Media landscape overview
The converging media landscape

October 2016

'Is every company a media company now?'

Many entertainment and media companies around the world have been making great strides towards transforming themselves in order to reach digital consumers. At first glance, the outlook for many companies in the industry seems troubling – pricing pressure, the continued notion of free media and transition from ownership to access make it challenging to realise organic growth in some areas. In the years to come, the transitions will continue as macroeconomic, technological and social trends drive significant changes in many industries, not just media. There are four important global Entertainment & Media shifts from a local, Dutch, perspective: transforming business models, differences between demographics, new forms of competition and changing media behaviour. In all four shifts we see blurring boundaries between media, devices and companies. The media landscape is converging.

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Shift 1 - Business models

A transforming industry

Ziggo is producing sports content, TMG is partnering to prepare OTT channels, Amazon is offering its own streaming services, Ahold is positioning itself as a marketing and media group, B2C companies are producing sponsored magazines, and Sanoma is partnering with GroupM to re-use its data.
We could easily fill this market overview with more examples of companies which are changing their business models. Unexpected parties suddenly become competitors. Competitors become partners. Sectors are converging. New business models are created overnight.

All these transformations are symptomatic of companies that are redefining their position in the changing landscape at a high pace. Such a high pace, enabled by technology, is critical as companies need to keep up with changing customer behaviour and new forms of competition, often on a global scale. Capturing media and entertainment business models in traditional sectors becomes increasingly difficult as business models are converging.

When we group the individual sectors of the Outlook into larger sectors, we see that internet (+ 5.6% CAGR), video entertainment (+1.6% CAGR), and games (+4.9% CAGR) are growing. These three sectors are more successful in attracting (and monetising) more and more consumers, advertisers and media companies.

Total revenue generated in the music sector is gradually increasing (+1.9% CAGR) due to continuous growth in live music, supported by rapid growth in streaming services which come from a lower baseline. Also, local companies in the music industry need to find strategies to remain relevant and manage the impact of global competitors such as streaming services.

Publishers in general (- 0.8% CAGR), and in particular B2C, will continue to face difficult times. Advertising revenues are continuing to move away from B2C printed media and are unlikely to return.

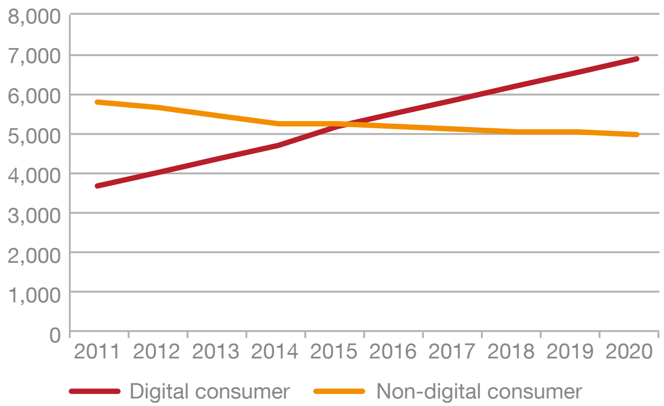
Out-of-home advertising companies continue to experiment more and more with digital solutions, which are enabled by new technologies. So far, this market, with a value of 160 to 170 million euros, has been primarily non-digital, but we expect this to change at an accelerating pace.

All these developments result in a further increase of total digital Entertainment & Media spend, and a decrease in non-digital spend. Historically, non-digital spend has always been higher than digital. Consumer spending, however, will reach an important tipping point in 2016 when digital consumer spend will overtake non-digital spend. For advertising spend this tipping point is expected to occur by 2020.

In addition to having the right content, which we will reflect on later, a key factor for success in this business landscape is having access to the right mix of skills and talents. Competition is intense and businesses use multiple ways to contract and retain talent. For example, more and more partnerships are formed as developing all capabilities in-house takes too much time and is risky due to high investments and fixed costs. TMG's announced plans to launch a news and a sports OTT channel is a good example. TMG will combine its own extensive content repository and subscribers audience, with Talpa's capabilities to produce video content and, for instance, with Apple TV's technology as a distribution channel.

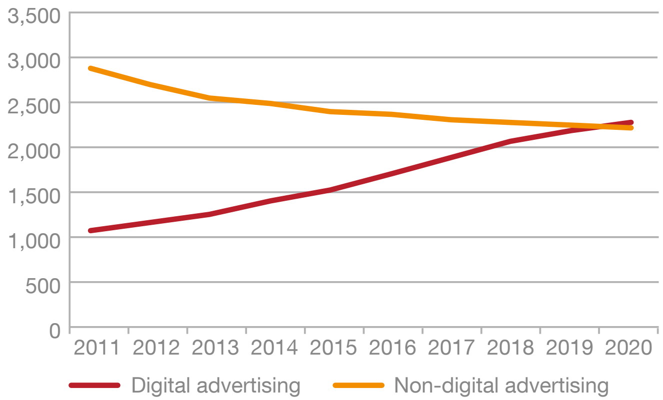
In content creation we see multiple trends. One of which is the rise of branded content which started quite a while ago. Media companies are offering their ad space as well as their content generation skills to advertisers. Simultaneously, we see large advertisers building in-house branded content generation capabilities. Ziggo's Brand Publishing and PepsiCo's Creator League are just two examples.

E&M spending - consumers (€ millions)



Source: PwC, Ovum

E&M spending - advertising (€ millions)



Source: PwC, Ovum

Shift 2 - Demographics

Target audiences develop at different paces

Many articles have been written about the millennials or digital natives. Advertisers and media companies compete and collaborate in order to engage this target audience. Millennials can make or break a brand, product or technology. Their spending patterns are very different from other age groups - millennials are willing to spend a large part of their limited budgets on certain types of media, such as phones, access, games and festivals. At the same time, this generation has a startling ability to multitask and is used to accessing and sharing free content. All around the world, younger people consume more media than older people. Younger people are more open to adopt new, digital, behaviours and are more inclined towards digital spending on access to content, rather than on the content itself.

Embrace the senior citizens

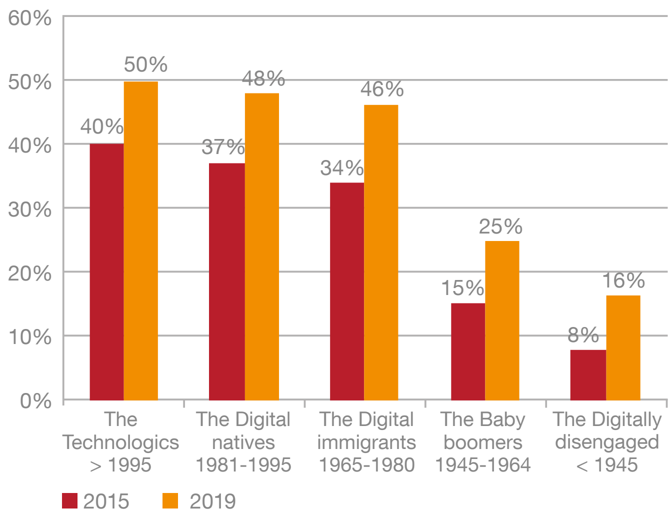
Based on last year's Outlook Special '*Behavioural Shifts in Target Audiences*', we see many differences in how media is consumed and how this is expected to develop over time. One way of looking at the shifts in demographics is dividing the population into two groups: younger audiences (born after 1964) and older audiences (born before 1964). Younger audiences already spend between 30% and 40% of their media budget on digital media. It remains to be seen how their behaviour will change once they get older; the current expectation is that their digital media spend will range from 46% to 50% by 2019. For the coming years, older audiences will continue to spend the most significant part of their media budget (and time) on more traditional, non-digital, media.

A positive aspect of the older age group is that they represent a large part of the consumption spend and, as the average life expectancy is high, will continue to do so for decades.

The fact that older audiences are still spending a considerable part of media time on non-digital media particularly allows TV advertising to remain more or less stable in the Netherlands. Yet, the mix of advertisements is changing. Traditional advertisers are moving towards digital platforms and digital companies are using TV advertising to increase brand awareness and reach a wide audience. Perhaps one could even say that digital companies are a lifesaver for TV?

The combination of internet and TV may be a key to success. This notion is illustrated by a recently published BrandDeli case study on the effectiveness of TV commercials for an e-commerce company. And as Rob van Griensven of HEINEKEN mentions in his interview in this Outlook: "A continuous focus on the next best thing makes people forget the power of what is already there".

Digital media spend as % of total media spend



Source: PwC Outlook Special 2015

Shift 3 - Competition

Industries are trampled by the Digital Giants

There is no media company boardroom in the Netherlands where digital giants such as Google, Apple, Facebook and Amazon are not discussed during strategy meetings. The scale of disruption caused by these giants, as a result of their pace of growth, the broad range of their existing offerings and their ambition to develop new activities, is impacting all of us. Many incumbent media companies have seen revenues declining year-on-year. Investments in innovation, consolidation and cost reduction programmes were required. Multiple products and product types, such as certain magazines, printed directories, physical recorded music, text messaging and free newspapers, ceased to exist or declined rapidly. In order to survive the fierce competition stirred by these giants, local media companies working together in alliances, both against and with digital giants, could be the answer.

In reality, not all Dutch media companies will be successful in responding effectively, while, in parallel, new market entrants will be attracted. As described in our Outlook Special '*Staying relevant in the stampede of the Digital Giants*', we believe that being effective in this new playing field requires at least one out of the following three strategic capabilities:

1. owning a unique asset
2. providing a niche offering
3. fully embracing the change created by the giants

Owning a unique asset

For a media company a unique asset can be anything. Not surprisingly, there are multiple varieties of the well-known mantra 'content is king': context is king, data is king and so on. The right unique asset and, more importantly, how to use it, varies per company. Some incumbents are owners of a strong brand, have a loyal audience, create strong content, but still see revenues slipping through their fingers.

Recent strategy updates, launches of product offerings and announcements of strategic partnerships of listed companies such as De Persgroep, TMG, Ziggo and Sanoma all show that these companies are experimenting with their assets.

Multiple companies across the whole E&M spectrum are using sports rights to strengthen their key asset (SBS/nu.nl *Champions League*; *Ziggo Formula 1*, *Premier League*; BrandDeli/FOX *Eredivisie*, NPO *Olympics*). Sports events, especially broadcast licenses, are assets that enable E&M companies to attract large, dedicated and live audiences. As licenses typically provide exclusive use it puts the acquirer in a unique position, although at a high price.

Providing a niche offering

One niche offering that Dutch media companies have in common is that they are local. Geographical, language and cultural aspects can still be exploited by local companies rather than by the Digital Giants.

The majority of the news we read is domestic, regional or even local. The Top 10 daily TV shows mainly include Dutch programmes. The radio stations we listen to have Dutch DJs. This is also recognised by Iris Boelhouwer, co-CEO at Endemol Shine Netherlands. "TV networks that want to distinguish themselves in a local market really need local content products. American hit series are now available on a wide range of OTT platforms, which is why TV networks need local drama series and daily soaps to keep attracting an audience."

As the Dutch market is relatively small it will be difficult, or at least less attractive, for international companies to develop profitable local propositions. However, first attempts in this direction by companies such as Vice and Huffington Post will be watched closely. Just like Netflix whose CEO Reed Hastings commented that locally produced and globally distributed content is the future for Netflix and therefore creates opportunities for domestic content creators.

Fully embracing the change created by the giants

Google, Apple, Facebook and Amazon have become both partners and competitors of many media companies. There is no easy answer, yet Digital Giants can enable incumbents to exploit their key asset, continuously renew and enrich their offering, and reach an even wider audience.

One example is bol.com. Initially, bol.com was recognised in the market as an e-commerce company which focused on media related products such as books. Since its incorporation in 1999 the company continuously renewed itself, its product and service offerings, and its technologies while staying close to its brand identify. The company is further exploiting its knowledge and market position, e.g. by starting to provide marketing and media services to its suppliers and therefore advertisers.

Also check: www.pwc.nl/digitalgiants

Shift 4 - Consuming media

Consumers have more options than ever

The growth of the internet enabled many solutions. Further, the willingness to shop online will continue to change how people spend their time and how companies make money. In the Netherlands, fast and reliable internet access has become as fundamental as utilities. Fixed broadband penetration with speeds exceeding 30 Mbps is becoming the lower limit of fixed access and four near-national 4G mobile network operators are competing for customers.

Consumer spending is still growing in multiple segments

Total consumer spending on access and content has grown over the last five years. In spite of numerous references to a declining willingness to pay for content, we see revenue growth in a wide variety of categories. Growing segments include TV and video, Music (both partly due to streaming), Video games, B2B and Cinema. This clearly shows that consumers are willing to pay for entertainment, media content and services.

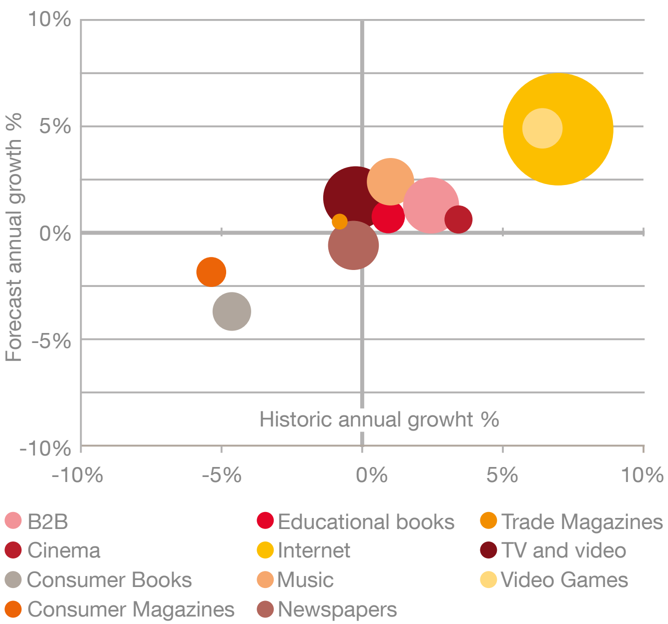
Finding the right business model to fit the changing behaviour

The never-ending challenge to balance advertising and consumer revenue will continue. Important factors that determine the right model include: the availability of free content, changing consumer behaviour, the ability to convert consumer data into useful information and the willingness of the target audience to pay.

The classic subscription model remains an interesting prospect for revenue growth across multiple consumer segments.

Traditional content distributors, such as network operators, are exploiting the success of the subscription models by increasing the scope and content of their bundles. Ziggo's investment in Ziggo Sport, the merger of Ziggo and Vodafone and KPN's addition of Spotify Premium to its bundles are local examples. The wider scope of bundles can help retaining consumers and reduce the speed attrition of for instance TV subscriptions. So far, stacking all these products which appeal to a wide audience seems to be attractive to both consumers and distributors. However, discussions among consumers as well as politicians (e.g. Sander Dekker, *State Secretary for Education, Culture and Science*) on charging consumers for bundles they don't use will give rise to new developments such as skinny bundles.

E&M consumer spending by sector (€ millions)



Source: PwC, Ovum

For content distributors, seamless delivery and a focus on the consumer experience constitute the integral groundwork for growth. On top of that, they must offer truly compelling content. For instance, *House of Cards* draws consumers to Netflix, *Spectre* is a movie that demands to be seen in an IMAX theatre to provide the ultimate experience, and *Starcraft 2* tournaments keep online/micro transaction PC games revenue in good health.

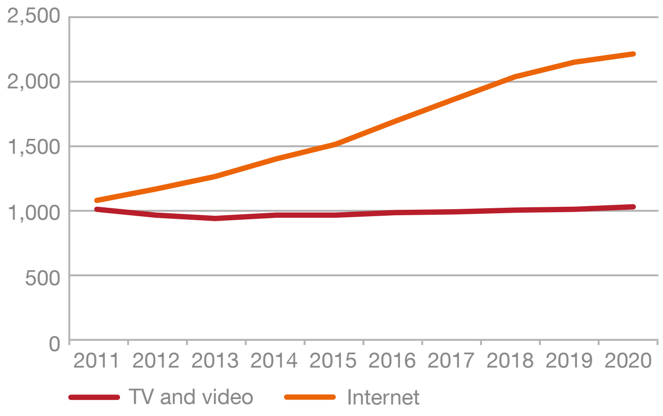
Simultaneously, scale and sustainable revenue agreements with subscription platforms are vital for content producers. These agreements can be a blessing, and at the same time trigger cannibalisation. The impact and performance of subscription models Mofibo and Maggy will be watched with interest. These propositions entered the Dutch market with unlimited e-book and magazine subscription offerings in 2016.
Out-of-home experiences too, remain a differentiator in a digital world. Cinema is set to grow in the mid-term despite its high base position, live music is also holding steady and new live events, including gaming events, are introduced.

Meanwhile, video games continue to perform strongly as the social/casual model draws more and more consumers who consider themselves as "gamers".

Changing consumer behaviour continues to drive advertisers to the internet

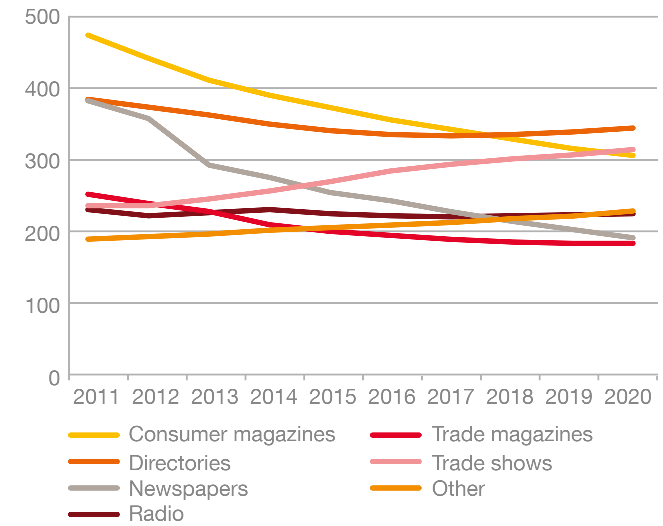
Over the last five years digital developments triggered a 400 million euro growth in Dutch internet advertising revenues, largely at the expense of other advertising segments. And we expect that a growing share of the budgets of advertisers will move to the internet. Increasing knowledge on how to engage consumers on mobile devices and opportunities to tailor ads to consumer groups and even to individuals will outweigh risks such as ad blockers.
An important question is to what extent further growth of internet advertising spend will continue to reduce ad-spend in traditional media. Today, we expect that growth in internet

TV and internet advertising revenue (€ millions)



Source: PwC, Ovum

Advertising revenue by sector, excl. TV and Internet (€ millions)



Source: PwC, Ovum

advertising will go more hand in hand with advertising in other media than it did over the past years. Only few media sectors, for instance printed media, will continue to see a material decline in ad-spend.

In the mid-term, we expect that the high growth of internet advertising may come to a halt and a saturation point or new balance will be reached. As more and more players strike back with integrated and multi-platform propositions around various brands, it becomes increasingly difficult to categorise and track revenues in accordance with the traditional sector classification.

A major game changer in the mix between internet and other advertising spend may be TV advertising, which is the only segment, besides internet, that generates annual revenues of 1 billion euros. So far, this segment has not been affected too much by the internet. In the near future we expect TV advertising to remain broadly stable as TV remains an important medium for advertisers to reach a large and wide audience. However, TV broadcasters will need to continue to invest in content that will seduce consumers away from all the other video propositions out there.

In the longer term, an accelerated reduction in linear viewing due to organic declines and due to cord cutting may reduce pricing and volumes in the traditional TV advertising segment.

2015: predictions vs actuals

For the second year in a row, total E&M revenue growth (+3.5%) was higher than our forecast (+2.4%). On the consumer side, content creators delivered compelling experiences, particularly in the consumer books and cinema segments. This helped non-digital consumer revenue grow for the first time over the surveyed period. The increase in total revenues is also driven by consumers spending 250 million euros more on fixed and mobile internet access compared to 2014. This is 50 million euros more than we forecasted and illustrates the willingness of consumers to pay for fast and reliable access. Advertisers too were encouraged by the continuing allure of internet and internet advertising, finding appeal in its reach and increasing possibilities on mobile platforms. Total advertising revenues increased, albeit at a slightly slower pace than we anticipated as digital advertising grew by 8-9% versus our estimated 11%.

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This overview is part of the Entertainment & Media Outlook for the Netherlands 2016-2020. Each year, PwC's global and local teams of entertainment and media experts generate unbiased, in-depth forecasts for 13 industry segments. The Entertainment & Media Outlook combines thorough knowledge of the Dutch market with a truly global perspective – a powerful tool for understanding critical business issues. To learn more about the challenges and opportunities ahead for the entertainment and media industry, please visit www.pwc.nl/outlook.