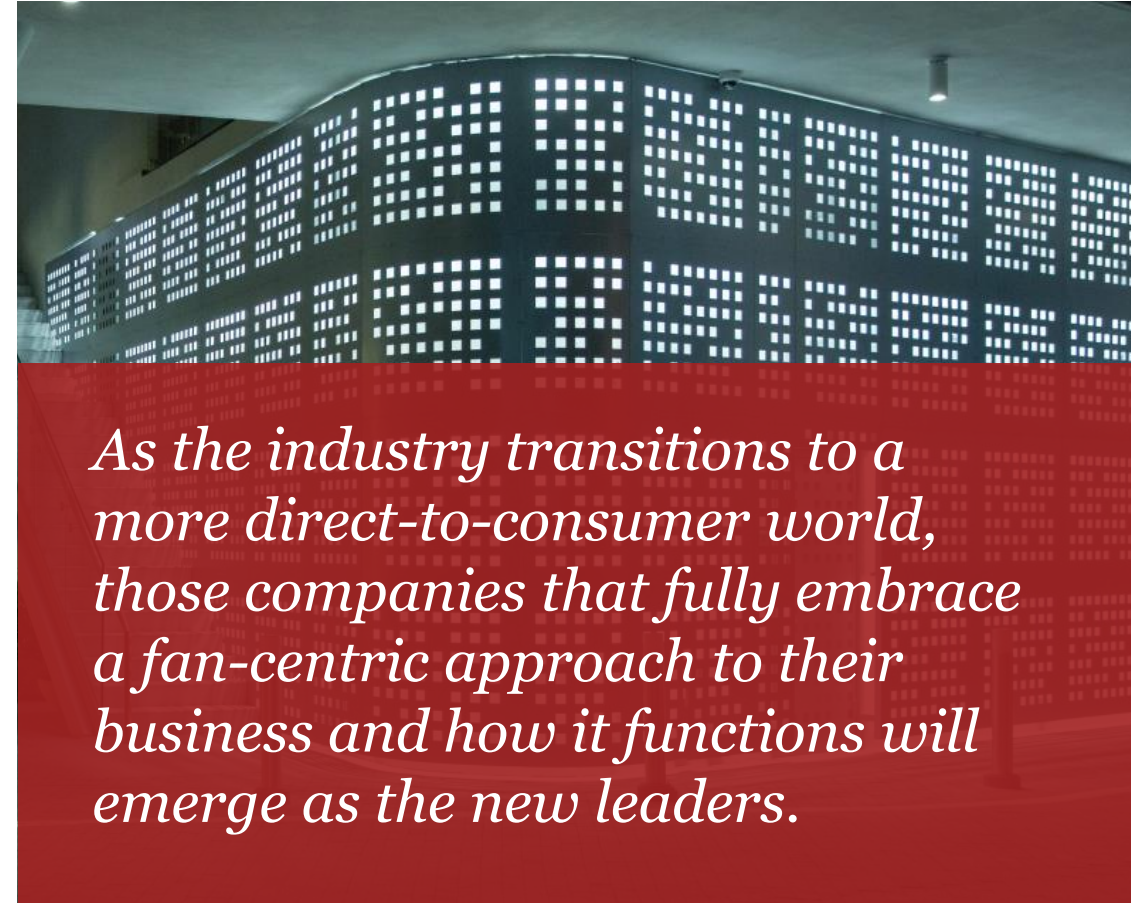


Source: *Business Insider, Forbes, Variety, International Data Corp., Tech News World, CNBC, PwC*

- Grappling with new technologies will be unavoidable for leaders because of two important structural forces driving it
  1. the supply of new products, services, and platforms.
  2. the demand - consumers' desire to move to a world in which they have greater customization, spontaneity, and personalization in the way they consume content, communicate, and engage in commerce.
- No single path is best for integrating AI into the E&M business
- The key is to understand the dimensions in which tech can aid, abet, optimize, enhance, and, yes, occasionally replace human work — and to learn from what companies are already doing.
- Next, prioritize the opportunities and assess whether your current capabilities will allow you to pursue technology effectively

## *Tomorrows industry leaders must recognize today that growth lies in getting much closer to the consumer*

- The most valuable constituents in the E&M industry are the active, loyal, and passionate fans.
- Content and distribution are very important but are not enough
- As the industry transitions to a more direct-to-consumer world, those companies that fully embrace a fan-centric approach to their business and how it functions will emerge as the new leaders.
- Making this transformation will require significant changes and investments across the entire enterprise.
- But for those entertainment and media companies that make fans the center of everything they do, the returns will be substantial.
- We have a huge opportunity in Nigeria and the time to take it is now!



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# *Thank you*

