It's the golden age for the digitally empowered consumer, says PwC

LONDON, UK: A new collaborative entertainment & media industry emerges from the recession but who will pay for content and infrastructure?

This is a golden age for the empowered consumer, with the demand for digital experiences increasing and becoming the norm, according to the latest *Global Entertainment & Media Outlook 2011-2015* from PwC. In many markets, including the UK, the entertainment & media (E&M) industry emerging from the recession has been profoundly changed as the ongoing consumer migration to digital has accelerated, due largely to the technology revolution in devices.

After a 3.2% bounce-back in 2010 from the previous year's decline, the UK E&M market will grow by 3.7% compounded annually from 2011 - 2015 to a value of £59.6 billion*.

The only segment of the UK market set for double digit growth over the period will be internet advertising (11.2% CAGR**) with these digital advertising revenues representing important new sources of income for traditional media owners expanding onto new platforms and devices.

Rapid changes over the next five years

Phil Stokes, head of entertainment and media at PwC, said: "The coming five years will see digital technologies progressively increase their influence across the industry, and that rapid change in technologies and consumer behaviours will continue across all E&M segments."

The past year has seen the strategic focus of E&M executives switch positively from inward to outward, as companies embrace multi-partner collaboration along the value chain. Digital technologies provide the focus and opportunity for these collaborations and can be seen as the central driver of future operating models, consumer relationships and profitable revenue growth.

Stokes added: "As consumers choose where to spend both their time and their money the key word for media executives to focus on is relevance. Why is their brand relevant to people, why is their content relevant? Ultimately, why will people choose to spend time and money with them rather than their competitors?

"Answering that question requires management focus on the core fundamentals on why that company exists. Action as a result across the industry will include a wave of acquisitions and disposals, innovative collaboration and new business models in order to satisfy the needs of the increasingly powerful customer."

PwC's E&M Outlook says that, convenience, experience and quality are the key ingredients that matter to consumers when choosing from the menu of content and delivery channels available. Alongside these sit participation and privilege. Consumers enjoy playing an active role in shaping their content plus they are happy to pay for privileges which enable them to "jump the queue" to get earlier access to content. The challenge for companies is to turn these five attributes - convenience, experience, quality, participation and privilege - into sustainable, profitable and engaged relationships with the consumer by offering advantages which outweigh the attractiveness of free or pirated content.

Advertising recovers and grows faster than spending by consumers

Of the 13 segments covered in the report, advertising recorded the largest year-on-year swing in the UK, rebounding at 9% in 2010 from an 11.3% slump in 2009.

In 2010, the UK had an advertising market of £14.0 billion which is projected to grow by 4.8% compounded annually from 2011 - 2015 to a value of £17.7 billion. UK consumer spending on media will grow more slowly at 2.7% CAGR to reach £32.7 billion in 2015, with a further £9.2 billion of spending on internet access (2011-2015 CAGR of 5.2%).

"With advertising revenues returning to pre-recession levels, the advertising pound is being spent in many new and different ways. Product placement, sophisticated social media campaigns and internet advertising are all becoming part of truly multi-media campaigns for advertisers who are themselves increasingly involved in a dynamic conversation with their customers," said Stokes.

Finding the way in digital

The ongoing shift to digital formats continued globally in 2010. Technology is again becoming a differentiator of competitive advantage within media companies - it is no longer enough to think of technology as an isolated or enabling element of enterprise: it **is** the enterprise.

PwC believes that to be a successful, a company needs to embrace three industry-wide dynamics which are the route to success in the emerging digital environment:

Digital: the rapid and accelerating digitisation of elements including content, business processes, and product innovation. Social media, mobility and the explosion of apps have already had profound impacts which will continue to grow.

Demand: Consumers are empowered, connected, able to influence large communities of people, and ready to play an increasingly collaborative role in developing new E&M products and services

Data: the proliferation of digitised content, web access and social media means companies have the ability to mine and analyse detailed/contextual information which hasn't previously been available. Data is key to the interface between consumers, content experience and brand as well as to innovation.

Stokes concluded: "The market moves quickly and media companies need to be agile to move with the times. The migration of consumers to the internet coupled with a wealth of devices offering access on the move and the explosion of the application market offers many companies the opportunity to monetise their content. This is a golden age for consumers who have never had it so good when it comes to accessing premium content (often free) over multiple devices. This is likely to prove unsustainable, posing a fundamental question for the E&M, technology and communications industries and for governments worldwide: who will meet the cost of the next generation of content and infrastructure?"

Key statistics:

Latin America will be the fastest-growing region in terms of E&M spending during the next five years, with a projected 10.5% compound annual increase to US$109 billion*** in 2015 from US$66 billion in 2010. Asia Pacific will be next at 6.5% compounded annually from US$395 billion to US$541 billion. EMEA will expand at a 5.2% compound annual rate to US$614 billion in 2015 from US$477 billion in 2010. North America will increase by 4.7% on a compound annual basis from US$481 billion to US$607 billion.

Twelve countries had spending above US$25 billion in 2010. Of the leading countries, China and Brazil will be the fastest growing over the next five years with projected compound annual increases of 11.6% and 11.4% respectively.

Mobile Internet access growth is also an important driver of E&M spending with all regions experiencing significant growth through to 2015. The number of mobile access subscribers will more than double in EMEA and Asia Pacific, will more than triple in North America and will increase by more than 400% in Latin America during the next five years.

While there is a continued decline in physical spending in music, the digital market continues to grow and is expected to overtake physical spending by 2014. Nevertheless, overall music spending is expected to fall at a 1.1% compound annual growth rate of US$22 billion in 2015 from US$23 billion in 2010.

The filmed entertainment market is being boosted by 3D, Blu-ray and the growing electronic market. The proliferation of tablets, expanding broadband penetration and faster broadband speeds is contributing to an increase in spending of 5.9% compound annual rate to US$115 billion in 2015, from US$86 billion in 2010. Asia Pacific and Latin America will be the fastest-growing regions.

In the video games market, the overall market is projected to expand to US$82 billion in 2015, an 8.2% compound annual increase from US$56 billion in 2010. Asia Pacific will be the fastest growing region over the next five years with an 11.8% compound annual increase, mainly fuelled by large increases in online games.

*Exchange rate at time of posting: £1=R11)
**Compound Annual Growth Rate
*** Exchange rate at time of posting: US$1=R6.78)