3rd annual edition • September 2012

South African entertainment and media outlook: 2012-2016

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3rd annual South African edition

South African entertainment and media outlook: 2012-2016

Each year, PwC's team of entertainment and media experts generates unbiased in-depth forecasts for 12 industry segments. The South African entertainment and media outlook: 2012-2016 combines deep knowledge of the local market with a truly global perspective – a powerful tool for understanding critical business issues.

To learn more about the challenges and opportunities that lie ahead for the entertainment and media industry in South Africa, please visit www.pwc.co.za/outlook

About PwC's entertainment and media industry group

PwC plays a significant supporting role in entertainment and media (E & M) businesses across the world. With our global outlook and local knowledge of culture, laws and business needs, we assist clients in South Africa and elsewhere make the most of changing market scenarios.

We understand how developments in the broader E & M environment are affecting our clients and work with them as a trusted advisor to provide solutions to help improve organisational effectiveness and long-term success. More significantly, we focus on the issues and challenges that are of utmost importance to our clients. These include restructuring, talent management, changing revenue models, intellectual property and rights management, compliance and managing capital spend. We have made a substantial commitment to understanding the forces that are impacting these issues – such as wireless and digital distribution and technologies – and continue to develop and deliver solutions to help our clients achieve their financial, operational and strategic objectives.

As specialist lawyers advising clients on legal liability attached to advances in technology, PwC's Technology and Innovation Law team is well placed to assist media and entertainment clients in navigating the opportunities and legal challenges presented by the digital and information age.

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South African entertainment and media outlook: 2012-2016

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Market research

Quantitative research and analysis was provided by Wilkofsky Gruen Associates Inc, a provider of global research and analysis of the media, entertainment and telecommunications industries. See www.wilkofskygruen.com for more information.

Information sources and methodology

How we derive the data

Historical information

Historical information is obtained principally from confidential and proprietary sources. In instances where third-party sources are consulted and their information is used directly – from such sources as government agencies, trade associations or related entities that seek to have their data disseminated in the public domain – the sources of such information are explicitly cited. In instances where the information is used indirectly as part of the calculations from historical data, the sources are proprietary.

In preparing each edition, we look not only at the data for the most recent year, but also at historical data to determine whether there have been any revisions and whether new sources have emerged that provide a more complete or more accurate picture of the market. In some cases, this exercise leads us to revise historical spending levels and growth trends from one edition to the next.

Forecast information

Recent trends in industry performance are analysed, and the factors underlying these trends are identified.

The factors considered are economic, demographic, technological, institutional, behavioural and competitive, as well as other drivers that may affect each of the entertainment and media segments.

Models are then developed to quantify the impact of each factor on industry spending. Next, a forecast scenario for each causative factor is created and the contribution of each factor is identified prospectively.

These proprietary mathematical models and analytic algorithms are applied in the process to provide an initial array of prospective values. Our professional expertise and institutional knowledge are then brought to bear in a review and adjustment of those values if required. Finally, the entire process is examined for internal consistency and transparency according to prevailing industry norms.

Forecasts for 2012-2016 are also based on an analysis of the dynamics of each segment and on the factors that affect those dynamics. We provide compound annual growth rates (CAGRs) that cover the 2012-2016 forecast period. In the calculation of the CAGRs, 2011 is recognised as the first year, with five growth years during the forecast period: 2012, 2013, 2014, 2015 and 2016. The end year is 2016.

The formula is:

CAGR = 100*[(Value in 2016 / Value in 2011)(1/5)-1]

How we report on the data in each chapter

Segment spending consists of advertising and end-user spending directly related to entertainment and media content. Each chapter introduction begins with a definition of the spending streams that are included in that segment. We do not include spending on hardware or services that may be needed to access content.

End-user spending is counted for at the consumer or end-user level, not at the wholesale level, and includes retail mark-ups where applicable.

Advertising spending is measured net of agency commissions.

In addition to annual spending figures, we also present data that are measured at a single point in time, such as TV subscriptions, Internet subscriptions, mobile subscriptions and newspaper unit circulation. In these instances we show annual averages rather than year-end totals because annual averages provide a more accurate reflection of annual spending.

Inflation

Across all chapters, figures are reported in nominal terms reflecting actual spending transactions and therefore include the effects of inflation.

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Many other PwC professionals reviewed the text and contributed local expertise to this publication and we thank them for their assistance.

For Wilkofsky Gruen Associates Inc.:

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- Arthur Gruen, Partner
- Norman D Eisenberg, Vice President

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Without limiting the foregoing, excerpts from the publication may be used only for background market illustration, should not be the sole source of 2012 – 2016 information, and must not form the majority of sourced documentation.

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September 2012

To our clients and friends both in and beyond the entertainment and media industry:

Welcome to the third annual edition of PwC's South African entertainment & media outlook (the Outlook), covering the forecast period of 2012-2016. Our forecasts and analyses in this edition focus on 12 major entertainment and media industry segments. Each chapter sets out the key trends observed and challenges faced in that segment as well as outlining future prospects for the forecast period.

To reflect the ever-changing nature of the industry and rapidly emerging digital revenue streams, we have increased the depth of the data for each of the areas covered in the Outlook. Given these increases, I encourage you to get to know the online edition of the Outlook, which offers significant additional functionality and flexibility for use of the underlying data.

During 2011, advertising spending grew as overall economic activity and demand for high-quality content increased. Growth in consumer/end-user spending was negative, as the impact of the spending related to the 2010 FIFA World Cup left the market. Proliferation in the usage of smart mobile devices has enabled the convenience of consumption of content anywhere and anytime to become a reality.

In the near term, economic prospects are mixed, but should improve and lead to growth in the sector. However, we anticipate that overall growth in the entertainment and media industry will closely track GDP growth over the forecast period.

The initial uncertainty of digital migration is giving way to a sharper focus on identifying and executing the business models, organisational structures and skill sets that will deliver rising future value in the changed environment. Put simply, digital is now established as the new normal. The relative availability and affordability of fixed and mobile broadband will set the pace of consumer adoption of digital.

Understanding how consumer behaviour is changing and interpreting the mass of data that is being gathered about consumer preferences are becoming core skills and are providing the basis for monetisation either directly or through collaboration and partnering with others. This is just one example of the areas where sources of value are changing.

All of us at PwC continue to stay on top of trends and developments that may impact your business now and in the future, and we look forward to further sharing our thoughts with you. We appreciate your feedback and ask that you in turn continue telling us what we can do to make the Outlook more useful to you.

Should you require additional clarification on any matters included in the Outlook or you believe we can be of service to your business in any way, please contact one of the entertainment and media professionals listed on page x.

Finally, we thank you for your support and wish you an exciting and rewarding year ahead.

Sincerely

Myburgh

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Exchange rates

All figures are presented in South African Rand by using the average 2011 exchange rates held constant for each historical year and forecast year. This means the figures reflect industry trends and are not distorted by fluctuations in international exchange rates. The 2011 average exchange rates used for individual countries are outlined in the following table:

Country	Currency	Exchange Rate
Algeria	Dinar	8.929
Angola	Kwanza	11.141
Botswana	Pula	0.905
Cameroon	Central African Franc	60.814
Egypt	Pound	0.705
Ethiopia	Birr	2.054
Ghana	New Cedi	0.221
Ivory Coast	West African Franc	60.813
Kenya	Shilling	9.986
Libya	Dinar	0.146
Madagascar	Ariary	246.792
Malawi	Kwacha	31.180
Mauritius	Rupee	3.353
Morocco	Dirham	1.040
Namibia	Dollar	1.000
Nigeria	Naira	22.234
Senegal	West African Franc	60.813
Somalia	Shilling	185.261
South Africa	Rand	1.000
Sudan	Pound	0.311
Tanzania	Shilling	183.821
Tunisia	Dinar	0.189
Uganda	Shilling	287.256

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Build personalised data sets by segment and component.

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Chapter 1

Industry overview

We are pleased to present the third annual edition of PwC's South African entertainment and media outlook: 2012-2016 (the Outlook).

The Outlook reflects the collective wisdom of our team of professionals, who work with entertainment and media companies around the world. It is a unique resource for the industry, offering a five-year outlook for consumer spending and advertising revenues in South Africa and globally, along with insights into the technology, government, political and business trends driving those forecasts.

The purpose of this industry overview is to provide an outline of the data presented in the other 12 chapters of this publication and to present a consolidated view of our insights into the trends driving the industry and the growth forecasts.

The *Outlook* presents annual historical data for 2007-2011 and provides annual forecasts for 2012-2016 in the following twelve entertainment and media segments:

- Internet
- Television
- Filmed entertainment
- Radio
- Music
- Consumer magazine publishing
- Newspaper publishing
- Consumer and educational book publishing
- Business-to-business publishing
- Out-of-home advertising
- Video games
- Sports

2011: The recovery progresses

The global economy began to recover in 2010 from its steep decline in 2009 and continued to advance in 2011, although the hoped-for pickup in momentum did not materialise consistently around the globe.

Global entertainment and media (E&M) spending rose 4.9% in 2011 – a bit faster than the 4.5% increase in 2010 – but still below the gains in prior expansion years. Advertising increased 3.6%, down from the 7% gain in 2010 that was augmented by advertising associated with the FIFA World Cup and Winter Olympics, as well as by the rebound from a sluggish 2009. Consumer/end-user spending rose 2.0%, up from the 1.3% rise seen in 2010. Internet access recorded the largest improvement, rising by 15.1% from the 10% gain in 2010.

The entertainment and media industry in South Africa edged up 0.7% in 2011, slowed by the absence of spending associated with the FIFA World Cup in 2010, which boosted that year's total by 27.6%. Advertising in 2011 increased by 7.9%, down from the 14.7% increase recorded in 2010.

End-user spending fell by 2.3%, significantly down from the 33.7% growth that was recorded in 2010. This decline in end-user spending was the result of a 39.7% decrease for sports following the extraordinary 84.7% gain in 2010. Excluding sports, total spending rose 11.6% in 2011, led by 27% growth for the Internet and 21.7% growth in television.

Projected and actual South African 2011 growth by category (%)

Category	Projected	Actual
Advertising	4.9	7.9
Consumer/end-user spending	-2.3	-2.3
Total entertainment and media	**-0.6**	**-0.7**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Projected and actual South African 2011 growth by segment (%)

Segment	Projected	Actual
Filmed entertainment	4.7	1.0
Television	11.6	13.4
Music	-2.6	-2.6
Radio	5.4	6.6
Out-of-home	5.7	11.6
Internet	26.0	27.3
Consumer magazine publishing	1.6	7.8
Newspaper publishing	2.0	5.7
Consumer and educational book publishing	4.0	0.9
Business-to-business publishing	3.2	2.1
Sports	-39.5	-39.7
Video games	6.3	3.8
Total entertainment and media	**-0.6**	**-0.7**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In the 2011-2015 *Outlook,* we predicted a 4.9% increase in advertising spending, which was somewhat lower than the actual increase of 7.9%. Consumer/ end-user spending decreased by 2.3%, in line with our projection made last year. The overall South African E&M decrease of 0.7% was also in line with our projected decrease of 0.6%.

On a segment basis, out-of-home advertising, consumer magazine publishing and newspaper publishing substantially outperformed our expectations in 2011, while filmed entertainment, consumer and educational book publishing, and video games grew less than we expected.

Music and sports materially matched our forecasts, while Internet, television, radio and business-to-business publishing were within two percentage points of our projections.

Filmed entertainment saw disappointing box office spending, reflecting the release of less than appealing movies in 2011.

In video games, growth in online gaming cut into the console market, leading to slower growth in overall spending than we expected.

In consumer and educational books, lower-priced electronic books performed well in 2011, cutting into print sales. Overall spending declined even as reading picked up.

Buoyed principally by a surging Internet market and continued double-digit growth in television in the near term, we expect total E&M spending to grow at double-digit rates during the next three years, followed by high single-digit gains in 2015-16.

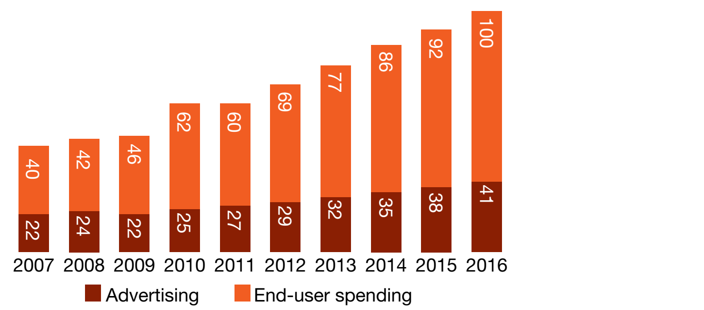
End-user spending will follow this pattern, while we project high single-digit gains in advertising with a double-digit increase in 2014 related to the FIFA World Cup in Brazil.

Entertainment and media spending by component (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Advertising	22 302	24 060	21 999	25 234	27 236	29 263	31 964	35 204	37 817	41 169	
% change	*16.3*	*7.9*	*-8.6*	*14.7*	*7.9*	*7.4*	*9.2*	*10.1*	*7.4*	*8.9*	*8.6*
End-user spending	39 736	41 985	46 010	61 512	60 118	69 250	77 428	86 094	92 274	100 494	
% change	*11.6*	*5.7*	*9.6*	*33.7*	*-2.3*	*15.2*	*11.8*	*11.2*	*7.2*	*8.9*	*10.8*
Total	**62 038**	**66 045**	**68 009**	**86 746**	**87 354**	**98 513**	**109 392**	**121 298**	**130 091**	**141 663**	
% change	*13.3*	*6.5*	*3.0*	*27.6*	*0.7*	*12.8*	*11.0*	*10.9*	*7.2*	*8.9*	*10.2*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 1.1: Entertainment and media spending (R billions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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Looking forward

The economy is an important driver of the underlying entertainment and media market and E&M spending benefited from improved economic conditions during the past two years. Following the slowdown in 2009, the economy has recovered with real growth in gross domestic product (GDP) of 2.9% in 2010 and 3.1% in 2011.

We expect real GDP growth to moderate to 2.8% in 2012. We then look for somewhat faster increases, but we do not expect a return to the large gains achieved in the mid-2000s when the economy was less developed. We project real GDP to expand at a 3.3% compound annual rate during the next five years.

Inflation propelled nominal GDP at double-digit rates during 2007-2008. After slowing to a 6.1% increase in 2009, nominal growth improved to 8.8% in 2010 and 8.7% in 2011.

With inflation now lower than in the past, we expect nominal GDP growth to remain at single-digit levels, averaging 8.7% compounded annually through to 2016.

Advertising is more sensitive to the state of the economy than end-user spending and the 2009 recession led to an 8.6% decline in advertising that year. Improved economic conditions during the past two years contributed to a rebound in advertising, which has averaged 11.3% compound annually since in 2009.

The surge in end-user spending in 2010 and its subsequent decline in 2011 was related to the 2010 FIFA World Cup and had little to do with the economy.

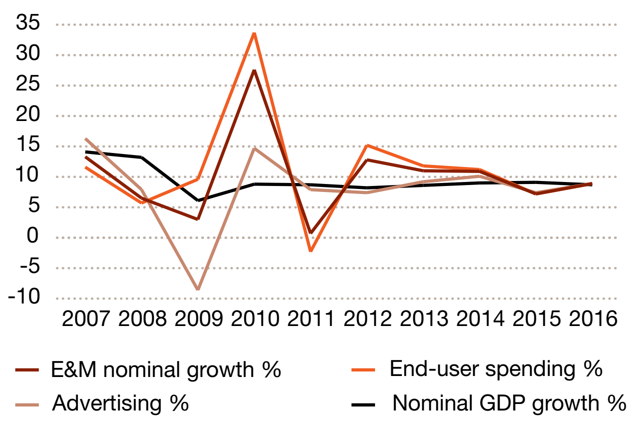
During the next five years, we project that E&M spending will grow at a 10.2% compound annual rate – ahead of the 8.7% compound annual increase in nominal GDP. This growth will be largely due to the surging Internet market, buoyed by improved infrastructure and increasing broadband penetration, as well as healthy growth in the pay-television segment.

GDP growth (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR
Real GDP growth	5.5	3.6	1.5	2.9	3.1	2.8	3.3	3.6	3.4	3.2	3.3
Nominal GDP growth	14.1	13.2	6.1	8.8	8.7	8.2	8.6	9.0	9.1	8.7	8.7

Source: Statistics South Africa, World Bank, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 1.2: Entertainment & Media and nominal GDP growth (%)



Sources: Statistics South Africa, World Bank, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In addition to the impact of the economy, another major trend is the transition from traditional channels to digital channels. Digital spending will increase at an approximate 21.0% compound annual rate during the next five years, compared with the 6.5% compound annual growth for the non-digital components of the market.

Although comprising 20.4% of overall spending in 2011, digital channels will generate 52% of the total increase in spending during the next five years. By 2016, digital spending will comprise 32.6% of the total entertainment and media market in South Africa.

Figure 1.3: Digital and non-digital spending growth (%)

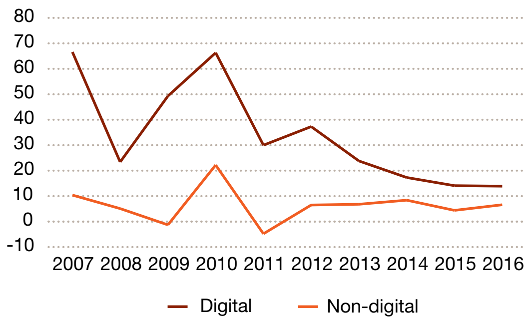
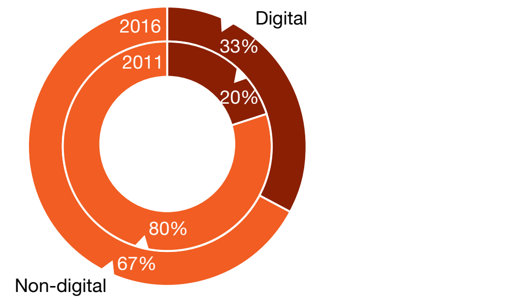
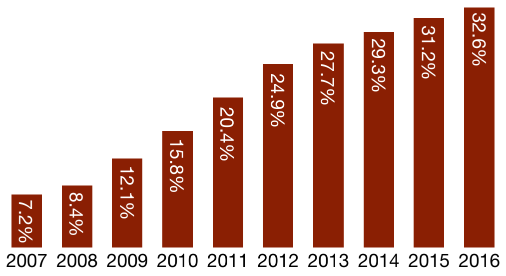


Figure 1.4: Digital and nondigital spending – 2011 vs 2016



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 1.5: Digital share of entertainment and media spending



Note: Digital spending consists of broadband and mobile Internet access; online and mobile Internet advertising; mobile TV subscriptions; digital music; online and wireless video games; digital consumer magazine circulation spending; digital newspaper circulation spending; digital trade magazine circulation spending; and electronic consumer, educational and professional books.

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Entertainment and media by segment

The Internet was the fastest-growing segment in 2011 with a 27.3% percent increase, boosted by growth in broadband, mobile access and advertising.

Television was next at 13.4% followed by out-of-home at 11.6%. Television benefited from ongoing double-digit growth in subscription spending and out-of-home advertising reflected improved economic conditions.

Consumer magazine publishing rose 7.8%, radio increased 6.6% and newspaper publishing advanced by 5.7%, the only other segments to grow by as much as 5%. Consumer magazines were propelled by a jump in print advertising, which was the result of stronger economic growth, the launch of a number of new titles, growth in readership and rising circulation. The growing economy also boosted radio. Print newspaper advertising, a cyclically sensitive advertising category because of the large role played by classified advertising, benefited in 2011 as real GDP posted its largest increase since 2008.

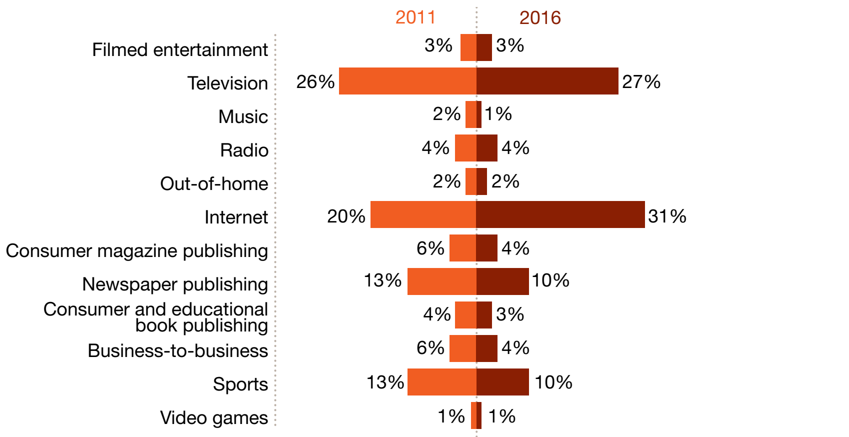
The Internet will continue to be the fastest-growing segment during the next five years with a projected 20.3% compound annual increase. Broadband and mobile access growth coupled with double-digit increases in Internet advertising will drive the Internet market.

Television will be the next fastest-growing segment with a projected 10.3% compound annual increase, the result of continued growth in subscription spending and steady growth in advertising.

Out-of-home advertising will be next at 9.3% compounded annually, boosted by an increase in the penetration of digital screens, which provide more revenue potential, as the same site can accommodate multiple advertisers.

Radio and sports will be next, each with compound annual increases of 6.5%, followed by video games at 6.4%. Video games will be boosted by large growth in online games. Radio will be bolstered by the addition of new commercial stations and the expansion of community stations, while sports will be driven by rising media rights and strong sponsorship growth.

Figure 1.6: **Entertainment and media spending by segment – 2011 vs 2016**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer magazines and newspapers will be the only segments projected to average in the vicinity of 5% growth compounded annually during the next five years. Consumer magazines will grow by 5.3% compounded annually as rising circulation contributes to ongoing advertising growth. Newspapers will average 5.1% on a compound annual basis, as advertising growth offsets declines in circulation spending.

Spending in 2016 will total an estimated R141.7 billion, a 10.2% compound annual increase from R87.4 billion in 2011.

Entertainment and media spending by segment (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Filmed entertainment	2 472	2 546	2 702	2 870	2 899	3 085	3 237	3 362	3 478	3 569	
% change	*0.4*	*3.0*	*6.1*	*6.2*	*1.0*	*6.4*	*4.9*	*3.9*	*3.5*	*2.6*	*4.2*
Television	14 337	15 455	16 266	20 326	23 051	25 939	29 066	32 326	34 711	37 551	
% change	*15.6*	*7.8*	*5.2*	*25.0*	*13.4*	*12.5*	*12.1*	*11.2*	*7.4*	*8.2*	*10.3*
Music	2 449	2 387	2 238	2 147	2 091	2 029	1 997	1 983	1 993	2 010	
% change	*4.7*	*-2.5*	*-6.2*	*-4.1*	*-2.6*	*-3.0*	*-1.6*	*-0.7*	*0.5*	*0.9*	*-0.8*
Radio	2 852	3 084	3 103	3 461	3 688	3 909	4 185	4 463	4 766	5 045	
% change	*12.1*	*8.1*	*0.6*	*11.5*	*6.6*	*6.0*	*7.1*	*6.6*	*6.8*	*5.9*	*6.5*
Out-of-home	1 160	1 078	1 073	1 225	1 367	1 500	1 640	1 790	1 955	2 130	
% change	*13.7*	*-7.1*	*-0.5*	*14.2*	*11.6*	*9.7*	*9.3*	*9.1*	*9.2*	*9.0*	*9.3*
Internet	5 564	6 337	8 827	14 055	17 887	24 193	29 730	34 790	39 603	45 032	
% change	*42.0*	*13.9*	*39.3*	*59.2*	*27.3*	*35.3*	*22.9*	*17.0*	*13.8*	*13.7*	*20.3*
Consumer magazine publishing	3 929	4 151	3 916	4 048	4 365	4 520	4 796	5 129	5 430	5 653	
% change	*8.9*	*5.7*	*-5.7*	*3.4*	*7.8*	*3.6*	*6.1*	*6.9*	*5.9*	*4.1*	*5.3*
Newspaper publishing	10 653	11 506	10 543	10 747	11 360	11 612	12 126	12 846	13 685	14 590	
% change	*11.4*	*8.0*	*-8.4*	*1.9*	*5.7*	*2.2*	*4.4*	*5.9*	*6.5*	*6.6*	*5.1*
Consumer and educational book publishing	4 076	4 299	3 805	3 771	3 804	3 880	3 951	4 013	4 060	4 099	
% change	*4.4*	*5.5*	*-11.5*	*-0.9*	*0.9*	*2.0*	*1.8*	*1.6*	*1.2*	*1.0*	*1.5*
Business-to-business	4 663	4 787	4 427	4 526	4 622	4 752	4 937	5 188	5 458	5 730	
% change	*7.1*	*2.7*	*-7.5*	*2.2*	*2.1*	*2.8*	*3.9*	*5.1*	*5.2*	*5.0*	*4.4*
Sports	9 080	9 465	10 015	18 495	11 160	12 055	12 695	14 400	13 940	15 285	
% change	*8.6*	*4.2*	*5.8*	*84.7*	*-39.7*	*8.0*	*5.3*	*13.4*	*-3.2*	*9.6*	*6.5*
Video games	888	1 078	1 234	1 251	1 299	1 337	1 416	1 508	1 651	1 771	
% change	*142.6*	*21.4*	*14.5*	*1.4*	*3.8*	*2.9*	*5.9*	*6.5*	*9.5*	*7.3*	*6.4*
Total	**62 038**	**66 045**	**68 009**	**86 746**	**87 354**	**98 513**	**109 392**	**121 298**	**130 091**	**141 663**	
% change	*13.3*	*6.5*	*3.0*	*27.6*	*0.7*	*12.8*	*11.0*	*10.9*	*7.2*	*8.9*	*10.2*

Note: Television, newspaper, consumer magazine, trade magazine, and directory Web site and mobile advertising are included in their respective segments and also in the Internet advertising segment, but only once in the overall total.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Industry overview

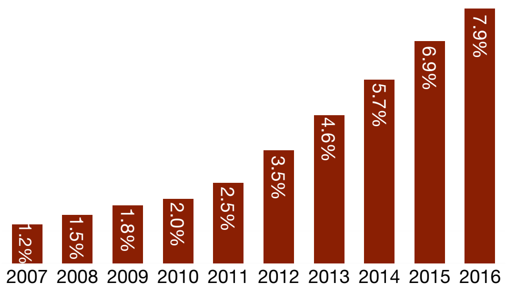
Advertising

Internet advertising rose 35.6% in 2011 and consumer magazines, newspapers, cinema and a small video games market each increased by more than 10 %.

South Africa is unusual in that print advertising continues to do relatively well. The four print categories — consumer magazines, newspapers, trade magazines, and directories — collectively grew by 10.1%, exceeding the overall 7.9% average increase.

During the next five years, the Internet will be the fastest growing category with a 36.9% compound annual increase. The Internet's share of total advertising in South Africa will more than triple to 7.9% in 2016 from 2.5% in 2011.

Figure 1.7: Internet advertising % of total advertising



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We also expect video games to expand at double-digit rates with cinema advertising increasing at a 9.4% and out-of-home by 9.3% compounded annually.

The four print segments will collectively expand at a 7.4% compound annual rate, still healthy but lower than the overall average and lower than the increase in 2011, as advertising begins to shift to the Internet.

Each of the remaining segments will increase at compound annual rates of 7.0% or more.

We project the overall advertising market during the next five years to increase at an 8.6% compound annual rate, rising to an estimated R41.2 billion in 2016 from R27.2 billion in 2011.

Advertising (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Television	7 803	8 306	7 508	9 611	10 015	10 805	11 830	13 044	13 460	14 584	
% change	*21.9*	*6.4*	*-9.6*	*28.0*	*4.2*	*7.9*	*9.5*	*10.3*	*3.2*	*8.4*	*7.8*
Radio	2 422	2 650	2 664	3 019	3 243	3 460	3 715	3 990	4 290	4 565	
% change	*14.3*	*9.4*	*0.5*	*13.3*	*7.4*	*6.7*	*7.4*	*7.4*	*7.5*	*6.4*	*7.1*
Cinema	245	255	205	240	265	295	325	355	385	415	
% change	*-7.5*	*4.1*	*-19.6*	*17.1*	*10.4*	*11.3*	*10.2*	*9.2*	*8.5*	*7.8*	*9.4*
Out-of-home	1 160	1 078	1 073	1 225	1 367	1 500	1 640	1 790	1 955	2 130	
% change	*13.7*	*-7.1*	*-0.5*	*14.2*	*11.6*	*9.7*	*9.3*	*9.1*	*9.2*	*9.0*	*9.3*
Internet	259	358	385	500	678	1 027	1 470	2 012	2 607	3 256	
% change	*43.9*	*38.2*	*7.5*	*29.9*	*35.6*	*51.5*	*43.1*	*36.9*	*29.6*	*24.9*	*36.9*
Consumer magazines	2 179	2 271	2 091	2 158	2 412	2 518	2 724	2 982	3 243	3 456	
% change	*9.7*	*4.2*	*-7.9*	*3.2*	*11.8*	*4.4*	*8.2*	*9.5*	*8.8*	*6.6*	*7.5*
Newspapers	7 113	7 987	7 116	7 557	8 373	8 821	9 481	10 331	11 271	12 272	
% change	*15.5*	*12.3*	*-10.9*	*6.2*	*10.8*	*5.4*	*7.5*	*9.0*	*9.1*	*8.9*	*7.9*
Trade magazines	564	598	432	444	478	504	541	583	626	670	
% change	*8.9*	*6.0*	*-27.8*	*2.8*	*7.7*	*5.4*	*7.3*	*7.8*	*7.4*	*7.0*	*7.0*
Directories	632	670	648	636	621	605	593	585	584	585	
% change	*8.8*	*6.0*	*-3.3*	*-1.9*	*-2.4*	*-2.6*	*-2.0*	*-1.3*	*-0.2*	*0.2*	*-1.2*
Video games	10	15	17	20	23	26	29	32	35	38	
% change	*233.3*	*50.0*	*13.3*	*17.6*	*15.0*	*13.0*	*11.5*	*10.3*	*9.4*	*8.6*	*10.6*
Total	**22 302**	**24 060**	**21 999**	**25 234**	**27 236**	**29 263**	**31 964**	**35 204**	**37 817**	**41 169**	
% change	16.3	7.9	-8.6	14.7	7.9	7.4	9.2	10.1	7.4	8.9	8.6

Note: Television, newspaper, consumer magazine, trade magazine, and directory web site and mobile advertising are included in their respective segments and also in the Internet advertising segment, but only once in the overall total.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

End-user spending

End-user spending, consisting of spending by consumers and other end-users on products and services produced by the entertainment and media industry, fell 2.3% percent in 2011, as a result of the absence of spending associated with the FIFA World Cup in 2010. Sports declined by 39.7% and the remaining segments rose by 13.8%.

The fastest-growing segments in 2011 were the Internet at 27.0% and television at 21.7%. Business information at 6.6% was the only other category to increase by more than 5%.

We expect the Internet to be the fastest-growing end-user spending category during the next five years with a projected 19.4% compound annual increase. Television will be the second fastest-growing segment at 12.0% compounded annually. Sports at 6.5%, video games at 6.3%, business information at 5.9% and trade magazines at 5.6%, will be the only other segments to average more than 5% growth on a compound annual basis.

We project total end-user spending to expand at a 10.8% compound annual rate, rising to R100.5 billion in 2016 from R60.1 billion in 2011.

Industry overview

End-user spending (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Filmed entertainment	2 227	2 291	2 497	2 630	2 634	2 790	2 912	3 007	3 093	3 154	
% change	*1.4*	*2.9*	*9.0*	*5.3*	*0.2*	*5.9*	*4.4*	*3.3*	*2.9*	*2.0*	*3.7*
Television	6 534	7 149	8 758	10 715	13 036	15 134	17 236	19 282	21 251	22 967	
% change	*9.0*	*9.4*	*22.5*	*22.3*	*21.7*	*16.1*	*13.9*	*11.9*	*10.2*	*8.1*	*12.0*
Music	2 449	2 387	2 238	2 147	2 091	2 029	1 997	1 983	1 993	2 010	
% change	*4.7*	*-2.5*	*-6.2*	*-4.1*	*-2.6*	*-3.0*	*-1.6*	*-0.7*	*0.5*	*0.9*	*-0.8*
Radio	430	434	439	442	445	449	470	473	476	480	
% change	*1.2*	*0.9*	*1.2*	*0.7*	*0.7*	*0.9*	*4.7*	*0.6*	*0.6*	*0.8*	*1.5*
Internet	5 305	5 979	8 442	13 555	17 209	23 166	28 260	32 778	36 996	41 776	
% change	*41.9*	*12.7*	*41.2*	*60.6*	*27.0*	*34.6*	*22.0*	*16.0*	*12.9*	*12.9*	*19.4*
Consumer magazines	1 750	1 880	1 825	1 890	1 953	2 002	2 072	2 147	2 187	2 197	
% change	*8.0*	*7.4*	*-2.9*	*3.6*	*3.3*	*2.5*	*3.5*	*3.6*	*1.9*	*0.5*	*2.4*
Newspapers	3 540	3 519	3 427	3 190	2 987	2 791	2 645	2 515	2 414	2 318	
% change	*4.0*	*-0.6*	*-2.6*	*-6.9*	*-6.4*	*-6.6*	*-5.2*	*-4.9*	*-4.0*	*-4.0*	*-4.9*
Consumer and educational books	4 076	4 299	3 805	3 771	3 804	3 880	3 951	4 013	4 060	4 099	
% change	*4.4*	*5.5*	*-11.5*	*-0.9*	*0.9*	*2.0*	*1.8*	*1.6*	*1.2*	*1.0*	*1.5*
Business information	1 180	1 200	1 090	1 140	1 215	1 275	1 350	1 440	1 530	1 620	
% change	*6.3*	*1.7*	*-9.2*	*4.6*	*6.6*	*4.9*	*5.9*	*6.7*	*6.3*	*5.9*	*5.9*
Trade magazines	151	150	147	144	147	150	156	167	180	193	
% change	*-1.9*	*-0.7*	*-2.0*	*-2.0*	*2.1*	*2.0*	*4.0*	*7.1*	*7.8*	*7.2*	*5.6*
Trade shows	1 900	1 950	1 875	1 925	1 920	1 975	2 050	2 160	2 280	2 400	
% change	*9.8*	*2.6*	*-3.8*	*2.7*	*-0.3*	*2.9*	*3.8*	*5.4*	*5.6*	*5.3*	*4.6*
Professional books	236	219	235	237	241	243	247	253	258	262	
% change	*-9.6*	*-7.2*	*7.3*	*0.9*	*1.7*	*0.8*	*1.6*	*2.4*	*2.0*	*1.6*	*1.7*
Sports	9 080	9 465	10 015	18 495	11 160	12 055	12 695	14,400	13,940	15 285	
% change	*8.6*	*4.2*	*5.8*	*84.7*	*-39.7*	*8.0*	*5.3*	*13.4*	*-3.2*	*9.6*	*6.5*
Video games	878	1 063	1 217	1 231	1 276	1 311	1 387	1 476	1 616	1 733	
% change	*141.9*	*21.1*	*14.5*	*1.2*	*3.7*	*2.7*	*5.8*	*6.4*	*9.5*	*7.2*	*6.3*
Total	**39 736**	**41 985**	**46 010**	**61 512**	**60 118**	**69 250**	**77 428**	**86 094**	**92 274**	**100 494**	
% change	*11.6*	*5.7*	*9.6*	*33.7*	*-2.3*	*15.2*	*11.8*	*11.2*	*7.2*	*8.9*	*10.8*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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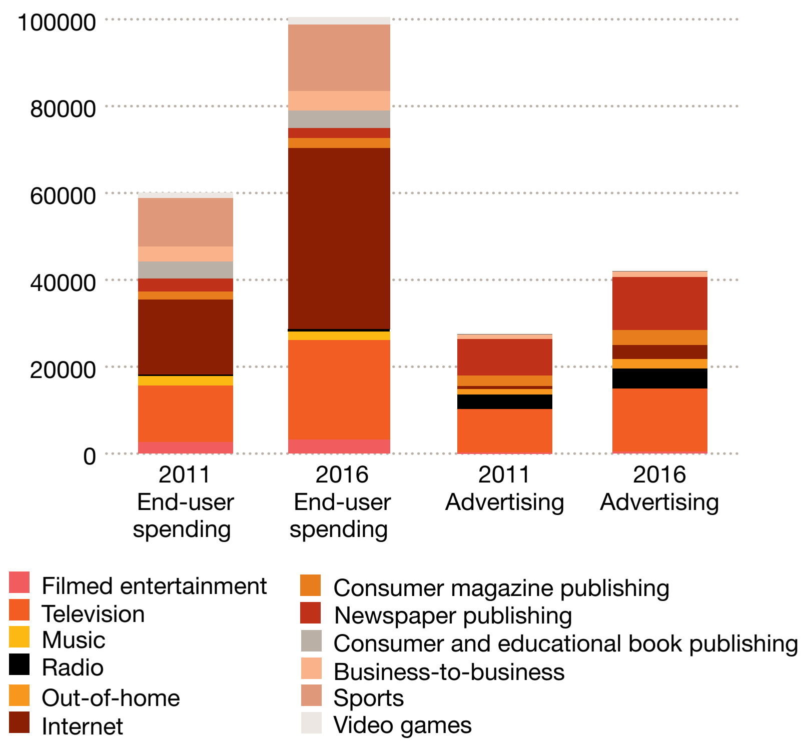
Figure 1.8: **End-user and advertising spending – 2011 vs 2016 (R millions)**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

On air, online, out there – but is it secure?

Shifting challenges in the media and entertainment sector

The media and entertainment industry the world over is faced with a single all-embracing challenge – to harness the demands and opportunities presented by technological developments or make way for those players who do.

Digital technologies and technology convergence present formidable challenges to the industry as they erode traditional revenue bases and business models. While the media and entertainment industries have faced many technological advances over the years, digitisation of content, the disruption of consumption models and ease of access to technology are by far the most far-reaching.

What remains constant, however, are consumers and the fact that the media and entertainment industries are in the business of providing content to those consumers. While digital technology is broadening the consumer base, it is presenting the sector with consumer behaviours unrecognisable to traditional content providers.

It is these behaviours that attract legal consequences. Media providers are faced with uncertainty as to how traditional laws apply in the digital age. Content is no longer confined to traditional distribution channels and audiences, since it can now be expressed, disseminated and manipulated digitally.

Copyright law is the overarching legal consideration for the sector. Content creators and providers should ensure their content is secure and that the risks of online publishing are considered before such publishing occurs. Media law also deals with the following issues relevant to the media and entertainment sector: constitutional law, intellectual property law, contract law, consumer protection law, labour law, privacy, competition, criminal and international law.

Media lawyers can assist clients in navigating the digital space by:

- Clarifying rights and responsibilities and legal liabilities of companies under electronic transaction-specific legislation such as the Electronic Communications and Transactions Act;
- Ensuring marketing activities, subscription procedures and competition rules comply with the Consumer Protection Act;
- Aligning current practices involving the use of personal information with existing and future legal requirements; and
- Considering applicable competition regulations before introducing new services and innovative market strategies; counselling on online copyright infringement; and advising on contract negotiations and licence agreements.

Media and entertainment law takes account of the changing market dynamics and offers solutions that transcend traditional business models by clarifying potential burdens to innovative players and protecting those already in the market.

The end of the digital beginning: E&M companies reshape and retool for life in the new normal

Despite ongoing economic uncertainty, the past year has seen global and South African sales of smartphones reach record levels once again – underlining the growing revenue opportunities in the digital delivery of entertainment and media content as well as advertising to increasingly connected and mobile customers.

However, behind the headlines, an even more important milestone for the E&M industry has been reached: The birth of the 'digital new normal'. Digital is now becoming embedded in business as usual. As digital moves to the heart of many media companies and begins to present the greatest opportunities for growth, what previously looked like a wide gap between old media models and new ones is being bridged.

Companies are planning and executing their strategies to cross to the new normal. With that, we're hearing clearer and more consistent language from industry CEOs as they articulate the new landscape. That clearer language signals that the initial uncertainty triggered by digital migration is giving way to a sharper focus on identifying, choosing and executing the business models, organisational structures, and skill sets that will harness new consumer behaviours to deliver rising future value in the changed environment.

Digital migration has two main implications for E&M companies. One is the need to make clear and committed choices about the role/s companies should play in the digital value chain. The other is that behaviours are changing rapidly and irreversibly within organisations and their customer bases. Leaders need to understand and harness these behavioural changes to grow future revenues.

Three global shifts

Changing consumer behaviour is driving developments. Consumers' ongoing migration to digital modes of consumption was accelerated by the economic downturn. The *Outlook* confirms that the parallel global shifts we have highlighted in the last two years will continue to play out and strengthen through 2016, with value shifting as follows:

- **From print to digital**: For example, electronic books' share of total spending on consumer and educational books will rise significantly.

- **From fixed to mobile-driven consumption:** Mobile Internet access increased from 29.9% of total Internet access spending in South Africa in 2007 to 70.8% in 2011 and will account for 66.4% in 2016.

- **From west to east, north to south:** During the next five years, total E&M revenue growth in the east (Central Europe, Eastern Europe and Asia-Pacific) will average 7.2% compounded annually, compared with a 4.3% CAGR for the west (North America and Western Europe). At the same time, growth in the south (Latin America, the Middle East and Africa) will average 10.0% compounded annually, which is more than twice the 4.5% CAGR predicted in the in the north (North America and Europe).

Looking beyond the impact of digital

The developments of the past year reinforce our view that was set out in last year's *Outlook* – the outcome of the transformation heralded by the digital migration is a new type of enterprise that we termed the collaborative digital enterprise. At the same time, these developments underline the fact that talking specifically about 'digital' increasingly misses the point. Digital marketing, for example, now means marketing in a digital world. And as digital becomes the new normal, its rising penetration will cease to be a topic for discussion. What matters is how companies capitalise on it and operate within it.

Mapping out the industry's future topography

Within the current context, we believe the reshaping of the industry will be influenced by the perspectives of three main groups:

- **For consumers:** Creating more-compelling, more-immersive and increasingly shared experiences by understanding what connected consumers want – by finding the right little data amid the big data.

- **For advertisers and value chain partners:** The design of new business models that reinvent and expand the value proposition of advertising and content through innovation.

- **For the industry:** Development of the right organisational and operational models to understand and harness new behaviours inside and outside organisations in order to grow their revenues and/or margins in the new normal.

We'll examine each of these perspectives in turn.

1. Understanding the connected consumer

Any discussion of what's happening in entertainment and media must begin with consumers. Why? Because change in today's consumer behaviour is both pervasive and accelerating – and E&M is in the front line of that change.

PwC research bears out the scale of shifts under way: More than 80% of respondents to PwC's recent multichannel shopper survey[1] now research their purchases online before buying electronics, computers, books, music and movies.

As the *Outlook* highlights, these changes reflect an underlying and ongoing migration in consumer behaviour and spending toward digital consumption and digital experiences. Growth in digital spending – defined here as spending over Internet protocol platforms in such segments as mobile and Internet access, mobile TV subscriptions, music, home video, video games, newspapers, magazines and books – will continue to outpace growth in non-digital spending during the next five years.

Demanding immersive and socialised experiences

So what kind of experiences are these increasingly digital and connected consumers seeking? They're often characterised as more demanding. In practice, this encompasses three specific shifts. Today's consumers want to:

- Watch, read or listen to what they want and when they want to – ranging from 'now' to 'in my own good time'.

[1] "Customers take control," PwC, December 2011; http//download.pwc.com/ie/pubs/2011_customers_take_control.pdf

- Access and consume content simultaneously via multiple devices and connections: TV, smartphone, tablet app, social media.
- Find and engage with provocative and relevant media experiences that cross the traditional boundaries of genre and immediacy – and ones that share, shape and control.

These characteristics add up to a search for immersive experiences that unite the personal with the social. Past generations could feel engaged through the passive consumption of mass-market content. But today's younger generations expect consuming media to involve multifaceted, personalised experiences that they can touch and influence – meaning, they feel not just engaged, but immersed.

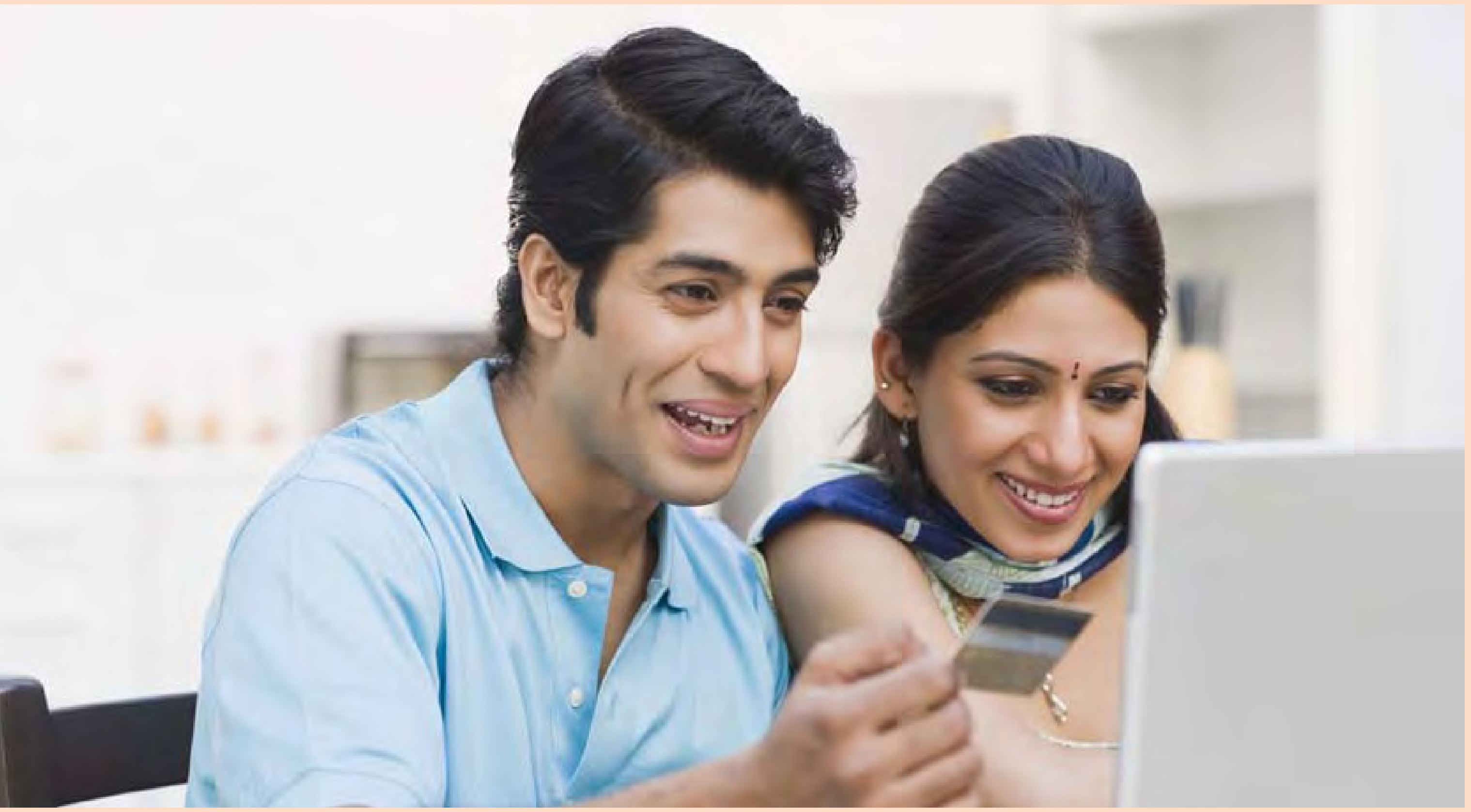
The drive for immersion is increasingly evident in the growth of such behaviours as personal marathoning and social marathoning – consuming an entire series end-to-end either alone or socially.

With smart devices now enabling easier and fuller social interaction around such content as newspapers and magazines, the same sense of socialised immersion is emerging in other media and is driving spending choices.

The medium formerly known as TV: toward the media hub

Amid these developments, one clear trend is the continued strength of the medium formerly known as television – or, more accurately today, video. The consumption of professional video content has never been more popular, partly reflecting the explosion in the ways people access it.

The growing number of ways and contexts in which people can experience video content is raising questions about the value proposition and pricing of TV-only content bundles – especially given the advent of a rising generation of savvy and increasingly urbanised customers who still love television, but want more flexibility – first in ways they access and pay for content and second, what content they get.



Like previous generations, the new consumers are passionate about other media experiences as well as television, including live concerts, radio, magazines and books. But unlike previous generations, they demand, consume and function in a world of globally connected social media. And they are increasingly adept at incorporating the various elements of content and connectivity into their media consumption mix.

All this points towards the multichannel, multicontent, multiexperience future – a concept we have termed here the *media hub,* wherein a mass of content is available for an agreed price on all devices and where the live experience – be it FIFA World Cup football or Lady Gaga in concert – comes at a premium.

Turning the second screen into the consumer's social nexus

With the advent of smart devices, the concept of the media hub has now gained a so-called second screen for sharing and enjoying these experiences anywhere. With formerly print-based media such as magazines and newspapers launching smart-device apps, these forms of content could also become part of the overall media package as part of a multi-segment media bundle accessed via the media hub and its connected screens.

With social media incorporated into the media hub concept, consumers can take the logical next step from 'watching everything wherever and whenever I want' to having friends and family log in to share the experience in real time.

This could lead to an environment in which all content is streamed as a cheap, easily available, cloud-based utility-style service, with streamed and shared live experience becoming the premium form of content. The digital locker may also play a role, enabling consumers to store recorded content remotely and access it anywhere on any device.

In such a world, the multicontent, multidevice media hub could assume the role that TV held as the nexus of the collective social experience. However, while the analogue TV in the living room put the family circle at the centre of the shared content experience, the media hub will shift the centre of gravity towards a more geographically spread community of friends with shared interests, often of similar ages. This extended circle of friends could become the media hub's killer application, glued together by the shared content experience.

Smart devices spearhead change

The first signs of the socialised multiscreen future are already emerging. But how is the consumer experiencing them? The answer lies in the rocketing take-up of smart devices.

Since the launch of the original iPad in April 2010, tablets have brought home to consumers – like no other device has – what the future of media might look like. For the first time, consumers became willing to watch premium video content on the go. In addition to cutting into PC sales, the tablet provides a metaphor for the feel of a future with ever-available mobile video and non-video content. Portability, accessibility to content, on-demand capability, high resolution and acceptable screen size – all formerly conflicting goals – have finally been reconciled.

Across broadcast and print media

Smart devices bring transformational opportunities across E&M segments. For example, TV companies could give consumers a customisable tablet/smartphone app that brings the consumers' own personal media on the TV, with consumer's favourite shows, movies and apps.

Tablets are also enabling print publishers to present consumers with a value proposition previously lacking in those publishers' online products, thus convincing consumers to pay for additional and premium content.

More generally, as the *Outlook* highlights, tablets' superior content experience is enabling growing numbers of print publishers to harness rising digital revenues. E-books are claiming a rising share of the paid-for book market. More and more newspapers are both launching apps and starting to put their content behind paywalls.

Consumer trends knock on into business-to-business models

Consumers' behavioural changes are also driving change in business-to-business publishing. Consumers who are members of the business workforce are increasingly mobile as well as accustomed to accessing information via an ever-wider range of devices. They expect the same immersive quality and consistency of experience at work as in their private lives and are incorporating social behaviours into their business behaviours.

For companies, these trends present challenges in terms of security and access, but also open up business opportunities. One outcome is that corporations are setting up social networks to encourage collaboration and innovation.

For business-to-business information providers, the core value of their business used to lie in their original product, such as a trade magazine or directory, whether physical or online. Today, these businesses' real asset is the deeply engaged specialist community with deep domain expertise for whom they provide information and interaction, thereby acting as a gateway for advertisers.

For business-to-business information providers, the most direct and most sustainable way to maximise their proposition to advertisers is to be a curator of information for the target community.

The finger on the consumer's pulse

In segments ranging from business-to-business information to consumer magazines, to streaming live music, smart devices are helping to usher in the connected multiscreen future. But to engage and immerse consumers in that future, E&M companies will need to understand consumers' behaviours, motivations and expectations as well as being able to access such information as location and transaction records.

The raw material needed to build that understanding – consisting of big data on consumers' activities, lifestyles, behaviours and transactions – is now available on a previously inconceivable scale and depth.

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Using analytics to find the little data in the big data

Getting this right isn't easy. The sheer volume and noise of big data make it hard to identify and apply the little data within them – the granular individual information that enables companies to personalise their communications with consumers and engage or immerse consumers more effectively. While many companies are still collecting and mining only the most basic of information, they will raise their game in this area going forward, because they know they have to.

This is evidenced by the continuing rise in the prominence and power of data analytics companies and skill sets. A related development is the drive to create new measurement systems for many segments of media, ranging from radio to out-of-home and from magazines and newspapers to TV content across platforms.

Privacy concerns: A major global barrier

The data that brings consumer insights also brings risks. An ongoing issue for E&M companies and policy makers within governments across the world is consumers' fear over the privacy of their personal information, with signs of a public and regulatory backlash against spying by online applications.

Consumers' concerns have been intensified by confusion and controversies surrounding the privacy approaches taken by global online giants. These concerns are creating the risk of regulatory actions that could potentially threaten growth, not only in the digital media industry, but also in the broader, digital economy. This risk underlines the need for further rapid progress in such areas as secure digital identities.

A win-win solution

In our view, there's a middle way that companies can pursue. Consumers are happier to provide information if they get something that they value in return – such as filling in a questionnaire at the supermarket in exchange for loyalty points. But they're concerned about companies going too far by monetising their data first and asking permission later. Given such worries, there's an opportunity to give consumers more control over how their personal data gets used and to deliver higher benefits in return, thereby encouraging them to volunteer even more information.

Under the current model, the advertiser works on behalf of the brand, not on behalf of the consumer. What's needed is a model that produces a win-win with the medium, the advertiser and the consumer all collaborating and benefiting transparently in a way that is ethical and legally appropriate.

Such a model demands collaboration as well as the acceptance that the only ones who own customers – and the customers' data – are the customers themselves. This requires a shift in the industry mindset, from the legacy focus on customer ownership to a new approach based on putting the customer in control – with all parties agreeing that personal data can be used only in ways the customer has agreed to.

2. *Devising new business models to reinvent and expand the value proposition of advertising and content*

A world of difference

The core challenge for E&M companies lies in how to remain relevant to their consumers and business customers in a way that differentiates them from their competitors. There are long-term structural and organisational changes that are needed right across the industry.

For companies operating internationally, this reshaping of their organisation is made more difficult because while many of the trends are global, the solutions vary locally. The reason is that the E&M market in each territory worldwide is developing in a different way and from a different starting point.

Pockets of pent-up growth potential

What's more, the impact on consumer behaviour when such services as mobile broadband burst onto the market can be electrifying. Even if the infrastructure to support such offerings is currently rudimentary or lacking, the growth in usage and revenues in the market can be explosive, once ignited by connectivity. These dynamics can be seen in the rapid take-up of mobile banking in Africa, as providers and consumers leapfrog the stage of physical branch infrastructure.

Industry overview

Far from hampering growth, a lack of legacy analogue connectivity and media choices makes consumers in growth markets more voracious for new digital choices – partly because the novelty and excitement are greater and partly because those consumers don't have to cope with the transition from old behaviours. The pent-up demand for connectivity also helps explain why businesses in emerging markets are outpacing mature territories in the pursuit of the commercial potential of mobile broadband.

The reinvention of advertising in the image of the consumer

Regardless of the differences between markets, the overriding trend across the world is that consumers' engagement with connected digital experiences is continuing to grow. As this happens, it's increasingly evident that people's time, and, by extension, the data generated through the ways they spend it are currencies that can be monetised. While this has always been the case, the addition of digitally derived insights into the mix is now redefining advertising – and expanding its value proposition.

Until recently, the natural choice for an advertiser to reach, say, potential car buyers might have been to advertise on the major auto websites. But, by applying analytics to the individuals' browsing behaviours, ad agencies and networks can now identify specific so-called auto-intenders who have the highest propensity to buy a car in the next 12 months.

Such developments mean that premium results are increasingly key to getting premium rates. Advertisers will pay a premium only for clearly demonstrated premium demographics, a proven track record of engaged consumers or solid revenues from click-throughs. Similarly, the conversation has shifted from display inventory to behavioural factors and drivers such as location.

Already, audience metrics and measurement are changing rapidly in response to such shifts. Customised metrics are valuable for retrospectively testing the impact of audience reach and engagement on the effectiveness of advertising campaigns and for allocating marketing spend across media.

Socialisation of advertising: Bought, owned, managed and earned

A further aspect of the primacy of data is the socialisation of advertising. Consumers are increasingly sharing recommendations and sponsored content with their friends via social media – sometimes incentivised by consumer-rewarded advertising mechanisms such as loyalty points and payments in virtual currencies.

Socialisation of advertising is also being fostered by consumers' strengthening engagement with the live shared experience, ranging from concerts to cinema, to exhibitions. These live formats are driving growth in experiential ads such as portable cardboard seats for music festivals, which act as mini billboards for brands.

Advancing socialisation is feeding into the widely accepted concept among agencies of bought-owned-and-earned advertising, to which we've added a fourth category: managed. Bought media consist of traditional above-the-line platforms such as the paid-for 30-second spot. Owned media are brands' websites that consumers are driven to by ads. Managed media is the orchestrated use of social media, such as engagement via bloggers. Earned media consists of ad content that generates massive hits through social recommendation.

More and more brands are using earned or unpaid media in their mixes, because a shared ad – if it takes off – can generate returns out of all proportion to the investment, especially if integrated across media.

Driving profound change for agencies

The rise of unpaid media reflects an innovative, new fusion of advertising, content and analytics – and is helping drive sweeping change in the roles and business models of creative and media agencies. As their clients hunt for new ideas and approaches, agencies are stepping up to act as digital advertising consultants, guiding their clients via insights into opportunities around the aggregation of data, socialisation, and content.

This trend is being accelerated by the disappearance of the historical distinction between traditional and digital media. Everything that agencies do for their clients now has an embedded digital component – and brands will increase their spend on previously untried models if they can see a reasonable likelihood of the right return.

To stay ahead, agencies need to be flexible enough both to quickly adapt to change and to collaborate with a wide array of media, technology, data and research companies.

Whatever alliances they form, data analytics is increasingly central to agencies' ability to demonstrate value for clients. Digital measurement tools mean brands can demand far greater accountability and insights into advertising effectiveness.

New roles emerge across the E&M value chain

The evolution of the value chain over the next five years will see new roles emerge across the E&M industry, reflecting growing clarity about the business models that will generate value in the new landscape.

What will the roles look like? We believe one of them will involve acting as the online destination or physical auditorium that hosts the customer experience – a role that could be termed 'the venue'. Another will be to act as the aggregator and filter for the target consumers' requirements. A further role will be as provider of exclusive content. Device developers will have a continuing part to play in collaborating closely with other participants to ensure the right experience.

As the various roles crystallise, media groups will conduct portfolio reviews to decide which they should focus on. Companies that take on multiple roles will face pressure from shareholders to justify their investments in diverse activities and to show how those investments contribute to overall value.

Paying for content: Renting, not owning

The models for monetising content are also continuing to evolve. Consumers generally appear to be moving toward wanting to rent content rather than own it outright. One factor may be that past experience has made consumers wary of owning content on formats that might become obsolete.

Overall, various trends highlight the need for flexibility in the way that different types of content are priced and delivered. For example, some high-end consumer magazine publishers are finding that 30-40% of the single copies they sell on tablets are back issues, which consumers then store and keep digitally. This opens up opportunities to sell a 'rental' subscription for current issues and use an 'ownership' model for selling back issues. It also underlines that the long tail of existing content continues to offer opportunities for additional revenue.

Using an array of pricing models

We are seeing the emergence of differentiated pricing models, which include free or paid-for options, respectively, with or without ads; tiered pricing, again with or without ads; payments in virtual currency; stored-value micropayments to buy 'bolt-on' packs and rental models charging cash or virtual currency over social networks.

Across the whole area of pricing, the question remains how the future infrastructure to service rising demand for bandwidth will be paid for. This issue demands a collaborative solution involving content and distribution.

As business models for the new E&M environment take shape, attention is turning to the organisational and operating models needed to underpin them. This is the third dimension of the reshaping of the industry.

3. Developing organisational models to harness new behaviours and grow revenues in the new normal

Reorganising around digital

Over the past decade, many E&M businesses have developed their digital business as an adjacent operating group, with separate infrastructure, solutions and staff. But in the new normal, with digital established as part of business as usual, that siloed approach has passed its sell-by date. The dislocation it causes between digital and physical is hindering consistent customer insight, holding back revenues and limiting scope for cost efficiencies on both sides of the divide.

The imperative is to combine the duplicate processes into a single enterprise-class digital operating model and capability, enabling companies to create once and distribute everywhere they choose. A digital model positions the business to reshape itself for the new normal and to harness new behaviours more effectively as a source of revenues.

Boosting profitability, scalability and innovation

E&M businesses have grasped the need to move digital to the centre of their operations, are now integrating their digital divisions into the main enterprise and are targeting benefits around three key areas:

- **Higher profitability** by reducing operational costs through common platforms and integrated business processes, thereby enabling the enterprise to take advantage of identifiable unique content and consumer experience assets across multiple platforms.
- Better **scalability**, thereby gaining greater agility to grow and flex the business – through the digital work flows; rights and royalty solutions that can support millions of digital transactions; and digital consolidation of physical-format archives to reduce costs and boost commercial exploitation.
- More effective and continual **innovation** through integration and automation, thereby freeing up time for staff to collaborate and generate new ideas.

Barriers to address: Rights, royalties

While the journey to put digital at the heart of the organisation brings clear benefits, there are barriers along the way. One of the biggest involves content rights and royalties – an area in which many companies are burdened by rigid and complex legacy systems that can have direct impacts on their bottom lines.

E&M companies need to know when their rights to content will expire because if they don't renew their rights, the rights will diminish in value. They need a management system that removes that risk.

But this has become challenging for three reasons. First, despite moves toward multiformat IP-based distribution, rights still often vary by platform. Second, payment schedules vary significantly by format. And third, the sheer number of contracts required for all of the content channels and formats is making the exercise more complex. In many cases, rights buyers face comparable complexity and legacy challenges in their side of the deal.

Piracy: Still a growing problem

Piracy remains a growing problem. Legal moves to tackle piracy are continuing. In recorded music, graduated-response programmes have helped reduce unauthorised file sharing.

Irrespective of the legal position, the widespread mindset in many countries is still that piracy is not a crime or is at worst a victimless one. However, in contrast to the handful of committed digital pirates, most consumers are somewhere on a spectrum between complete legitimacy and criminality. Those who undertake piracy usually do so because easy and cheap opportunities arise or because they cannot get the content any other way. Companies and regulators need to encourage people to shift towards the legitimate end of this spectrum.

One way to do this is by reducing the legal barriers to legal availability. In our view, a more fundamental issue is that consumers intrinsically do not understand why content rights matter. This is a knowledge gap that may critically undermine efforts to introduce new windowing and revenue models. Closing the gap requires education.

The collaborative digital enterprise starts to emerge

In last year's *Outlook* we proposed the collaborative digital enterprise (CDE) as the future organisational model for the industry. This is a digital-based organisation that can collaborate flexibly, openly, and effectively, both internally and externally.

Transforming to a CDE involves tough choices and changes, both internally and externally:

- **Internally**, there are decisions to be made about the organisational model. In our view, the CDE lends itself to the integrated company model, as major media companies cannot leverage their scale effectively if their divisions are operating as independent fiefdoms. Also, internal collaboration is a prerequisite for external collaboration. If people cannot collaborate inside, they'll hardly be able to do so outside the enterprise.
- **Externally**, the choice is as wide as, whom to collaborate with? And how?

The raw materials: Talent and innovation

The technology to deliver the CDE exists now. The main challenges involve marshalling and leading the talent and the innovative culture needed to make it a reality.

Intrinsically linked to talent is the need to develop a culture of innovation – not just in technological terms, but also in the way people collaborate and approach problems. Research and development no longer only happens in the lab and an innovative culture forms a vital circle by attracting innovative talent, who in turn reinforce the culture.

However, E&M companies face fierce competition from pure technology companies, which generally tend to pay higher salaries. E&M companies need to overcome this barrier by becoming better employers and by leveraging nonfinancial attractions.

Leaders who understand behaviour

A key success factor in E&M through to 2016 is the need for clear-sighted leadership by people who understand the power and motivations behind the behavioural changes underway. These leaders will ask questions rather than dictate strategy; empower their people rather than direct them; and embrace an innovative new culture through their own behaviour, rather than try to impose it through rules.

The key is that the changing behaviours of employees and consumers demand a new way to foster, measure, and improve performance and thereby productivity. Specifically, it requires awareness of behavioural drivers that go beyond the familiar world of reason, which define strategy, operating model and process.

It involves asking what motivates people to act with passion as well as uncovering the 'moving parts' and unconscious biases that can cause irrational or damaging behaviour. Identifying these moving parts requires an understanding of behaviours across both the new generation of Millennial employees and the older workforce.

Putting behaviour at the heart of performance will help E&M leaders address these issues by enabling themselves to understand both the limitations of reason as a predictor of behaviour and the potential for going beyond reason to inspire performance. The E&M organisation led this way will be more agile, more innovative, and more engaged – thereby making it better able to line up strategy with performance and to tap into the opportunities that will emerge over the next five years.

Conclusion: The end of the beginning

In the face of sweeping changes and uncertainty, the E&M industry has spent the past few years seeking the right business models for the new digital world through an iterative cycle of constant experimentation, ongoing innovation and targeted analysis of results.

The cycle is far from over and experimentation and innovation will continue. But the analytic results are now sufficiently robust and compelling to enable companies to press ahead into the new normal with confidence.

The digital new normal becomes clearer

We believe the industry is at the end of the beginning of its digital journey. There remains a lot more to be done to adapt to the new world, but the fog is lifting and digital's move to the core of business as usual and into the heart of E&M companies' operations means execution and experimentation are no longer sequential but will continue hand in hand.

As the landscape becomes clearer, it's increasingly evident that old and new media, or analogue and digital formats, are not mutually exclusive. The key in areas from pricing to delivery models and from collaboration to consumer privacy are flexibility and inclusivity.

By embracing digital as the engine of their business and using digital to integrate and automate processes from content production to rights management, companies can position themselves to meet consumers' changing demands through any channel and format – and more effectively and more profitably than ever before.

Data-driven collaboration gains momentum

Two elements will underpin the capabilities needed for success in the new normal. Each of these elements will bring its own challenges.

The first element is data. The killer insights are there in big data – and companies are refining their ability to identify and isolate the nuggets of little data that contains those insights. The main challenge is the privacy agenda, wherein companies must move away from owning the customer to putting the customer in control.

The second element is collaboration. The immersive experience of the future cannot be delivered by a single provider. The challenge here will be cultural and competitive – building the ability to trust collaborative partners, including competitors, while avoiding collusion.

As collaborative groupings emerge, different players will adopt different and complimentary roles in the value chain, and analytics-driven data will act as the glue holding them all together. Digital metrics will enable value created to be distributed equitably on the basis of results achieved.

For the E&M industry, the new normal is here, making an unprecedented pool of value available to those who want to compete for it. It's time to look beyond the uncertainty of recent years and to focus on pinpointing and executing strategies and models to claim a sustainable and rising share of resulting revenues.

Source: Global entertainment and media outlook 2012-2016 (PwC, 2012)

Drill down through data across segments and components.

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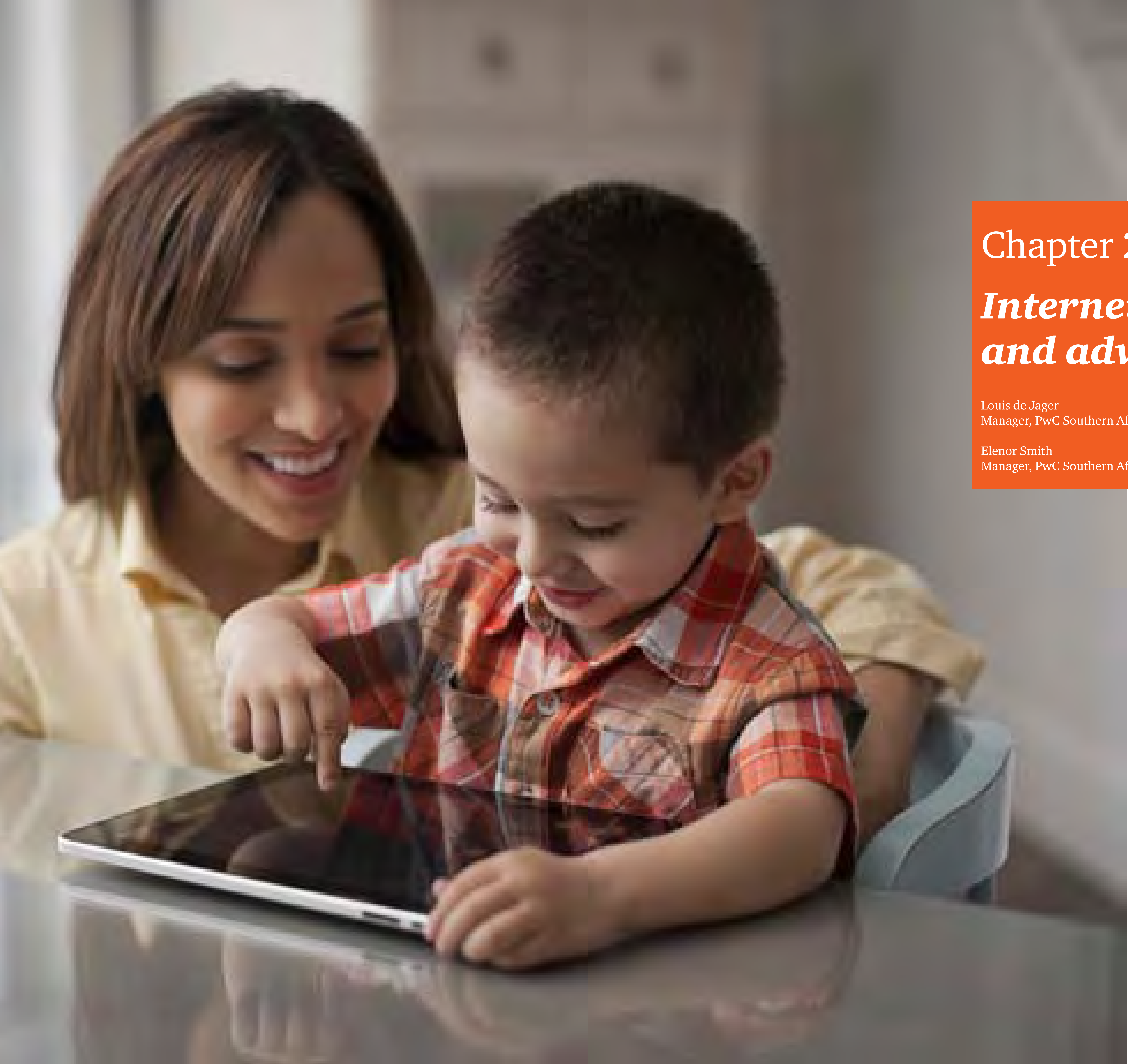

Chapter 2

Internet access spending and advertising

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Internet access is a key driver of entertainment and media advertising and content spending in most segments. The Internet market consists of spending by consumers to access the Internet and spending by advertisers.

Internet wired and mobile access revenue consists of fees paid by consumers to wired Internet service providers (ISPs) and to wireless carriers for Internet access via mobile devices, whether provided as a standalone service or as part of a bundle in which the Internet component is estimated. Figures do not include the purchase of online content such as music, videos or games. The figures for spending on entertainment content downloaded over the Internet or through mobile phones are included in the respective content chapters.

Internet advertising, wired and mobile, consists of spending by advertisers on banner/display, classified, paid search, video and other online formats such as e-mail and sponsorships; and advertising delivered to mobile devices, such as smartphones and tablets via formats designed for those devices. The Internet advertising category includes online and mobile television, newspaper, consumer magazine, trade magazine, directory advertising and radio, which are also included in the respective content chapters. To eliminate any double counting, figures for total advertising are presented in this chapter's Overview section.

Outlook

… at a glance

Internet access and advertising total spending (R millions)

2011
17 887

2016
45 032

2012-16 CAGR(%)
20.3

Internet access and advertising: wired and mobile (R millions)

	2011	2016	2012-16 CAGR (%)
Access spending			
Wired			
Dial-up	540	16	-50.5
Broadband	4 489	14 040	25.6
Total wired Internet access	5 029	14 056	22.8
Mobile access	12 180	27 720	17.9
Total Internet and mobile access	17 209	41 776	19.4
Advertising			
Internet advertising	565	1 950	28.1
Mobile advertising	113	1 306	63.1
Total advertising	678	3 256	36.9
Total Internet access and advertising	**17 887**	**45 032**	**20.3**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Internet access spending and advertising

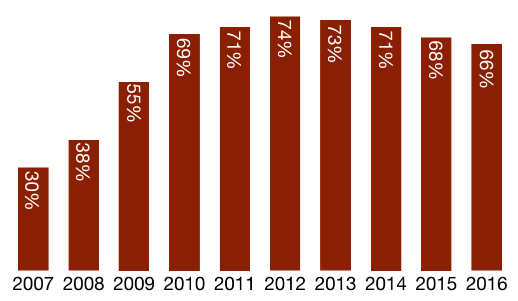
…in brief

- Fibre network rollouts and the extension of the broadband infrastructure into under-served areas will drive broadband subscriptions and fuel broadband spending.
- Increased competition and penetration is resulting in lower prices, but this is expected to be partly offset by rising prices for premium services.
- Smartphone penetration growth and faster mobile access speeds will drive growth in the mobile Internet access market.
- The wired broadband access market is expected to grow at higher rates than the mobile access market over the forecast period in contrast to the trend of the past few years.
- Growing traffic on social networking sites and increased time spent online is attracting advertising and fuelling growth in banner/display advertising.
- Growth in tablet penetration and increased use of smart mobile devices will propel mobile advertising.
- Total Internet access and advertising spending is expected to grow at a 20.3% compound annual rate from R17.9 billion in 2011 to R45.0 billion in 2016.

Overview

Internet access is a key driver of entertainment and media advertising and content spending in most segments. In South Africa the Internet is currently accessed principally through mobile devices. Mobile access spending accounted for 71% of total access spending in 2011, compared to 30% in 2007. This is due to smartphones becoming more popular, the wireless infrastructure being available to more people than the broadband infrastructure and the relatively high broadband prices limiting wired broadband penetration.

Figure 1.1: Mobile access spending as a percentage of total access spending



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In spite of relatively high prices, wired broadband capacity is expected to grow dramatically in the next few years. South Africa had fibre capacity of 2.69 terabytes per second (Tbps) at the end of 2011 and this figure is expected to jump by 450% to nearly 12Tbps by the end of 2012. This is due to the West African Cable System (WACS) that has become commercially available and also as the Africa Coast to Europe (ACE) becomes operational. Capacity is then expected to rise to 24Tbsp, nearly ten times the current capacity, when the South-Atlantic Express (SAex) is completed in 2013.

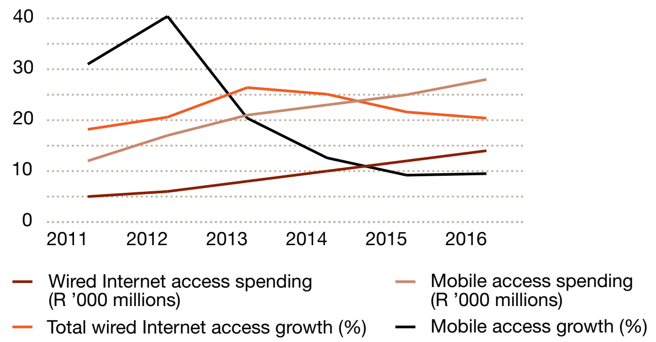
The WACS and the ACE cable links Western Africa to Europe, while the SAex will provide connectivity to Brazil and the United States and in future provide onward connectivity to India, China and other Asian countries through SEACOM.

In addition to developments in international connectivity, domestic broadband will benefit from new Ka-band telecommunications satellites that will provide Internet access to areas not currently served by the wired infrastructure.

The shutdown of analogue television signals, now rescheduled for June 2015, will free up valuable spectrum in the 800MHz band that will be allocated to mobile broadband. The availability of this spectrum will facilitate the emergence of Long Term Evolution (LTE) 4G technologies that will provide for fast mobile broadband.

During the past five years mobile access spending grew much faster than wired broadband spending. With new international cables coming online and faster growth in the number of fixed broadband households, we now expect wired broadband to be the faster-growing sector during the next five years, with growth of 17.9% projected over the forecast period. The mobile access spending market is, however, expected to remain the largest component of the Internet access spending market throughout the forecast period.

Figure 1.2: Internet access spending



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The number of Internet users in South Africa rose to 8.9 million in 2011, nearly twice the 4.6 million total in 2008. Growth has principally been driven by a surge in the number of mobile broadband users, which jumped to 5.8 million in 2011 from only 600 000 in 2008.

Over the next five years, we expect wired broadband to grow faster than mobile broadband, expanding at a 32.8% compound annual rate to 6.6 million users in 2016. Nevertheless, there will still be 3.5 times as many mobile broadband users as wired broadband users in 2016 at 23.1 million, up 31.8% compounded annually from 2011.

The total number of Internet users will increase at a 27.3% compound annual rate to 29.8 million in 2016.

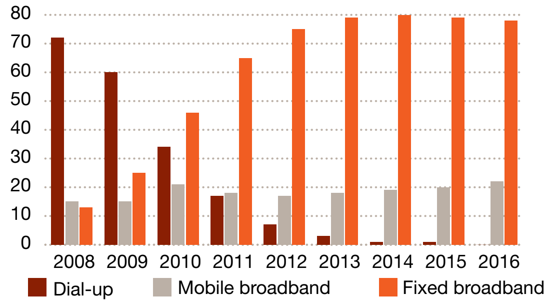
Internet access spending and advertising

Internet users (millions)

Technology	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Dial-up	3.3	3.2	2.3	1.5	0.9	0.5	0.3	0.2	0.1	-41.8
Fixed broadband	0.7	0.8	1.4	1.6	2.2	3.0	4.0	5.2	6.6	32.8
Mobile broadband	0.6	1.3	3.1	5.8	9.5	13.2	16.8	20.1	23.1	31.8
Total	**4.6**	**5.3**	**6.8**	**8.9**	**12.6**	**16.7**	**21.1**	**25.5**	**29.8**	**27.3**

Sources: Internet World Stats, Wide World Worx, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

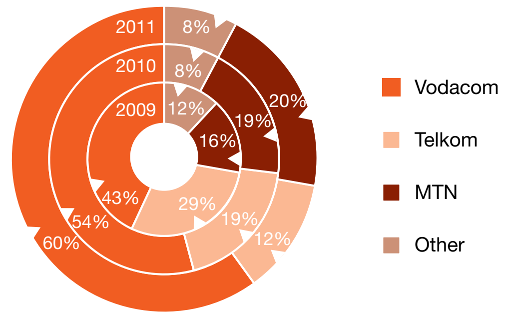
Figure 1.3: Internet users as a % total Internet users



Sources: Internet World Stats, Wide World Worx, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The large increase in mobile broadband generated share gains for Vodacom and MTN, the principal mobile providers. Vodacom's share of broadband users increased to 60% in 2011 from 43% in 2009, while MTN's increased to 20% from 16% in 2009. Telkom's share dropped from 29% in 2009 to 12% in 2011.

Figure 1.4: Distribution of broadband subscribers (% 2009, 2010 & 2011)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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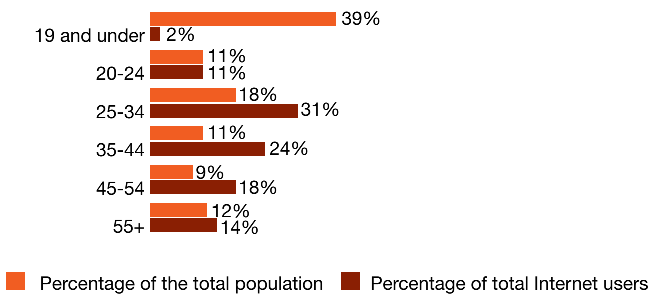
With respect to demographics, usage is concentrated among people in the 24-44 age group. This group accounted for 55% of all Internet users, nearly twice its share of the population.

The incidence of Internet usage among people aged 45 and older was also higher than its share of the population. This segment of the population represents 21% of the total population, but 32% of total Internet users.

Among the younger groups, the share age of Internet users in the 20-24 age group was 11% in 2011, matching its share of the population. Among people 19 and younger, only 2% were Internet users, well below their 39% share of the population.

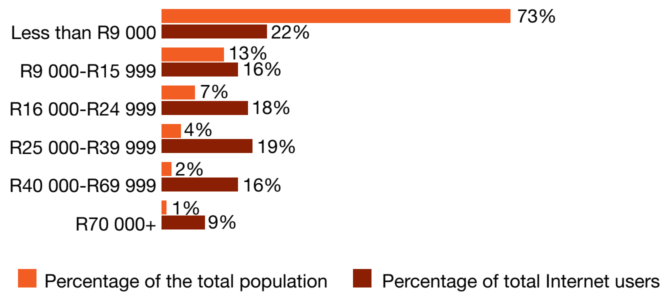
Figure 1.5: Distribution of Internet users by age in South Africa



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

With respect to income, the incidence of Internet use rises significantly with income, reflecting the relatively high price of broadband in South Africa. People in households with monthly incomes of R9 000 or more accounted for 78% of all Internet users even though this group represents only 27% of the population. In contrast, only 3% of households have monthly incomes of R40 000 or more, but people in these households comprise 25% of all Internet users.

Figure 1.6: Distribution of Internet users by income



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The Internet market as a whole grew 27.3% in 2011, three-quarters of which was driven by growth in mobile access spending. Total access spending increased 27.0% and advertising grew by 35.6%.

After rising at single-digit rates through 2009, fixed broadband access spending accelerated during the past two years at rates in excess of 20% annually, including a 27.7% advance in 2011, benefiting from the launch of the SEACOM cable in 2009. At the same time, the dial-up market declined by 27.1% in 2011 and by a cumulative 58% since 2007. Total wired access spending rose by 18.2% in 2011.

The new undersea cables will spur the wired broadband market, which we project will expand at a 25.6% compound annual rate. The dial-up market will virtually disappear and total wired Internet access spending will increase at a projected 22.8% compound annual rate to R14.1 billion by 2016.

Growth in smartphone penetration and the rollout of LTE networks will drive mobile access spending, which we expect will reach R27.7 billion in 2016, a 17.9% compound annual increase from R12.2 billion in 2011.

Total Internet access spending will increase at a projected 19.4% compound annual rate to R41.8 billion in 2016 from R17.2 billion in 2011.

The jump in wired broadband subscriptions during the past two years boosted growth in wired Internet advertising, which rose by 25.6% in 2011 and by 54.8% cumulatively since 2009. As the wired broadband subscriber base expands, we anticipate faster growth in wired Internet advertising, which we expect will average 28.1% compounded annually during the next five years.

A growing mobile Internet subscriber base will boost mobile advertising. From a small base, we expect this market to expand at a 63.1% compound annual rate by 2016.

Total Internet advertising will increase at a 36.9% compound annual rate to an estimated R3.3 billion in 2016 from R565 million in 2011. The overall Internet market will rise to an estimated R45 billion by 2016 from R17.9 billion in 2011, averaging growth of 20.3% compounded annually.

Internet access and advertising: wired and mobile (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Access spending										
Wired										
Dial-up	1 280	1 071	900	741	540	306	144	90	42	16
Broadband	2 441	2 640	2 862	3 514	4 489	5 760	7 524	9 504	11 628	14 040
Total wired Internet access	3 721	3 711	3 762	4 255	5 029	6 066	7 668	9 594	11 670	14 056
Mobile access	1 584	2 268	4 680	9 300	12 180	17 100	20 592	23 184	25 326	27 720
Total Internet and mobile access	5 305	5 979	8 442	13 555	17 209	23 166	28 260	32 778	36 996	41 776
Advertising										
Internet advertising	255	350	365	450	565	790	1 050	1 350	1 650	1 950
Mobile advertising	4	8	20	50	113	237	420	662	957	1 306
Total advertising	259	358	385	500	678	1 027	1 470	2 012	2 607	3 256
Total access and advertising	**5 564**	**6 337**	**8 827**	**14 055**	**17 887**	**24 193**	**29 730**	**34 790**	**39 603**	**45 032**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Internet access spending and advertising

Internet access spending

Wired access

Growth in fibre capacity and falling prices will drive broadband subscriptions during the next five years. With the opening of various undersea cables, fibre capacity is expected to be 10 times higher in 2013 than it was at the end of 2011.

The West Africa Cable System (WACS), which landed in South Africa in April 2011, entered into commercial use in May 2012. The WACS links South Africa and other countries in Africa to servers in Europe.

The Africa Coast to Europe (ACE) undersea fibre-optic cable, which will connect South Africa and the west coast of Africa with France, is expected to be completed by the end of 2012, and the South Atlantic Express (SAex), which will connect South Africa, Angola, and other countries in Africa with Brazil and then to the United States, is expected to be completed in mid 2013.

SAex will have 10 times the capacity of SEACOM, which became operational in 2009, and will have 2.5 times the capacity of WACS and ACE. The opening of WACS, ACE and SAex will have a huge impact on wired broadband capacity and will lead to a further drop in average costs. The combination of lower costs and faster speeds will boost the fixed broadband market during the next five years.

WASACE Cable Company is a multinational company that is planning to build an undersea cable system across the Atlantic Ocean, offering connectivity from Africa to the United States through its WASACE North cable, as well as from Africa to Latin America through its WASACE South and WASACE Africa cables. It will also provide potential connectivity from India to the United States over Africa and Latin America.

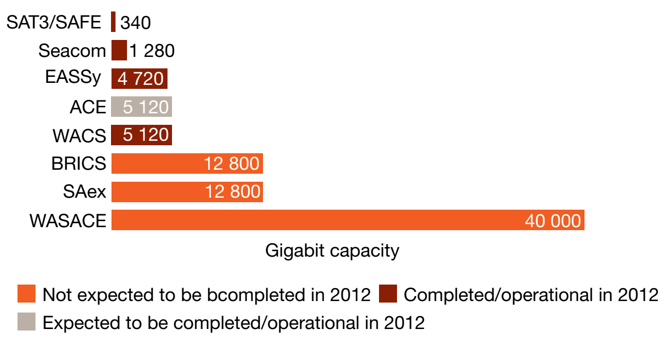
There have also been various parties showing interest in the BRICS cable project, a proposed 34 000km cable system with 12.8Tbps capacity linking the BRICS nations (Brazil, Russia, India, China and South Africa) to the United States. The BRICS cable will also link the WACS, EASSY and SEACOM together.

Cisco estimates that Internet traffic in South Africa will be 10.5 times higher in 2016 than in 2011.

Growth in capacity will facilitate increased usage while driving down costs, as well as enabling service providers to provide faster connection speeds. Fast broadband is becoming particularly important as the Internet is increasingly being used to download, upload, and share videos, games, music, movies, TV shows, newspapers, books, magazines and other content. Homes with multiple connected devices, including games consoles that allow online game playing and downloads or streaming of movies and other content, as well as multiple broadband users in the household, require higher bandwidth to handle increased traffic.

Telkom started upgrading its services, raising minimal DSL speeds from 384kbps to 1Mbps in the second half of 2012, as well as migrating all their 1Mbps ADSL lines to 2Mbps, which will result in uncapped subscribers having to pay more to upgrade to the higher-speed packages. Telkom has also announced that it has begun rolling out 3 700 multi-service access nodes (MSANs) that will replace 2 700 older generation cabinets and add another 1 000 cabinets to its infrastructure. The MSANs can be used to offer higher-speed ADSL (ADSL2+), very-high-bit-rate digital subscriber line (VDSL), and fibre-to-the-home (FTTH) services. The new infrastructure will allow Telkom to deliver speeds of up to 1Gbps using fibre as the last mile, or up to 40Mbps using Telkom's existing last-mile copper infrastructure. Telkom is also planning to increase the speed of its entry-level ADSL package to 2Mbps and commercially introduce a new top-end ADSL service of 40Mbps by 2015.

Figure 1.7: Undersea fibre optic cables in South Africa



Source: http://manypossibilities.net/african-undersea-cables

Telkom announced in September 2012 that it is launching its high-speed broadband pilot project. The trial will continue until 31 January 2013, enabling ADSL2+ and VDSL over existing copper wires at speeds of 20Mbps and 40Mbps. Telkom will approach current 10Mbps TelkomInternet ISP customers to offer them access to the pilot. At the time of writing, Telkom had not announced any pricing information.

Various broadband providers have recently lowered the pricing of their capped and uncapped ADSL packages. This was facilitated by Telkom lowering its IP connect rates in April 2012 with a 30% decrease, allowing service providers to cut their costs, which ultimately lowered prices for consumers.

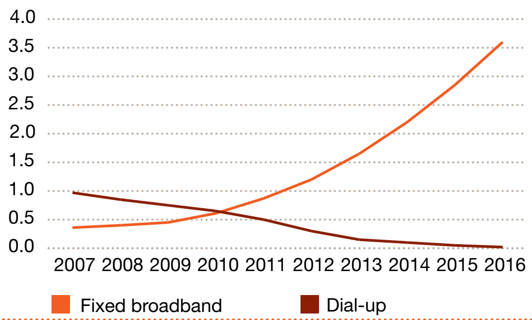
Telkom reduced its entry level 384kbps fast Internet service from R219 per month to R169 per month (excluding line rental) for a 5GB capped service on a 24-month contract. The service will be upgraded later in 2012 to 1Mbps. MWeb reduced its premium uncapped and unthrottled 10Mbps service from R1999 to R999 per month for consumers. MWeb and Telkom have been setting the trend for broadband prices in South Africa for the past couple of years. MWeb was first to reduce the price of its uncapped plans, followed by many other providers, including Telkom, Afrihost, Web Africa, Cybersmart and Axxess.

The ADSL market has become extremely competitive, with providers aggressively reducing prices, sometimes even pricing their offerings at cost price to ensure they attract or maintain market share.

Faster speeds, lower prices and uncapped service will boost broadband subscriptions, which we project will increase to 3.6 million by 2016, a 32.8% compound annual increase from 870 000 in 2011. Fixed broadband household penetration will reach an estimated 37.0% in 2016 from 9.0% in 2011.

Growth in fixed broadband will come in large part from dial-up subscribers trading up. The number of fixed broadband subscribers overtook the dial-up subscriber base for the first time in 2011. We expect the dial-up market to virtually disappear, dropping to only 20 000 subscribers by 2016 from 500 000 in 2011 and nearly one million as recently as 2007.

Figure 1.8: Wired Internet households (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The overall number of fixed Internet households rose by 8.7% in 2011. As the dial-up subscriber base disappears, overall growth will more closely reflect broadband growth. We expect the overall wired Internet household base to expand at rates in excess of 20% annually from 2012.

Government remains committed to achieving 100% broadband penetration by 2020 as described in the ICT Industry Competiveness and Job Creation Compact signed last year by the late communications minister Roy Padayachie. The cost of rolling out this plan is budgeted at approximately R90 million. South Africa's telecoms sector has already committed billions to improving access to broadband, with Vodacom spending more than R7 billion and MTN spending more than R4 billion on improving the infrastructure of their local operations in the past year.

FibreCo, a partnership formed in 2010 between Cell C, Internet Solutions and Convergence Partners is considered integral to Government's goal of achieving 100% broadband penetration. FibreCo kicked off the first phase of a 12 000km fibre-optic network in May 2012 and plans to invest R5 billion in a long-distance fibre-optic network over the next five years.

The total number of wired Internet households will reach an estimated 3.6 million in 2016 from 1.4 million in 2011, a 21.5% compound annual increase. Household penetration will rise to 37.2% in 2016 from 14.2% in 2011.

Wired Internet households (millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Dial-up	0.97	0.85	0.75	0.65	0.50	0.30	0.15	0.10	0.05	0.02	
% change	*-7.6*	*-12.4*	*-11.8*	*-13.3*	*-23.1*	*-40.0*	*-50.0*	*-33.3*	*-50.0*	*-60.0*	*-47.5*
Fixed broadband	0.36	0.40	0.45	0.61	0.87	1.20	1.65	2.20	2.85	3.60	
% change	*44.0*	*11.1*	*12.5*	*35.6*	*42.6*	*37.9*	*37.5*	*33.3*	*29.5*	*26.3*	*32.8*
Total	**1.33**	**1.25**	**1.20**	**1.26**	**1.37**	**1.50**	**1.80**	**2.30**	**2.90**	**3.62**	
% change	*2.3*	*-6.0*	*-4.0*	*5.0*	*8.7*	*9.5*	*20.0*	*27.8*	*26.1*	*24.8*	*21.5*

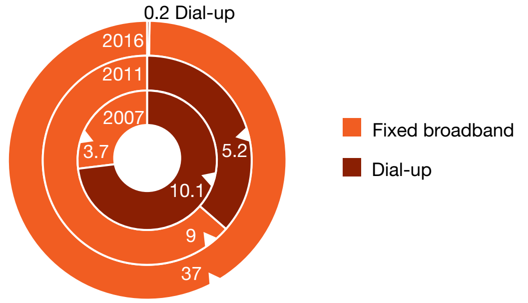
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Wired Internet household penetration (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Dial-up	10.1	8.8	7.8	6.7	5.2	3.1	1.5	1.0	0.5	0.2
Fixed broadband	3.7	4.1	4.7	6.3	9.0	12.4	17.0	22.7	29.4	37.0
Total	**13.8**	**13.0**	**12.4**	**13.0**	**14.2**	**15.5**	**18.6**	**23.7**	**29.9**	**37.2**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 1.9: Wired household penetration % (2007 vs 2011 vs 2016)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Broadband prices are affected by a number of conflicting trends. Growth in capacity will put downward pressure on pricing. At the same time, increased capacity will facilitate faster speeds and we expect a growing share of subscribers will opt for high-speed services even if this is at a higher fee, which will put upward pressure on pricing.

On balance, we project average monthly spending to continue to fall, but at somewhat slower rates compared with the past two years when decreases averaged nearly 10%. We expect that the average broadband subscriber will pay R325 per month in 2016, a 35.4% compound annual decrease from 2011.

Broadband access spending will increase from R4.5 billion in 2011 to approximately R14 billion in 2016, a 25.6% compound annual increase.

Filter digital and nondigital spending data.

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Wired broadband access market

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Subscribers (millions)	0.36	0.40	0.45	0.61	0.87	1.20	1.65	2.20	2.85	3.60	
% change	*44.0*	*11.1*	*12.5*	*35.6*	*42.6*	*37.9*	*37.5*	*33.3*	*29.5*	*26.3*	*32.8*
Average monthly fee (R)	565	550	530	480	430	400	380	360	340	325	
% change	*-27.6*	*-2.7*	*-3.6*	*-9.4*	*-10.4*	*-7.0*	*-5.0*	*-5.3*	*-5.6*	*-4.4*	*-5.4*
Broadband access spending (R millions)	2 441	2 640	2 862	3 514	4 489	5 760	7 524	9 504	11 628	14 040	
% change	*4.3*	*8.2*	*8.4*	*22.8*	*27.7*	*28.3*	*30.6*	*26.3*	*22.3*	*20.7*	*25.6*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Dial-up access market

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Subscribers (millions)	0.97	0.85	0.75	0.65	0.50	0.30	0.15	0.10	0.05	0.02	
% change	*-7.6*	*-12.4*	*-11.8*	*-13.3*	*-23.1*	*-40.0*	*-50.0*	*-33.3*	*-50.0*	*-60.0*	*-47.5*
Average monthly fee (R)	110	105	100	95	90	85	80	75	70	65	
% change	*-0.9*	*-4.5*	*-4.8*	*-5.0*	*-5.3*	*-5.6*	*-5.9*	*-6.3*	*-6.7*	*-7.1*	*-6.3*
Dial-up access spending (R millions)	1 280	1 071	900	741	540	306	144	90	42	16	
% change	*-8.5*	*-16.3*	*-16.0*	*-17.7*	*-27.1*	*-43.3*	*-52.9*	*-37.5*	*-53.3*	*-61.9*	*-50.5*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Dial-up market

Dial-up serves areas not reached by the wired or mobile broadband infrastructures and households that cannot afford or do not wish to pay for broadband.

During the next five years, as mobile and wired broadband availability increases, we expect dial-up subscribers to switch either to wired, mobile or satellite broadband.

Dial-up fees have been trending down in recent years and we expect these decreases to continue during the next five years with the average fee falling to R65 by 2016.

Dial-up access spending will drop from R540 million in 2011 to R16 million in 2016, a 50.5% compound annual decrease.

Mobile access

Most people who access the Internet in South Africa do so using a mobile device. The mobile Internet subscriber base rose 87.1% in 2011 to 5.8 million, reflecting a jump in smartphone penetration and rollouts of higher-speed services. It also reflects the growing shift to mobile across the entire entertainment and media industry.

Mobile Internet access extends access to entertainment and media beyond the home, allowing consumers to access content whenever and wherever they want. Cisco estimates that mobile traffic in South Africa will be 49 times higher in 2016 than in 2011.

The surge in smartphone use and the growth in mobile Internet subscriptions are putting strain on wireless networks. This is because smartphone users download 10-50 times as much data as users of feature phones, which are cell phones that do not have their own operating systems, generally cannot download apps and offer only limited access to the Internet. To sustain mobile Internet usage, wireless carriers are upgrading their networks to LTE, a 4G standard that provides up to 10 times the speed of 3G networks.

Rollouts of LTE services will increase access speeds and further propel the market. Although LTE licences have not yet been issued by ICASA, various mobile service providers have already started LTE trials and installed LTE base stations. MTN installed 200 LTE base stations in Gauteng running on 10Mhz of re-farmed 1 800MHz spectrum with speeds of 70Mbps, while Vodacom began an LTE trial in 2011 and has announced that approximately 60% of its base stations are LTE ready. Mobile service providers have noted that the biggest challenge to launching LTE commercially is the scarcity of spectrum. 8ta is currently upgrading its entire mobile network, which will assist in making its network LTE ready.

However, it is not expected that 8ta will launch LTE services before mid 2013. iBurst plans to roll out 2 500 LTE base stations in 2012 and has confirmed an LTE launch by the end of 2012, which will not exclude sharing its infrastructure with other service providers. iBurst currently holds frequencies in the 2.6Hz band, but this may be re-allocated when the spectrum is finally auctioned by the regulator. Although LTE is an exciting new technology that has the potential to significantly change the mobile access market, until the delayed analogue shutdown finally occurs in 2015, spectrum for LTE is expected to remain scarce.

By 2016, most mobile phones will be smartphones. Smartphones are particularly suited for mobile Internet access because of their touchscreen capabilities and full keyboards. Growth in smartphone penetration will be accompanied by growth in mobile Internet access. Smartphone penetration will be fuelled by lower handset prices specifically developed for lower-income markets.

In 2011, 11% of mobile telephone subscribers accessed the Internet through their mobile devices, a figure we project will rise to 40.5% by 2016. The number of mobile Internet subscribers will increase to 23.1 million in 2016, a 31.8% compound annual increase from 2011.

Average monthly spending on mobile access has declined in recent years. We expect growing competition to lead to continued declines in average prices during the next five years. By 2016, the average mobile subscriber will pay R100 per month compared with R175 per month in 2011.

Mobile Internet penetration will reach 77.5% in the United States in 2016 from 36.3% in 2011. As recently as 2009, only 9.5% of the US population accessed the Internet through mobile devices.

Source: Global entertainment and media outlook 2012-2016 (PwC, 2012)

Cell C recently announced standard data tariff plans for as low as 15c/MB. Cell C is also the second operator (after MTN) to introduce standard rates per megabyte irrespective of whether used in or out of bundle. In comparison, Vodacom's out-of-bundle rates are currently between R1 and R2/Mb. Due to the significant competition in the market and the fact that consumers require data packages that are tailored to their individual needs, mobile operators are offering various data packages at discounted prices to attract consumers. Bulk pre-paid data deals are currently offered at extremely low rates, such as Cell C's 24GB anytime prepaid data package for R1 299 (R0.05/GB), reduced from R2999. 8ta's 120GB promotion offers 60GB of anytime data and 60 GB of data available between 11pm and 5 am at R1 800 (R0.03/Mb).

For those not needing or not able to afford bulk data packages, Vodacom recently launched micro-data packages for as little as R5 for 5MB or R12 for 20MB. Users of these packages are also not required to commit to a contract. These packages are valid for use on the day of purchase only. MTN offers a similar service with 10MB for R10. Mobile operators also launched other data packages for light Internet users, such as MTN's Facebook and Mxit promotion for R29 per month, in which users don't gain access to the whole Internet, but only to these social networking sites.

The rest of Africa is leading the way with Movicel of Angola and MTC of Namibia being the first operators in Africa to deploy LTE services, followed by Emtel in Mauritius and Smile Technologies in Tanzania, who launched their commercial LTE services in May and June 2012 respectively.

Some mobile operators now also offer throttled uncapped data packages, although these packages do require that consumers enter into a 12 or 24-month contract. We expect data packages to become even cheaper and further tailored to the needs of the individual as mobile penetration, competition and network speed increase in the market.

Satellite broadband is also growing its service offerings in South Africa in order to provide connectivity to rural and farming communities. Telkom, Vodacom Business and Vox Telecom have recently introduced new satellite broadband offerings, on the Y1-B satellite, which is the first Ka-band satellite in Africa. Ka-band satellites transmit mainly highly-focused, overlapping 'spot beams', each covering a relatively small area, which allows for access to greater bandwidth at a lower cost. Vox, in conjunction with Abu Dhabi-based telecoms group Yahsat, has launched Yahclick, an affordable lower-cost, high-speed satellite broadband service marketed to both rural and outlying areas in South Africa.

The first Wi-Fi enabled flight took place in South Africa on 8 May 2012, through a partnership between Wireless G, Mango and Vodacom. This is a first for Africa, as well as for the entire Southern Hemisphere. The service starts at R50 per 3 hours of access. Mango is planning to have the service installed in all its planes by the end of the year. The second phase of the project is to offer live television services on flights.

Aggregate mobile Internet access spending will rise from R12.2 billion in 2011 to R27.7 billion in 2016, a 17.9% compound annual increase.

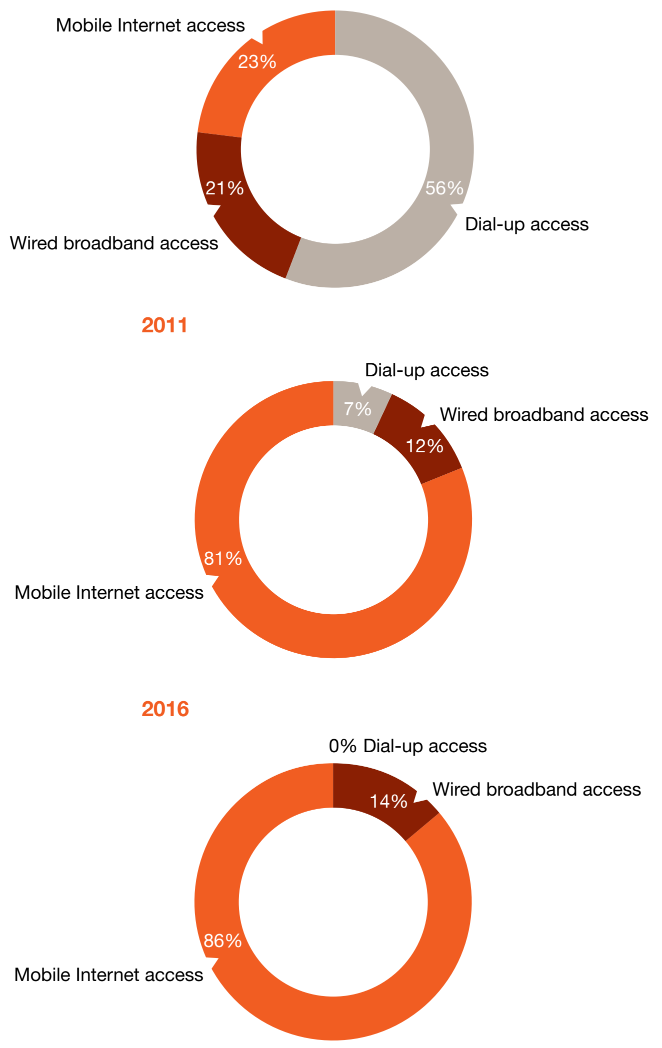
Mobile Internet access market

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Mobile telephone subscribers (millions)	42.3	45	46.4	50.4	52.5	54	55	56	56.5	57
Percent accessing Internet through mobile devices (%)	1	1.3	2.7	6.2	11	17.5	24	30	35.5	40.5
Mobile Internet access subscribers (millions)	0.4	0.6	1.3	3.1	5.8	9.5	13.2	16.8	20.1	23.1
Average monthly spending (R)	330	315	300	250	175	150	130	115	105	100
Aggregate annual spending (R millions)	1 584	2 268	4 680	9 300	12 180	17 100	20 592	23 184	25 326	27 720

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Internet access spending and advertising

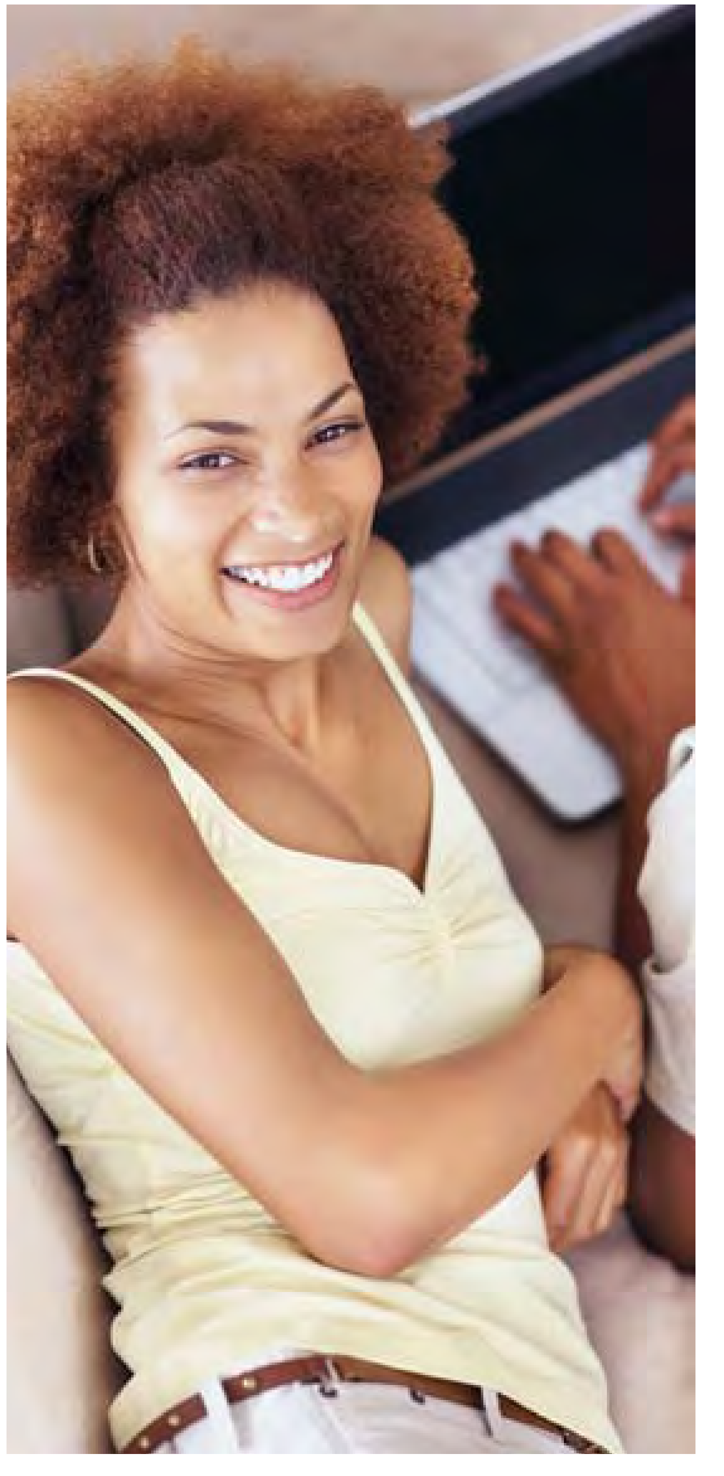
Figure 1.10: Internet access subscribers



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Bringing Internet to the masses

Small towns in SA are setting the trend for Wi-Fi access in South Africa. Knysna has a network that uses Wi-Fi at over 200 hotspots in most areas of the business district and some suburbs, while Stellenbosch has begun piloting a free Wi-Fi network to everyone in the town. Although large downloads are prohibited, all other services are supported.



Total wired access spending will grow at a projected 22.8% compound annual rate during the next five years from R5 billion in 2011 to R14.1 billion in 2016.

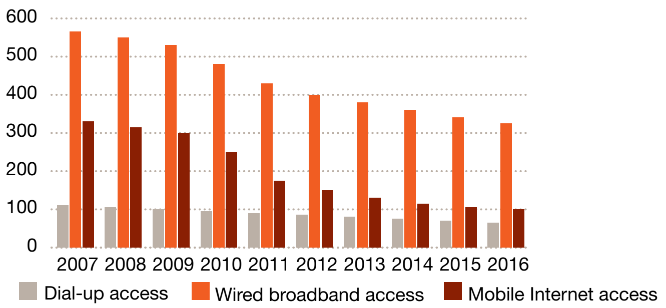
Total Internet access spending, including mobile access, will increase from R17.2 billion in 2011 to an estimated R41.8 billion in 2016, growing at a 19.4% compound annual rate.

Internet access spending (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Wired											
Dial-up	1 280	1 071	900	741	540	306	144	90	42	16	
% change	*-8.5*	*-16.3*	*-16.0*	*-17.7*	*-27.1*	*-43.3*	*-52.9*	*-37.5*	*-53.3*	*-61.9*	*-50.5*
Broadband	2 441	2 640	2 862	3 514	4 489	5 760	7 524	9 504	11 628	14 040	
% change	*4.3*	*8.2*	*8.4*	*22.8*	*27.7*	*28.3*	*30.6*	*26.3*	*22.3*	*20.7*	*25.6*
Wired total	3 721	3 711	3 762	4 255	5 029	6 066	7 668	9 594	11 670	14 056	
% change	*-0.5*	*-0.3*	*1.4*	*13.1*	*18.2*	*20.6*	*26.4*	*25.1*	*21.6*	*20.4*	*22.8*
Mobile	1 584	2 268	4 680	9 300	12 180	17 100	20 592	23 184	25 326	27 720	
% change	—	*43.2*	*106.3*	*98.7*	*31.0*	*40.4*	*20.4*	*12.6*	*9.2*	*9.5*	*17.9*
Total access spending	**5 305**	**5 979**	**8 442**	**13 555**	**17 209**	**23 166**	**28 260**	**32 778**	**36 996**	**41 776**	
% change	***41.9***	***12.7***	***41.2***	***60.6***	***27.0***	***34.6***	***22.0***	***16.0***	***12.9***	***12.9***	***19.4***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 1.11: Average monthly fee (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Advertising

Wired Internet advertising

Internet advertising rose at double-digit annual rates during the past two years, benefiting from share gains from the print media and rising broadband penetration. People are spending more time online and advertisers are spending more money to reach them. The Internet is also an increasingly important shopping channel and advertisers place value on reaching people when they are making purchases.

Most visited sites in South Africa

2012	2011
Google South Africa	Google South Africa
Facebook	Facebook
Google	Google
YouTube	YouTube
Yahoo!	Yahoo!
BidorBuy	Wikipedia
Gumtree	Twitter
Wikipedia	News24
News24	Blogger
LinkedIn	Gumtree

Most visited local sites in South Africa

Site	URL
News24	news24.co.za
Howzit	howzit.co.za
IOL	iol.co.za
MyBroadband	mybroadband.co.za
Sport24	sport24.co.za
SuperSport	supersport.co.za
TimesLive	timeslive.co.za
JunkMail	junkmail.co.za
Webmail	webmail.co.za
Vodacom	vodacom.co.za

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Internet access spending and advertising

The Internet also offers advertisers formats that are not available in other media. Search advertising allows advertisers to target their messages to the identified interests of the user as reflected by the searches they initiate.

Search engine sites are very popular in South Africa. Google South Africa was the leading website in 2011 in terms of visitors. The international Google site ranked third and Yahoo! was fifth. The ability to reach a selected audience known to have a specific interest in a product or service makes search an appealing format for advertisers, a functionality that is unavailable in other advertising forms.

The Internet also has an advantage over print in the classified advertising market because users can filter information to include only the information relevant for their individual needs. Classified advertising is also less expensive than print, can be easily changed, is typically not as limited in respect to the word count and can be inserted at any time. The inability of the print media to regain lost classified advertising is a major reason why print is losing share to the Internet.

The emergence of social media is yet another driver of Internet advertising. Social network sites are popular in South Africa with three social networking sites in the top 10 most visited sites in South Africa. Information sites such as Wikipedia, News24 and Independent Online (IOL) also are widely visited. Among local sites, News24, Howzit and IOL were the most visited in 2011. Sports sites also attract significant traffic in South Africa with Sport24 and SuperSport among the top 10 local sites visited.

And frankly, I will say this: I hate being marketed to personally. If I'm online researching whatever … I'm going to get the answer myself. I don't need somebody to tell me how to do it. Like I'm good, guys. I've got it covered … Don't call me, I'll call you.

Consumer, aged 35-54

Source: PwC Consumer Intelligence Series, "Consumer privacy: What are consumers willing to share" (PwC, 2012)

Sponsored search is the leading online advertising category at R300 million in 2011, more than half the R565 million in total spending. Google is the dominant search engine and the leader in generating search advertising. We expect search advertising to increase at a 28.1% compound annual rate to R1 billion in 2016.

Display was the fastest-growing category during the past two years, fuelled principally by advertising on social network sites. Social network sites are attracting large audiences, many of whom are young. Social networks are among the most-visited sites in South Africa.

Facebook was the leading social network site in South Africa in 2011 and the second-most visited site overall. YouTube ranked fourth overall and LinkedIn was the tenth most visited site. MXit and Twitter are also popular social network sites in South Africa.

The growing popularity of social networks is contributing to faster growth in display advertising. We project display advertising to continue to be the fastest-growing category, averaging 30.1% growth compounded annually to R692 million in 2016 from R186 million in 2011.

The remaining portion of the market consists of classified, rich media, video and other advertising. Classified advertising is very sensitive to the state of the economy, falling 11.3% in 2009 but rebounding thereafter with gains of 18.2% in 2010 and 21.5% in 2011. BidorBuy and Gumtree are popular classified advertising sites, ranking sixth and seventh most visited in 2011.

We project classified/other advertising to grow at an average of 23.2% compounded annually to R224 million in 2016 from R79 million in 2011.

Overall, wired Internet advertising will reach an estimated R2 billion in 2016, a 28.1% increase compounded annually from 2011.

Wired Internet advertising (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Search	117	179	193	239	300	420	560	718	876	1 034	
% change	*67.1*	*53.0*	*7.8*	*23.8*	*25.5*	*40.0*	*33.3*	*28.2*	*22.0*	*18.0*	*28.1*
Display	77	109	117	146	186	265	357	466	578	692	
% change	*54.0*	*41.6*	*7.3*	*24.8*	*27.4*	*42.5*	*34.7*	*30.5*	*24.0*	*19.7*	*30.1*
Classified/other	61	62	55	65	79	105	133	166	196	224	
% change	*1.7*	*1.6*	*-11.3*	*18.2*	*21.5*	*32.9*	*26.7*	*24.8*	*18.1*	*14.3*	*23.2*
Total	**255**	**350**	**365**	**450**	**565**	**790**	**1,050**	**1,350**	**1,650**	**1,950**	
% change	***41.7***	***37.3***	***4.3***	***23.3***	***25.6***	***39.8***	***32.9***	***28.6***	***22.2***	***18.2***	***28.1***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The Global Ads Chart powered by social video platform Unruly is published monthly and measures the success of online video advertising campaigns.

The number one ad in May 2012 was Nike's 'My time is now' featuring a star studded clash between France, and the Netherlands in the Euro 2012. It attracted more than 600 000 shares on Twitter, Facebook and the blogosphere in May alone.

Abercrombie and Fitch came in first in June 2012, with a video of various male models from A&F miming the popular track – *'Call me maybe'*. The ad got more than 1.3 million shares on social platforms in June.

Source: www.reelse.com

Internet access: the legal landscape...

Access to the Internet raises a range of legal issues as online advertisers, service providers and mobile carriers alike jostle for consumer attention. Social media marketing practitioners should comply with the legal requirements of traditional advertising and those presented by online activity. Internet Service Providers (ISPs) and mobile operators should take into account the provisions of the Electronic Communications Act and the Electronic Communications and Transactions Act, the prevailing legal instruments impacting the medium. The provisions of the Consumer Protection Act and the recommendations of standards set by industry bodies should also be taken into consideration. The following issues potentially raise liability in this arena:

- **Advertising:** Electronic communications licensees are required through their licences to comply with the ASA Code of Conduct.
- **Click fraud:** This occurs when a competitor repeatedly clicks on ad listings without intending to make a purchase. Search engines should install click protection systems and pay-per-click auditing services.
- **Customer registration:** Electronic communications service (ECS) providers are required to collect, verify and retain specified information.
- **Digital rights management:** Technical measures that protect digital information products.
- **Dissemination of defamatory material, hate speech, obscenity and indecency:** Ease of publication presented by the Internet requires service providers to be particularly mindful of the legal consequences for these actions.
- **False advertising:** All claims and statements about products and services on a website must be true, correct and complete.
- **Framing and linking:** The facilitation of public access to proprietary media content raises copyright issues. Permissions must be clarified in the website's Terms and Conditions of Use.
- **Interception and monitoring:** ISPs are under a statutory obligation to assist law enforcement authorities in this regard.
- **Internet service providers' liability:** There is no general obligation on ISPs to monitor services provided to customers, but action has to be taken once the ISP becomes aware of the unlawful content or conduct.
- **Keyword spamming:** Use of another entity's trademark to move customers away from the original trademark owner's website.
- **Licensing:** ISPs that do not own their own communications links will require an ECS licence.
- **Mobile Internet considerations:** Intellectual property rights, privacy, contractual obligations, labour law and jurisdiction need to be considered.
- **Online gambling:** Should ISPs provide services to the providers of illegal interactive gambling services and be aware of the activity, such ISPs may be seen as facilitating or acting as an accessory to the provision of illegal interactive gambling services.
- **Privacy:** Privacy rights are infringed when information is published and/or distributed without the provider's consent. New challenges presented by impending protection of personal information (POPI) legislation regarding social media marketing encompass the collection of personal information and how such information is handled by the collector.
- **Security:** The ECT Act provides for electronic communications security. Suppliers of goods and services are required to specify their security procedures and privacy policy. Where electronic payment is offered, such payment system must be sufficiently secure.
- **Social media:** Disclosures need to be regulated, such as unauthorised disclosure of confidential information and trade secrets, intellectual property infringement, loss of privacy, unauthorised publication of photographs, reputational harm, brand damage and loss of competitive advantage.

Denise Fouché - Technology Legal Advisory Services, PwC

Mobile advertising

Advertising delivered to mobile devices, excluding test message ads from carriers, totalled R113 million in 2011, more than twice the level in 2010.

Many wired sites also have mobile sites. News24, SuperSport, Sport24, IOL, JunkMail and Vodacom, which are among the most popular local wired sites are also are among the most visited local mobile sites.

Growing smartphone and tablet penetration and the launch of 4G wireless networks will boost entertainment and information consumption on mobile devices. Growth in mobile entertainment and information, in turn, will attract mobile advertising.

The principal driver of mobile advertising is growth in mobile Internet usage. The number of mobile Internet access subscribers is projected to increase from 5.8 million in 2011 to 23.1 million in 2016, which will significantly expand the reach of mobile advertising. Additionally, mobile phones can reach young people who are often difficult to reach through more traditional media formats.

Low mobile ad rates are attracting advertisers. Annual advertising per mobile Internet subscriber averaged less than R20 in 2011, compared with more than R400 per Internet household for wired Internet advertising. As the mobile access market expands, advertisers will allocate more resources to mobile advertising.

We expect that by 2016, annual advertising per mobile access subscriber will be R56.55, a 23.8% compound annual increase from 2011.

Aggregate mobile advertising will rise to a projected R1.3 billion in 2016, a 63.1% compound annual increase from 2011.

Mobile Internet advertising (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Mobile Internet subscribers (millions)	0.4	0.6	1.3	3.1	5.8	9.5	13.2	16.8	20.1	23.1	
% change		*50.0*	*116.7*	*138.5*	*87.1*	*63.8*	*38.9*	*27.3*	*19.6*	*14.9*	*31.8*
Annual mobile advertising per mobile subscriber	9.59	14.00	15.21	16.20	19.45	24.95	31.80	39.40	47.60	56.55	
% change		*46.0*	*8.6*	*6.5*	*20.1*	*28.3*	*27.5*	*23.9*	*20.8*	*18.8*	*23.8*
Aggregate mobile Internet advertising (R millions)	4	8	20	50	113	237	420	662	957	1 306	
% change		*100.0*	*150.0*	*150.0*	*126.0*	*109.7*	*77.2*	*57.6*	*44.6*	*36.5*	*63.1*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total Internet advertising

Total Internet advertising will increase from R678 million in 2011 to a forecast R3.3 billion in 2016, growing at a 36.9% compound annual rate.

Mobile advertising will account for an estimated 40.1% of total Internet advertising in 2016 compared with 16.7% in 2011.

Filter advertising and consumer spending data across segments.

Visit Outlook online at www.pwc.co.za/outlook

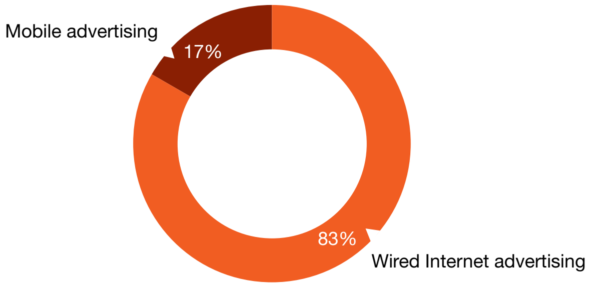
Internet advertising: wired and mobile (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Wired Internet advertising	255	350	365	450	565	790	1 050	1 350	1 650	1 950	
% change	*41.7*	*37.3*	*4.3*	*23.3*	*25.6*	*39.8*	*32.9*	*28.6*	*22.2*	*18.2*	*28.1*
Mobile advertising	4	8	20	50	113	237	420	662	957	1 306	
% change	–	*100.0*	*150.0*	*150.0*	*126.0*	*109.7*	*77.2*	*57.6*	*44.6*	*36.5*	*63.1*
Total advertising	**259**	**358**	**385**	**500**	**678**	**1 027**	**1 470**	**2 012**	**2 607**	**3 256**	
% change	*43.9*	*38.2*	*7.5*	*29.9*	*35.6*	*51.5*	*43.1*	*36.9*	*29.6*	*24.9*	*36.9*

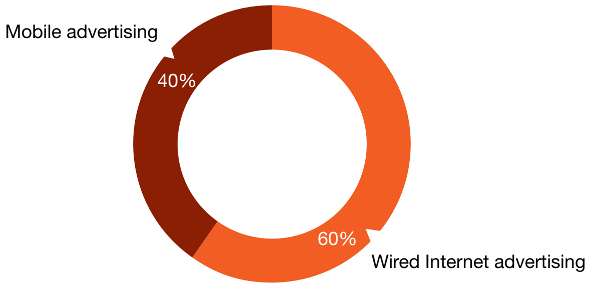
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 1.12: Distribution of wired Internet advertising spending

2011



2016



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer privacy – What are consumers willing to share?

Through PwC's ongoing consumer research programme in the United States, directional insights on consumer attitudes and behaviours in the rapidly changing media landscape are gained. In 2012, a two-phase programme was conducted to gain a better understanding of what consumer's online privacy habits and preferences are.

Today's consumers are eager for companies to deliver exciting, personalised services – and for the most part, they are willing to share personal information to get it. The majority of consumers have accepted the fact that companies collect and use their personal information, sharing basic information such as names, addresses, gender, and even home phone numbers.

But getting consumers to share more in-depth personal information, such as access to their mobile phone data or their behaviours and habits related to the Internet, games or media content, requires companies to offer something in return. Consumers expect benefits in exchange for their personal data, such as free goods or services, or even non-monetary incentives, such as not having to watch ads or getting exclusive updates about new stores or restaurants. Consumers also want companies to be transparent about what information they collect and how it will be used.

Above all, consumers want to be in control of their personal information. That means being able to 'opt out' or turn off the flow of information from companies. For businesses, this willingness to share information represents rich opportunities to reach and connect with consumers in new and exciting ways. Companies can encourage consumers to share more information by educating them about the benefits, being transparent about their practices, and marketing to younger demographics, which are more willing than their older counterparts to reveal personal data.

The key findings from the research indicate that:

- **Consumers will share their information if there is something in it for them.**
  The majority of survey respondents (73%) were willing to share personal information, depending on the benefits they will get in return.

- **The more personal the information, the less consumers are willing to share it.** Consumers are more willing to share broad demographic data and information about their use of media content because they see it as being less personal and more anonymous. However, consumers are less willing to share more sensitive information that might compromise their private interests, such as their web browsing history; information about their personal social lives, such as mobile texting data or call history; or information related to their identity or security such as social networking passwords, banking or financial information or their social security number.

  Although more than 50% of respondents are highly willing to share information such their gender/marital status, their TV programming preferences and online movie/video/gaming preferences, less than 20% are willing to share their web browsing history, cellphone number, medical or financial information or mobile SMS details.

- **Consumers want to feel in control.** Consumers want honesty and transparency. In our surveys, 80% of respondents said they were willing to share personal information if the company lets them know upfront how they are going to use it. Consumers feel more comfortable sharing information if they understand the benefits to them individually or as part of a larger group.

- **TV, media and gaming habits are fair game.** Most consumers (53-69%) are generally willing to share information about their media use, such as television habits, movie and video preferences, and online gaming behaviour, because they perceive this type of information as non-personal and they want better programming/gaming options.

- **My mobile is off limits.** Consumers are not willing to share mobile content, specifically, their conversations, text messages and contacts. Only 4- 11% of consumers were willing to share this information. This trend is driven by consumers' desire to protect what they consider to be their lifeline. Their cell phones and mobile devices are personal and they want to keep it that way. Consumers also recognise that they turn off their computers, but they never turn off their mobile.

  If a business uses their mobile to send information, the consumer feels like they can't escape.

- **Consumers prefer to share information via email** as it is considered less personal and allows them to have more control. Consumers feel that they are able to control the flow of information easier via email versus being on the receiving end of SMS text messages, which they can't turn off. As they consider their mobile devices to be more private, they prefer to be contacted via email as this does not feel like an intrusion on their privacy.

- **Don't overstep the privacy boundary.** Overall, consumers claim to have a fairly low privacy boundary. When presented with various scenarios related to the use of personal information, consumers thought being solicited by an unknown company was the most significant example of overstepping the privacy boundary – still, only 19% identified this as a problem. In comparison, 16% of consumers thought nothing crossed the privacy boundary. This shows that consumers have a high level of comfort with companies using their information.

  While consumers don't believe there is a lot that companies can do to overstep the privacy boundary, security breaches are a different story. The majority of respondents (61%) said they were not willing to continue to use a company's services or products after it experiences a security breach. It is therefore important for companies to re-consider the way in which they interact with consumers. It is all about making consumers feel in control and educating them about how their information is protected.

As there are distinct differences relating to sharing attitudes and behaviours targeted at younger versus older consumer segments, companies should consider targeting their advertising to meet the needs of these different segments. Companies should know that they will have to provide some sort of an incentive to consumers for them to share their information, especially when they want to use mobile marketing strategies.

Source: PwC Consumer Intelligence Series – Consumer privacy: What are consumers willing to share (PwC, 2012)

A lot of information, a lot of benefits. A little information, a little…

Consumer, aged 35- 54

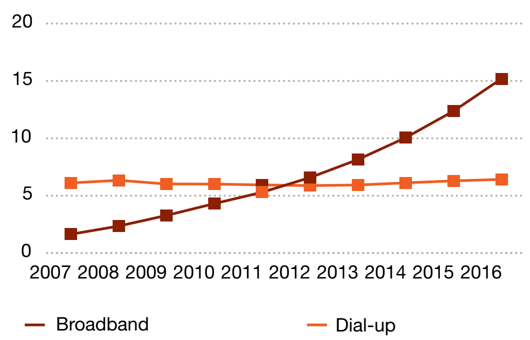
Internet access in Africa

Wired

Telecommunications infrastructure is not well developed in Africa. Only 7.3% of households in Africa were online in 2011. In Western Europe, by contrast, more than three-quarters of all households had an Internet subscription in 2011. Low telephone landline penetration and high costs limits the reach of the Internet in Africa.

Africa is the only region in the world where there are still more dial-up subscribers than broadband subscribers. We expect this to change in 2012 as broadband is taking off in a number of countries, with South Africa among the leaders in broadband growth. By 2016, there will be more than twice as many broadband households as dial-up households.

Figure 1.13: Internet households in Africa (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Broadband

South Africa is one of the more advanced countries in Africa, ranking third in the number of fixed broadband subscribers behind Egypt and Algeria. We project South Africa to pass Algeria in 2012.

With respect to broadband penetration, South Africa ranks fifth behind Mauritius, Tunisia, Algeria and Egypt. Higher broadband prices in South Africa limit penetration.

In many countries, fixed broadband is hardly available and is not expected to be readily available in the near term. Even in 2016, broadband household penetration will remain at less than 1% in Cameroon, Ethiopia, Côte d'Ivoire, Kenya, Madagascar, Malawi, Somalia, Tanzania, and Uganda.

Nevertheless, the international undersea cables that will benefit South Africa will also benefit many other countries in the region. We project the total number of broadband households in Africa to nearly triple during the next five years to 15.2 million in 2016 from 5.3 million in 2011, a 23.4% compound annual increase.

Fixed broadband households by country in Africa (millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Algeria	0.23	0.39	0.65	0.86	0.95	1.10	1.30	1.60	2.00	2.50	21.4
Angola	0.01	0.02	0.02	0.02	0.03	0.03	0.04	0.05	0.06	0.07	18.5
Botswana	†	0.01	0.01	0.01	0.01	0.02	0.02	0.03	0.04	0.05	38.0
Cameroon	†	†	†	†	†	†	0.01	0.01	0.01	0.01	–
Côte d'Ivoire	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.03	24.6
Egypt	0.37	0.62	0.94	1.29	1.65	2.10	2.60	3.20	4.00	5.00	24.8
Ethiopia	†	†	†	†	0.01	0.01	0.01	0.02	0.02	0.02	14.9
Ghana	0.01	0.02	0.03	0.04	0.06	0.09	0.13	0.18	0.25	0.35	42.3
Kenya	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	14.9
Libya	0.01	0.03	0.06	0.07	0.08	0.09	0.10	0.11	0.12	0.13	10.2
Madagascar	†	†	†	0.01	0.01	0.01	0.01	0.02	0.02	0.02	14.9
Malawi	†	†	†	0.01	0.01	0.01	0.02	0.02	0.02	0.03	24.6
Mauritius	0.03	0.04	0.06	0.08	0.09	0.10	0.12	0.14	0.16	0.18	14.9
Morocco	0.43	0.48	0.48	0.49	0.51	0.53	0.56	0.60	0.65	0.71	6.8
Namibia	†	†	†	0.01	0.01	0.01	0.02	0.02	0.02	0.03	24.6
Nigeria	0.03	0.06	0.08	0.09	0.12	0.16	0.20	0.25	0.30	0.35	23.9
Senegal	0.03	0.04	0.05	0.07	0.09	0.11	0.13	0.15	0.17	0.19	16.1
Somalia	†	†	†	†	†	†	†	†	†	†	–
South Africa	0.36	0.40	0.45	0.61	0.87	1.20	1.65	2.20	2.85	3.60	32.8
Sudan	0.02	0.04	0.10	0.16	0.17	0.20	0.24	0.29	0.35	0.42	19.8
Tanzania	†	†	†	†	†	0.01	0.01	0.01	0.01	0.02	–
Tunisia	0.07	0.16	0.30	0.43	0.55	0.70	0.85	1.00	1.15	1.30	18.8
Uganda	†	†	0.01	0.01	0.02	0.03	0.04	0.05	0.06	0.07	28.5
Zimbabwe	0.01	0.02	0.02	0.03	0.04	0.05	0.06	0.07	0.08	0.09	17.6
Total	**1.64**	**2.35**	**3.28**	**4.31**	**5.30**	**6.58**	**8.15**	**10.06**	**12.38**	**15.19**	**23.4**

†Fewer than 5 000 or data not available
Sources: International Telecommunication Union, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Broadband household penetration averaged only 3.4% in 2011. While growth on a percentage basis is expected to be robust, in absolute terms, penetration will remain low during the entire forecast period, rising to only 8.9% by 2016.

We expect that only in Mauritius and Tunisia will a majority of households have a broadband connection by 2016. We project South Africa to rank third in broadband penetration at 37.0% in 2016 with Algeria next at 33.7% followed by Egypt at 27.7%. We expect South Africa to pass both Algeria and Egypt in broadband penetration during the next five years.

We project Angola, Botswana and Morocco to be the only other countries to reach at least 10% penetration by 2016.

Fixed broadband household penetration by country in Africa (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Algeria	3.4	5.8	9.5	12.4	13.6	15.5	18.2	22.1	27.3	33.7
Angola	3.0	5.7	5.6	5.3	7.5	7.1	9.1	10.9	12.5	14.0
Botswana	–	2.6	2.5	2.4	2.4	4.8	4.7	7.0	9.1	11.4
Cameroon	–	–	–	–	–	–	0.2	0.2	0.2	0.2
Côte d'Ivoire	0.3	0.2	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.6
Egypt	2.4	4.0	6.0	8.0	10.0	12.5	15.2	18.4	22.6	27.7
Ethiopia	–	–	–	–	0.1	0.1	0.1	0.1	0.1	0.1
Ghana	0.2	0.4	0.6	0.8	1.2	1.8	2.5	3.4	4.6	6.2
Kenya	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Libya	0.8	2.4	4.8	5.4	6.1	6.7	7.3	7.9	8.4	9.0
Madagascar	–	–	–	0.2	0.2	0.2	0.2	0.4	0.4	0.4
Malawi	–	–	–	0.3	0.3	0.3	0.6	0.6	0.6	0.8
Mauritius	12.0	16.0	23.1	30.8	34.6	38.5	46.2	51.9	59.3	66.7
Morocco	7.0	7.8	7.7	7.7	8.0	8.2	8.6	9.1	9.7	10.5
Namibia	–	–	–	2.3	2.3	2.3	4.5	4.5	4.5	6.7
Nigeria	0.1	0.2	0.3	0.3	0.4	0.5	0.6	0.8	0.9	1.0
Senegal	1.2	1.5	1.8	2.5	3.1	3.7	4.3	4.8	5.3	5.8
Somalia	–	–	–	–	–	–	–	–	–	–
South Africa	3.7	4.1	4.7	6.3	9.0	12.4	17.0	22.7	29.4	37.0
Sudan	0.3	0.5	1.2	1.9	2.0	2.3	2.7	3.2	3.7	4.4
Tanzania	–	–	–	–	–	0.1	0.1	0.1	0.1	0.2
Tunisia	3.4	7.7	14.3	20.3	25.7	32.4	39.0	45.5	51.8	58.0
Uganda	–	–	0.2	0.1	0.3	0.4	0.5	0.6	0.8	0.8
Zimbabwe	0.4	0.9	0.9	1.3	1.7	2.0	2.3	2.5	2.8	3.0
Total	**1.2**	**1.6**	**2.2**	**2.9**	**3.4**	**4.2**	**5.1**	**6.1**	**7.4**	**8.9**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Broadband access spending in Africa will increase from R24.2 billion in 2011 to a projected R52.1 billion in 2016, a 16.6% compound annual increase.

South Africa, which comprised 19% of African broadband access spending in 2011, will generate 34% of the total increase during the next five years. In absolute terms, South Africa will be the fastest-growing country.

In percentage terms, we project Ghana and Botswana to grow faster, but from much smaller bases.

Fixed broadband access spending by country in Africa (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Algeria	1 449	2 153	3 354	4 128	4 218	4 488	4 992	5 760	6 720	8 100	13.9
Angola	63	110	103	96	133	122	154	180	202	227	11.3
Botswana	†	55	52	48	44	82	77	108	134	162	29.8
Cameroon	†	†	†	†	†	†	38	36	34	32	–
Côte d'Ivoire	63	55	52	48	44	41	77	72	67	97	17.1
Egypt	2 331	3 422	4 850	6 192	7 326	8 568	9 984	11 520	13 440	16 200	17.2
Ethiopia	†	†	†	†	44	41	38	72	67	65	8.1
Ghana	63	110	155	192	266	367	499	648	840	1 134	33.6
Kenya	126	55	52	48	44	43	42	82	79	77	11.8
Libya	63	166	310	336	355	389	420	449	475	499	7.0
Madagascar	†	†	†	48	44	41	38	72	67	65	8.1
Malawi	†	†	†	48	44	41	77	72	67	97	17.1
Mauritius	189	221	310	384	400	408	461	504	538	583	7.8
Morocco	2 709	2 650	2 477	2 352	2 264	2 290	2 352	2 448	2 574	2 726	3.8
Namibia	†	†	†	48	44	41	77	72	67	97	17.1
Nigeria	189	331	413	432	533	653	768	900	1 008	1 134	16.3
Senegal	189	221	258	336	400	449	499	540	571	616	9.0
Somalia	†	†	†	†	†	†	†	†	†	†	–
South Africa	2 441	2 640	2 862	3 514	4 489	5 760	7 524	9,504	11,628	14,040	25.6
Sudan	126	221	516	768	755	816	922	1 044	1 176	1 361	12.5
Tanzania	†	†	†	†	†	41	38	36	34	65	–
Tunisia	441	883	1 548	2 064	2 442	2 856	3 264	3 600	3 864	4 212	11.5
Uganda	†	†	52	48	89	122	154	180	202	227	20.6
Zimbabwe	63	110	103	144	178	204	230	252	269	292	10.4
Total	**10 505**	**13 403**	**17 467**	**21 274**	**24 156**	**27 863**	**32 725**	**38 151**	**44 123**	**52 108**	**16.6**

†Negligible or data not available
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Dial-up access

There is still a significant dial-up market in many countries. Angola, Cameroon, Ethiopia, Ghana, Côte d'Ivoire, Kenya, Libya, Malawi, Namibia, Nigeria, Somalia, Sudan, Tanzania, and Zimbabwe had more dial-up households than broadband households in 2011.

Even by 2016, there will still be 11 countries – Angola, Cameroon, Ethiopia, Kenya, Libya, Malawi, Namibia, Nigeria, Somalia, Tanzania and Zimbabwe – where the dial-up household universe will still be larger than the fixed broadband household universe.

In absolute terms, South Africa has one of the largest dial-up markets in Africa, tied with Tanzania and behind Nigeria, Egypt and Libya.

In some countries, dial-up is still in its expansion phase, while in others – Egypt, Mauritius, South Africa, Sudan and Tunisia – there will be fewer dial-up households in 2016 than in 2011 as these countries have more developed broadband markets.

The overall number of dial-up households in Africa will increase at a projected 1.6% compound annual rate from 5.9 million in 2011 to 6.4 million in 2016.

Dial-up households by country in Africa (millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Algeria	0.30	0.31	0.33	0.36	0.40	0.44	0.48	0.52	0.56	0.58	7.7
Angola	0.09	0.09	0.10	0.11	0.12	0.13	0.14	0.15	0.16	0.17	7.2
Botswana	†	†	†	†	†	†	†	†	†	†	–
Cameroon	0.02	0.03	0.04	0.05	0.06	0.07	0.08	0.09	0.10	0.11	12.9
Côte d'Ivoire	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.0
Egypt	2.25	1.97	1.49	1.20	1.00	0.80	0.70	0.60	0.50	0.40	-16.7
Ethiopia	0.03	0.30	0.05	0.08	0.10	0.12	0.14	0.16	0.18	0.20	14.9
Ghana	0.01	0.01	0.04	0.08	0.10	0.12	0.14	0.16	0.18	0.20	14.9
Kenya	0.21	0.21	0.20	0.19	0.20	0.21	0.22	0.23	0.24	0.25	4.6
Libya	0.09	0.35	0.69	0.80	0.85	0.90	0.92	0.95	0.97	1.00	3.3
Madagascar	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.0
Malawi	0.06	0.09	0.13	0.16	0.19	0.22	0.25	0.28	0.31	0.33	11.7
Mauritius	0.06	0.05	0.04	0.03	0.02	0.01	0.01	0.01	0.01	0.01	-12.9
Morocco	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.0
Namibia	0.08	0.10	0.11	0.12	0.13	0.13	0.13	0.14	0.15	0.16	4.2
Nigeria	1.18	1.20	1.22	1.25	1.30	1.35	1.40	1.45	1.50	1.55	3.6
Senegal	†	†	†	†	†	†	†	†	†	†	–
Somalia	0.04	0.05	0.06	0.07	0.08	0.09	0.10	0.11	0.12	0.13	10.2
South Africa	0.97	0.85	0.75	0.65	0.50	0.30	0.15	0.10	0.05	0.02	-47.5
Sudan	0.28	0.27	0.26	0.24	0.22	0.21	0.20	0.19	0.18	0.17	-5.0
Tanzania	0.15	0.21	0.32	0.44	0.50	0.60	0.70	0.80	0.90	0.95	13.7
Tunisia	0.15	0.11	0.05	0.04	0.03	0.02	0.01	0.01	0.01	0.01	-19.7
Uganda	0.01	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.03	0.03	8.4
Zimbabwe	0.09	0.08	0.08	0.08	0.08	0.09	0.09	0.10	0.10	0.11	6.6
Total	**6.11**	**6.34**	**6.02**	**6.01**	**5.94**	**5.88**	**5.93**	**6.12**	**6.29**	**6.42**	**1.6**

†Fewer than 5,000 or data not available
Sources: International Telecommunication Union, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Dial-up household penetration in Africa averaged 3.9% in 2011. We expect this average to dip to 3.7% during the next three years and then edge up to 3.8% in 2015-16.

Libya had by far the highest dial-up penetration at 64.4% in 2011, followed by Namibia at 30.2% and Angola at 30%. We expect these countries to continue to dominate Africa with respect to dial-up penetration.

Dial-up household penetration by country in Africa (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Algeria	4.5	4.6	4.8	5.2	5.7	6.2	6.7	7.2	7.6	7.8
Angola	27.3	25.7	27.8	28.9	30.0	31.0	31.8	32.6	33.3	34.0
Botswana	–	–	–	–	–	–	–	–	–	–
Cameroon	0.6	0.8	1.1	1.3	1.5	1.7	1.9	2.1	2.3	2.5
Egypt	14.9	12.8	9.4	7.5	6.1	4.8	4.1	3.5	2.8	2.2
Côte d'Ivoire	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Ethiopia	0.2	1.8	0.3	0.5	0.6	0.6	0.7	0.8	0.9	0.9
Ghana	0.2	0.2	0.8	1.6	2.0	2.4	2.7	3.0	3.3	3.5
Kenya	2.8	2.8	2.6	2.4	2.4	2.5	2.6	2.6	2.7	2.7
Libya	7.4	28.2	54.8	62.0	64.4	66.7	67.2	67.9	67.8	69.0
Madagascar	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Malawi	2.1	3.1	4.3	5.2	6.0	6.7	7.4	8.1	8.8	9.1
Mauritius	24.0	20.0	15.4	11.5	7.7	3.8	3.8	3.7	3.7	3.7
Morocco	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Namibia	19.5	23.8	26.2	27.9	30.2	30.2	29.5	31.8	34.1	35.6
Nigeria	4.1	4.1	4.1	4.1	4.2	4.3	4.3	4.4	4.5	4.5
Senegal	–	–	–	–	–	–	–	–	–	–
Somalia	2.2	2.6	3.0	3.5	3.8	4.2	4.5	4.9	5.2	5.5
South Africa	10.1	8.8	7.8	6.7	5.2	3.1	1.5	1.0	0.5	0.2
Sudan	3.6	3.4	3.2	2.9	2.6	2.4	2.2	2.1	1.9	1.8
Tanzania	1.9	2.6	3.9	5.3	5.8	6.9	7.9	8.8	9.7	10.1
Tunisia	7.3	5.3	2.4	1.9	1.4	0.9	0.5	0.5	0.5	0.4
Uganda	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Zimbabwe	3.9	3.5	3.5	3.4	3.3	3.6	3.4	3.6	3.5	3.7
Total	**4.3**	**4.4**	**4.1**	**4.0**	**3.9**	**3.7**	**3.7**	**3.7**	**3.8**	**3.8**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In terms of spending, Nigeria had the largest dial-up market at R1.4 billion in 2011, with Egypt next at R1.1 billion.

Declining prices in some countries and decreases in the number of dial-up households will lead to declines in overall dial-up access spending during the next five years. Overall dial-up access spending will fall to R5.5 billion in 2016, a 3.2% compound annual decline from R6.5 billion in 2011.

Dial-up access spending by country in Africa (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Algeria	396	391	396	410	432	449	461	468	470	452	0.9
Angola	119	113	120	125	130	133	134	135	134	133	0.5
Botswana	†	†	†	†	†	†	†	†	†	†	–
Cameroon	26	38	48	57	65	71	77	81	84	86	5.8
Côte d'Ivoire	26	25	24	23	22	20	19	18	17	16	-6.2
Egypt	2 970	2 482	1 788	1 368	1 080	816	672	540	420	312	-22.0
Ethiopia	40	378	60	91	108	122	134	144	151	156	7.6
Ghana	17	17	66	128	155	181	206	228	249	269	11.7
Kenya	277	265	240	217	216	227	238	248	259	270	4.6
Libya	119	441	828	912	918	972	994	1 026	1 048	1 080	3.3
Madagascar	13	13	12	11	11	10	10	9	8	8	-6.2
Malawi	79	113	156	182	205	224	240	252	260	257	4.6
Mauritius	79	63	48	34	22	10	10	9	8	8	-18.3
Morocco	13	13	12	11	11	11	11	11	11	11	0.0
Namibia	106	126	132	137	140	133	125	126	126	125	-2.2
Nigeria	1 558	1 512	1 464	1 425	1 404	1 377	1 344	1 305	1 260	1 209	-2.9
Senegal	†	†	†	†	†	†	†	†	†	†	–
Somalia	53	63	72	80	86	92	96	99	101	101	3.3
South Africa	1 280	1 071	900	741	540	306	144	90	42	16	-50.5
Sudan	370	340	312	274	238	214	192	171	151	133	-11.0
Tanzania	198	265	384	502	540	612	672	720	756	741	6.5
Tunisia	198	139	60	46	32	20	10	9	8	8	-24.2
Uganda	13	25	24	23	22	31	29	27	25	23	0.9
Zimbabwe	119	101	96	91	86	92	86	90	84	86	0.0
Total	**8 069**	**7 994**	**7 242**	**6 888**	**6 463**	**6 123**	**5 904**	**5 806**	**5 672**	**5 500**	**-3.2**

†Negligible or data not available
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total wired Internet access

There were 11.2 million wired Internet households in 2011, a figure we project will rise to 21.6 million in 2016, a 14.0% compound annual increase.

Egypt will have the largest market in absolute terms with 5.4 million Internet households in 2016. South Africa will be next with 3.6 million, followed by Algeria with 3.1 million. These three countries will comprise 56% of all Internet households in Africa in 2016.

Nigeria, Tunisia and Libya will be the only other countries to have more than 1 million Internet households in 2016.

Wired Internet households by country in Africa (millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Algeria	0.53	0.70	0.98	1.22	1.35	1.54	1.78	2.12	2.56	3.08	17.9
Angola	0.10	0.11	0.12	0.13	0.15	0.16	0.18	0.20	0.22	0.24	9.9
Botswana	0.00	0.01	0.01	0.01	0.01	0.02	0.02	0.03	0.04	0.05	38.0
Cameroon	0.02	0.03	0.04	0.05	0.06	0.07	0.09	0.10	0.11	0.12	14.9
Côte d'Ivoire	0.03	0.03	0.03	0.03	0.03	0.03	0.04	0.04	0.04	0.05	10.8
Egypt	2.62	2.59	2.43	2.49	2.65	2.90	3.30	3.80	4.50	5.40	15.3
Ethiopia	0.03	0.30	0.05	0.08	0.11	0.13	0.15	0.18	0.20	0.22	14.9
Ghana	0.02	0.03	0.07	0.12	0.16	0.21	0.27	0.34	0.43	0.55	28.0
Kenya	0.23	0.22	0.21	0.20	0.21	0.22	0.23	0.25	0.26	0.27	5.2
Libya	0.10	0.38	0.75	0.87	0.93	0.99	1.02	1.06	1.09	1.13	4.0
Madagascar	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.03	0.03	0.03	8.4
Malawi	0.06	0.09	0.13	0.17	0.20	0.23	0.27	0.30	0.33	0.36	12.5
Mauritius	0.09	0.09	0.10	0.11	0.11	0.11	0.13	0.15	0.17	0.19	11.6
Morocco	0.44	0.49	0.49	0.50	0.52	0.54	0.57	0.61	0.66	0.72	6.7
Namibia	0.08	0.10	0.11	0.13	0.14	0.14	0.15	0.16	0.17	0.19	6.3
Nigeria	1.21	1.26	1.30	1.34	1.42	1.51	1.60	1.70	1.80	1.90	6.0
Senegal	0.03	0.04	0.05	0.07	0.09	0.11	0.13	0.15	0.17	0.19	16.1
Somalia	0.04	0.05	0.06	0.07	0.08	0.09	0.10	0.11	0.12	0.13	10.2
South Africa	1.33	1.25	1.20	1.26	1.37	1.50	1.80	2.30	2.90	3.62	21.5
Sudan	0.30	0.31	0.36	0.40	0.39	0.41	0.44	0.48	0.53	0.59	8.6
Tanzania	0.15	0.21	0.32	0.44	0.50	0.61	0.71	0.81	0.91	0.97	14.2
Tunisia	0.22	0.27	0.35	0.47	0.58	0.72	0.86	1.01	1.16	1.31	17.7
Uganda	0.01	0.02	0.03	0.03	0.04	0.06	0.07	0.08	0.09	0.10	20.1
Zimbabwe	0.10	0.10	0.10	0.11	0.12	0.14	0.15	0.17	0.18	0.20	10.8
Total	**7.75**	**8.69**	**9.30**	**10.32**	**11.24**	**12.46**	**14.08**	**16.18**	**18.67**	**21.61**	**14.0**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

With respect to household penetration, Libya was the leader in 2011 at 70.5%, most of which was dial-up. Mauritius was next at 42.3% with Angola and Namibia above 30% and Tunisia at 27.1%. South Africa ranked only eighth at 14.2%.

By 2016, Libya and Mauritius will have penetration rates above 70%, Tunisia will be at 58.5%, and Angola, Namibia, and Algeria will be above 40%. South Africa will follow at 37.2% with Egypt next at 30%.

Overall Internet household penetration will average 12.6% in 2016 from 7.3% in 2011.

Wired Internet household penetration by country in Africa (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Algeria	7.9	10.4	14.3	17.6	19.3	21.8	24.9	29.2	34.9	41.6
Angola	30.3	31.4	33.3	34.2	37.5	38.1	40.9	43.5	45.8	48.0
Botswana	0.0	2.6	2.5	2.4	2.4	4.8	4.7	7.0	9.1	11.4
Cameroon	0.6	0.8	1.1	1.3	1.5	1.7	2.2	2.4	2.6	2.7
Côte d'Ivoire	0.8	0.7	0.7	0.7	0.7	0.7	0.9	0.9	0.9	1.1
Egypt	17.3	16.8	15.4	15.5	16.1	17.3	19.3	21.9	25.4	30.0
Ethiopia	0.2	1.8	0.3	0.5	0.6	0.7	0.8	0.9	1.0	1.0
Ghana	0.4	0.6	1.5	2.5	3.2	4.2	5.2	6.4	7.8	9.8
Kenya	3.1	2.9	2.7	2.5	2.6	2.6	2.7	2.8	2.9	2.9
Libya	8.3	30.6	59.5	67.4	70.5	73.3	74.5	75.7	76.2	77.9
Madagascar	0.3	0.2	0.2	0.5	0.5	0.4	0.4	0.6	0.6	0.6
Malawi	2.1	3.1	4.3	5.5	6.3	7.1	8.0	8.7	9.3	9.9
Mauritius	36.0	36.0	38.5	42.3	42.3	42.3	50.0	55.6	63.0	70.4
Morocco	7.2	7.9	7.8	7.9	8.1	8.4	8.7	9.2	9.9	10.7
Namibia	19.5	23.8	26.2	30.2	32.6	32.6	34.1	36.4	38.6	42.2
Nigeria	4.2	4.3	4.4	4.4	4.6	4.8	5.0	5.2	5.4	5.6
Senegal	1.2	1.5	1.8	2.5	3.1	3.7	4.3	4.8	5.3	5.8
Somalia	2.2	2.6	3.0	3.5	3.8	4.2	4.5	4.9	5.2	5.5
South Africa	13.8	13.0	12.4	13.0	14.2	15.5	18.6	23.7	29.9	37.2
Sudan	3.8	3.9	4.4	4.8	4.5	4.7	4.9	5.2	5.7	6.2
Tanzania	1.9	2.6	3.9	5.3	5.8	7.0	8.0	8.9	9.8	10.3
Tunisia	10.7	13.0	16.7	22.2	27.1	33.3	39.4	45.9	52.3	58.5
Uganda	0.2	0.3	0.5	0.4	0.6	0.8	0.9	1.0	1.1	1.2
Zimbabwe	4.4	4.4	4.4	4.7	5.0	5.6	5.7	6.2	6.3	6.7
Total	**5.5**	**6.0**	**6.3**	**6.8**	**7.3**	**7.9**	**8.8**	**9.9**	**11.1**	**12.6**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Egypt had the largest Internet access spending market in 2011 at R8.4 billion with South Africa next at R5 billion.

Egypt will continue to have the largest market, growing to R16.5 billion in 2016 with South Africa remaining second at R14.1 billion. They will be followed by Algeria at R8.6 billion and Tunisia at R4.2 billion.

Total wired Internet access spending in Africa will increase from R30.6 billion in 2011 to R57.6 billion in 2016, a 13.5% compound annual advance.

Wired Internet access spending by country in Africa (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Algeria	1 845	2 544	3 750	4 538	4 650	4 937	5 453	6 228	7 190	8 552	13.0
Angola	182	223	223	221	263	255	288	315	336	360	6.5
Botswana	0	55	52	48	44	82	77	108	134	162	29.8
Cameroon	26	38	48	57	65	71	115	117	118	118	12.7
Côte d'Ivoire	89	80	76	71	66	61	96	90	84	113	11.4
Egypt	5 301	5 904	6 638	7 560	8 406	9 384	10 656	12 060	13 860	16 512	14.5
Ethiopia	40	378	60	91	152	163	172	216	218	221	7.8
Ghana	80	127	221	320	421	548	705	876	1 089	1 403	27.2
Kenya	403	320	292	265	260	270	280	330	338	347	5.9
Libya	182	607	1 138	1 248	1 273	1 361	1 414	1 475	1 523	1 579	4.4
Madagascar	13	13	12	59	55	51	48	81	75	73	5.8
Malawi	79	113	156	230	249	265	317	324	327	354	7.3
Mauritius	268	284	358	418	422	418	471	513	546	591	7.0
Morocco	2 722	2 663	2 489	2 363	2 275	2 301	2 363	2 459	2 585	2 737	3.8
Namibia	106	126	132	185	184	174	202	198	193	222	3.8
Nigeria	1 747	1 843	1 877	1 857	1 937	2 030	2 112	2 205	2 268	2 343	3.9
Senegal	189	221	258	336	400	449	499	540	571	616	9.0
Somalia	53	63	72	80	86	92	96	99	101	101	3.3
South Africa	3 721	3 711	3 762	4 255	5 029	6 066	7 668	9 594	11 670	14 056	22.8
Sudan	496	561	828	1 042	993	1 030	1 114	1 215	1 327	1 494	8.5
Tanzania	198	265	384	502	540	653	710	756	790	806	8.3
Tunisia	639	1 022	1 608	2 110	2 474	2 876	3 274	3 609	3 872	4 220	11.3
Uganda	13	25	76	71	111	153	183	207	227	250	17.6
Zimbabwe	182	211	199	235	264	296	316	342	353	378	7.4
Total	**18 574**	**21 397**	**24 709**	**28 162**	**30 619**	**33 986**	**38 629**	**43 957**	**49 795**	**57 608**	**13.5**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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Global trends in Internet access spending

Outlook

- We project that total global spending on wired and mobile Internet access will increase from $317 billion in 2011 to$493.4 billion in 2016, a 9.3% compound annual growth rate.
- Global wired broadband access, the largest component at $179.3 billion in 2011, is projected to grow at an 8.2% compound annual rate to $265.3 billion in 2016.
- Dial-up will continue to decline, falling to $3.8 billion from $11.7 billion in 2011, a 20.0% compound annual decrease.
- Total wired Internet access spending will increase at a 7.1% compound annual rate from $190.9 billion to $269.1 billion in 2016.
- Global mobile Internet access spending totalled $126.1 billion in 2011. Its growth during the forecast period will outpace wired access spending by a wide margin. We expect mobile access spending will increase to $224.3 billion in 2016, a 12.2% compound annual increase.

Key drivers

- Fibre network rollouts and the extension of the broadband infrastructure into under-served areas will drive broadband subscriptions and fuel broadband spending.
- Rising prices for premium services will further boost average monthly spending in many countries.
- As broadband becomes increasingly available, dial-up will continue to decline.
- In the mobile market, the enormous popularity of smartphones is driving penetration. Fuelled principally by a new wave of smartphone launches, mobile subscribership soared in 2011 and mobile access spending jumped 30.5%.
- Carriers are now rolling out third-generation (3G) and fourth-generation (4G) wireless networks to provide faster speeds and to accommodate surging data traffic.
- Wireless network upgrades, enabled by improved wireless technologies and high-bandwidth cell site backhaul, will sustain mobile access growth.

Global trends in Internet advertising spending

Outlook

- Overall global spending on Internet advertising, both wired and mobile, will rise from $89.8 billion in 2011 to $188.1 billion in 2016, a 15.9% compound annual growth rate.
- Paid search advertising, the largest single component of the market, will rise to $78.1 billion in 2016, a 13.8% compound annual increase from $40.9 billion in 2011.
- Banner/display advertising will advance at a 12.6% compound annual rate from $25.7 billion in 2011 to $46.6 billion in 2016.
- Online classified advertising will increase from $15.1 billion in 2011 to $26.4 billion in 2016, 11.8% growth on a compound annual basis.
- Online video advertising will more than quadruple to $12.6 billion in 2016 from $2.9 billion in 2011, a 33.9% compound annual increase.
- Total global wired Internet advertising will reach $163.6 billion in 2016 from $84.6 billion in 2011, a 14.1% compound annual increase.
- Mobile advertising will grow much faster, rising to $24.5 billion in 2016 from $5.2 billion in 2011, a 36.5% compound annual increase.

Key drivers

- Broadband household growth will be the main driver of wired Internet advertising.
- Paid search, a format not available in other media, will continue to attract spending to the Internet.
- Increasing traffic on social networking sites and growing time spent online are attracting advertising and fuelling growth in banner/display advertising.
- Online classified advertising will gain share from the print media and will benefit from improving economic conditions in certain countries.
- Faster broadband speeds and increased TV streaming from broadcasters and over-the-top providers will drive online video advertising.
- Growing tablet and smartphone penetration and growth in the mobile Internet access subscriber base will boost mobile advertising.

Global Internet access market: wired and mobile by component (US$ millions)

	2007	2008	2009	2010	2011p	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Dial-up	25 371	19 872	16 402	13 911	11 654	9 305	7 075	5 685	4 629	3 819	
% change	*-19.1*	*-21.7*	*-17.5*	*-15.2*	*-16.2*	*-20.2*	*-24.0*	*-19.6*	*-18.6*	*-17.5*	*-20.0*
Broadband	124 602	141 644	153 393	165 319	179 260	193 752	209 913	226 843	245 613	265 294	
% change	*19.4*	*13.7*	*8.3*	*7.8*	*8.4*	*8.1*	*8.3*	*8.1*	*8.3*	*8.0*	*8.2*
Total wired access	149 973	161 516	169 795	179 230	190 914	203 057	216 988	232 528	250 242	269 113	
% change	*10.5*	*7.7*	*5.1*	*5.6*	*6.5*	*6.4*	*6.9*	*7.2*	*7.6*	*7.5*	*7.1*
Mobile access	53 845	67 234	80 735	96 242	126 058	147 949	169 867	187 310	205 867	224 277	
% change	*38.8*	*24.9*	*20.1*	*19.2*	*31.0*	*17.4*	*14.8*	*10.3*	*9.9*	*8.9*	*12.2*
Total	**203 818**	**228 750**	**250 530**	**275 472**	**316 972**	**351 006**	**386 855**	**419 838**	**456 109**	**493 390**	
% change	***16.8***	***12.2***	***9.5***	***10.0***	***15.1***	***10.7***	***10.2***	***8.5***	***8.6***	***8.2***	***9.3***

Global Internet advertising market: wired and mobile by component (US$ millions)

	2007	2008	2009	2010	2011p	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Wired Internet advertising											
Search	21 742	26 436	28 928	33 937	40 884	47 476	54 780	62 454	70 256	78 083	
% change	*36.7*	*21.6*	*9.4*	*17.3*	*20.5*	*16.1*	*15.4*	*14.0*	*12.5*	*11.1*	*13.8*
Banner/ display†	17 461	19 330	19 390	22 595	25 687	29 250	33 426	37 608	42 024	46 575	
% change	*29.4*	*10.7*	*0.3*	*16.5*	*13.7*	*13.9*	*14.3*	*12.5*	*11.7*	*10.8*	*12.6*
Classified	11 409	13 139	11 881	13 746	15 100	16 930	19 033	21 364	23 831	26 351	
% change	*25.7*	*15.2*	*-9.6*	*15.7*	*9.9*	*12.1*	*12.4*	*12.2*	*11.5*	*10.6*	*11.8*
Video	569	986	1 304	2 065	2 921	4 063	5 436	7 267	9 647	12 572	
% change	*90.9*	*73.3*	*32.3*	*58.4*	*41.5*	*39.1*	*33.8*	*33.7*	*32.8*	*30.3*	*33.9*
Total wired Internet advertising	51 181	59 891	61 503	72 343	84 592	97 719	112 675	128 693	145 758	163 581	
% change	*32.0*	*17.0*	*2.7*	*17.6*	*16.9*	*15.5*	*15.3*	*14.2*	*13.3*	*12.2*	*14.1*
Mobile advertising	938	1 770	2 398	3 251	5 174	7 692	10 836	14 592	19 150	24 488	
% change	*69.9*	*88.7*	*35.5*	*35.6*	*59.2*	*48.7*	*40.9*	*34.7*	*31.2*	*27.9*	*36.5*
Total	**52 119**	**61 661**	**63 901**	**75 594**	**89 766**	**105 411**	**123 511**	**143 285**	**164 908**	**188 069**	
% change	***32.5***	***18.3***	***3.6***	***18.3***	***18.7***	***17.4***	***17.2***	***16.0***	***15.1***	***14.0***	***15.9***

†Includes other advertising in North America

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, Global entertainment and media outlook 2012 -2016 (PwC, 2012)

Chapter 3

Television

Louis de Jager
Manager, PwC Southern Africa

The television market consists of revenues derived from content distribution and advertising (including mobile television).

The television subscription and licence fee market consists of revenues generated by distributors of television programming to viewers. It includes spending by consumers on subscriptions to basic and premium channels accessed from satellite providers, telephone companies as well as public television licence fees.

The television advertising market consists of advertiser spending in and around TV programmes that are distributed over the air, through satellite or other TV distribution services, advertising on TV websites and mobile TV advertising. Net television advertising figures consist of spending minus agency commissions and discounts.

Multichannel advertising refers to advertising on networks that are accessed by viewers via satellite broadcasting services. Terrestrial advertising consists of advertising generated by free-to-air broadcast networks that can be received through a traditional analogue television receiver even if viewers can also receive such service through a satellite service.

Television

Outlook

… at a glance

Television market total spending (R millions)	2011	2016	2012-16 CAGR(%)
	23 051	37 551	10.3

Television market (R millions)	2011	2016	2012-16 CAGR (%)
Broadcast advertising	10 000	14 500	7.7
Online TV advertising	13	44	27.6
Mobile TV advertising	2	40	82.1
Total TV advertising	**10 015**	**14 584**	**7.8**
Subscription spending	11 988	21 831	12.7
Public television license fees	1 042	1 081	0.7
Mobile TV subscriptions	6	55	55.8
Total TV subscriptions	**13 036**	**22 967**	**12.0**
Total spending	**23 051**	**37 551**	**10.3**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

…in brief

- Digital terrestrial television is expected to be launched later in 2012, eventually freeing up spectrum for both mobile as well as for the launch of additional television channels.
- The competition in the paid television market is expected to increase over the forecast period.
- The increased penetration of smartphones and tablets is expected to fuel growth in the mobile subscription market.
- It remains to be seen whether mobile television will result in significant revenues in the television sector.
- Total television spending is expected to grow at a 10.3% compound annual rate, from R23.1 billion in 2011 to R37.6 billion in 2016.

Overview

Various key developments are expected to occur in the forecast period, all of which are expected to have a significant impact on the television market. The most significant of these changes is expected to be the availability of digital terrestrial television (DTT), which is expected to officially become available in South Africa in late 2012. Analogue television is now scheduled to be discontinued in June 2015 after being postponed by Government various times. DTT will be free, although households will initially need to purchase a set-top box to receive the signal. In addition to freeing up spectrum for mobile communications, the shift to digital will allow for more television signals. This will allow for more tailored content, catering to what consumers are increasingly demanding.

In addition to the shift to DTT, the Independent Communications Authority of South Africa (ICASA) is also looking to issue four new pay TV licences. Although four licences were already issued in 2007, only On Digital Media (ODM) is operating a service. ODM launched a service through TopTV, which has been struggling to gain market share and add competition to the pay television market.

MultiChoice’s DStv pay satellite service succeeded in gaining traction in the market with the introduction of lower-cost bouquets that made the DStv service affordable to more households.

The pay TV market is facing scrutiny from the Consumer Commission, which is considering requiring service providers to unbundle their packages in order to comply with the Consumer Protection Act. The unbundling of packages is aimed at providing consumers with a choice of which individual channels they want to subscribe to.

The advertising market is healthy, reaching R10 billion in 2011. Community TV stations are beginning to generate measurable audiences and meaningful advertising revenues. The launch of new bouquets on DTT will also provide new TV outlets for advertisers.

Television market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Broadcast advertising	7 800	8 300	7 500	9 600	10 000	10 785	11 800	13 000	13 400	14 500	
% change	*21.9*	*6.4*	*-9.6*	*28.0*	*4.2*	*7.9*	*9.4*	*10.2*	*3.1*	*8.2*	*7.7*
Online and mobile television advertising											
Online TV advertising	3	6	8	11	13	16	21	26	34	44	
% change	*50.0*	*100.0*	*33.3*	*37.5*	*18.2*	*23.1*	*31.3*	*23.8*	*30.8*	*29.4*	*27.6*
Mobile TV advertising	–	–	–	–	2	4	9	18	26	40	
% change	–	–	–	–	–	*100.0*	*125.0*	*100.0*	*44.4*	*53.8*	*82.1*
Total online and mobile television advertising	3	6	8	11	15	20	30	44	60	84	
% change	*50.0*	*100.0*	*33.3*	*37.5*	*36.4*	*33.3*	*50.0*	*46.7*	*36.4*	*40.0*	*41.1*
Total television advertising	7 803	8 306	7 508	9 611	10 015	10 805	11 830	13 044	13 460	14 584	
% change	*21.9*	*6.4*	*-9.6*	*28.0*	*4.2*	*7.9*	*9.5*	*10.3*	*3.2*	*8.4*	*7.8*
Subscription spending	5 530	6 137	7 734	9 684	11 988	14 076	16 160	18 190	20 136	21 831	
% change	*10.5*	*11.0*	*26.0*	*25.2*	*23.8*	*17.4*	*14.8*	*12.6*	*10.7*	*8.4*	*12.7*
Public television license fees	1 004	1 012	1 024	1 031	1 042	1 048	1 059	1 065	1 076	1 081	
% change	*1.2*	*0.8*	*1.2*	*0.7*	*1.1*	*0.6*	*1.0*	*0.6*	*1.0*	*0.5*	*0.7*
Mobile TV subscriptions	–	–	–	–	6	10	17	27	39	55	
% change	–	–	–	–	–	*66.7*	*70.0*	*58.8*	*44.4*	*41.0*	*55.8*
Total	**14 337**	**15 455**	**16 266**	**20 326**	**23 051**	**25 939**	**29 066**	**32 326**	**34 711**	**37 551**	
% change	*15.6*	*7.8*	*5.2*	*25.0*	*13.4*	*12.5*	*12.1*	*11.2*	*7.4*	*8.2*	*10.3*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The South African Broadcast Corporation (SABC) is facing increased competition from pay television, which is attracting viewers and will face increased competition as DTT is rolled out. The SABC is still considering enlisting pay TV providers to help collect TV licence fees.

The overall TV market rose 13.4% in 2011, fuelled principally by a 23.8% rise in subscription spending. Advertising growth slowed to 4.2% from the 28.0% increase seen in 2010 as spending associated with the 2010 FIFA World Cup left the market.

We project broadcast advertising growth to improve 7.9% in 2012 and to average 7.7% compounded annually to R14.5 billion in 2016.

Helped by an expanding broadband household base, the online television advertising market is likely to more than triple during the next five years to R44 million in 2016 from R13 million in 2011. The launch of mobile TV in 2011 created a new advertising revenue stream that we expect will reach R40 million by 2016. Together, online and mobile television advertising will total an estimated R84 million in 2016.

Total television advertising is projected to increase at a 7.8% compound annual rate to R14.6 billion in 2016.

We expect subscription spending to continue to grow at double-digit annual rates through to 2015 and to rise to R21.8 billion in 2016 from R12 billion in 2011, averaging 12.7% growth compounded annually.

Mobile television will also generate an incremental subscription revenue stream beyond the traditional subscription market. We project mobile TV subscription spending to reach an estimated R55 million in 2016.

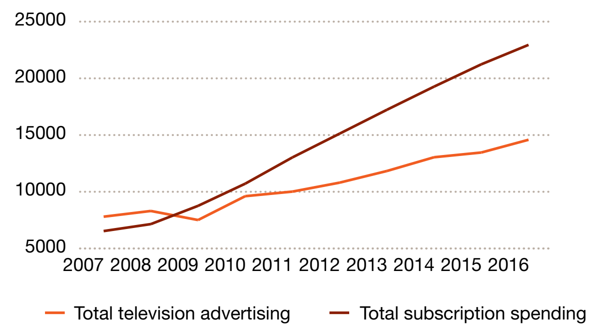
Public television licence fees will increase by an estimated 0.7% compounded annually from R1.04 billion in 2011 to R1.08 billion in 2016.

Growth for the total television market will average 10.3% compounded annually, rising from R23.1 billion in 2011 to a projected R37.6 billion in 2016.

Subscription television

MultiChoice is the principal subscription television provider, operating DStv, its digital satellite platform, and M-Net, an over-the-air subscription channel. Until the launch of TopTV by ODM in 2010, MultiChoice was the only pay TV provider in South Africa.

Figure 3.1: Subscription spending vs advertising (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

TopTV opened with a flourish in 2010 and quickly sold 360 000 decoders. By early 2012, however, only half of those decoders were reported to be in use. TopTV does not have a meaningful sports offering and has scaled back on its plans to introduce HD channels and a personal video recorder (PVR) service. Its targeting of middle- and lower-income households with less expensive options was effectively countered by more economy offerings from MultiChoice.

TopTV had hoped to attract interest by carrying adult channels such as Playboy Europe, Private Spice and Adult XXX, but its application was denied by ICASA.

TopTV has encountered several other problems over the past year, including not being able to secure meaningful sport content, billing problems and losing various third-party channels from its bouquets as a result of dwindling subscriber numbers. However, TopTV has managed to replace some of these with new channels.

MultiChoice's reduced-cost DStv Lite and DStv Compact packages have been successful in attracting new subscribers. It also added a PVR service and introduced DStv BoxOffice, a video-on-demand (VOD) service that offers a choice of 15 films on the current PVR decoders. Future decoder models are expected to have more capacity and are therefore expected to offer a larger choice of films.

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MultiChoice is currently the only broadcaster to provide high-definition (HD) channels. It currently has eight HD channels, including five sport channels, some of which were specifically launched for the broadcasting of the London 2012 Olympics. DStv announced the introduction of six new standard definition channels and seven new HD Channels, from October 2012, bringing the total number of HD channels to 14.

DStv's PVR service has been extremely successful with more than 650 000 subscribers already using the service, a 37% increase from 2011.

DStv BoxOffice has more than 40% of PVR subscribers registered for the service and is averaging 300 000 movie downloads a month. DStv BoxOffice has impacted the habits of the traditional cinema and video store audience, with more users opting to watch movies in the comfort of their homes. The number of users is, however, restricted by the small number of movies available and the service being limited to PVR subscribers only.

With DStv planning to launch its BoxOffice Online service later in the year, where around 60 titles will be available for download online, the number of viewers is expected to grow. Viewers will be able to download the title and have access for 48 hours before the licence to watch it expires. The service has already been in a testing phase since early 2012. The service will bring affordable and legal online movies to anyone that has access to fast Internet, either on a computer or tablet.

The ability to watch programmes live and to discuss them while watching is important to active social network users.

With the increased competition in the market, and with the proposed introduction of DTT, consumers increasingly want to have a service tailored to their specific needs. As consumers increasingly want to select what they would like to watch, it is becoming more and more difficult for service providers to differentiate their service offering.

Operators are able to differentiate their services through offering add-on services (such as on-demand services), or providing content not otherwise available, often being local content. M-Net produces various reality shows, the most popular being *Idols SA* and the recently concluded *Masterchef SA*. Not only does this provide unique content not available anywhere else, but it also enhances M-Net and MultiChoice's presence on social networks.

We believe that the huge popularity of social networks will benefit the TV subscription market. TV programmes constitute a major focus of social network dialogue, and the ability to watch programmes live and to discuss them while watching is important to active social network users.

As the Internet has been proven to enhance the television viewing experience with consumers commenting on their favourite shows on social networks, quality local content is becoming increasingly important.

Locally-produced content is very expensive – high viewer ratings, which in turn generate advertising revenue, are therefore required to make the investment worthwhile. M-Net has recently decided to re-allocate the funds initially allocated to their award-winning local soap, *The Wild*, to other local projects and will not renew the local soap for a third season after the current season ends in March 2013.

With the pending launch of DTT, the market for VOD services is expected to expand with more providers of content entering the market. Avusa has announced plans to offer a VOD service as soon as DTT launches.

Through 2011, ODM was the only one of the four new pay TV licensees granted in 2007 to launch a service. Super 5 Media (formerly Telkom Media) has requested a number of postponements and may now launch a service in late 2012 or early 2013. Walking on Water Television (WowTV) is still testing with no launch date announced, and e-Sat chose to launch a news channel on DStv rather than a full pay-TV service.

With ODM the only new pay TV service in operation, competition in the pay TV market is limited. In early 2012, ICASA announced that it is interested in issuing new pay TV licences to boost competition. So far, there has been little interest from new applicants, although Mobile TV, a company that was previously rejected for a mobile TV licence, is submitting an application.

ICASA has also issued new draft DTT regulations, which would give new broadcasters access to the DTT network once the analogue signal is switched off. Other parties have expressed an interest in launching subscription and free-to-air television services, although the barriers to entry into the market are still perceived as a significant challenge. ICASA has been requested by interested parties to introduce a two hour open window for new DTT pay-TV channels similar to the open window M-Net had until 2005 as a measure to introduce the new channels to viewers. At the time of writing, ICASA had not yet finalised its DTT regulations.

Even if new licences are issued for both pay TV and DTT, it would take a significant time for new market entrants to gain traction in the market and therefore we don't expect a meaningful change during the forecast period. A possible threat to the two current pay-TV providers is the initiative by the Consumer Commission to require that subscribers be permitted to select and pay for only those channels they choose rather than subscribing to an entire bouquet of channels. The goal is to lower costs to the consumer and to comply with the Consumer Protection Act.

Pay-TV providers have argued that the cost per subscriber to carry a channel currently is relatively low because channels are available to all subscribers of a given package. If subscribers are able to pick and choose, the reach per channel will drop and this will in turn raise the cost per subscriber and costs may not ultimately be reduced. MultiChoice won its application against the Consumer Commission to have the notice served on them dismissed. No further developments have arisen and our forecasts assume the current system will continue.

The overall subscription household universe is growing rapidly. The number of subscribers rose by 700 000 in 2011, the largest single-year increase in South African pay-TV history. Between 2008 and 2011, the subscription household base nearly doubled. The availability of popular sports on pay TV has proven to be a major lure. Enhanced services for the high-end subscriber and discount packages for the less affluent have helped to expand the market.

During the past three years, subscription household growth averaged 23.8% compounded annually. We do not expect this steep pace of growth to be maintained. With a majority of TV households in South Africa now subscribing to a pay service, future growth will necessarily be more limited.

In addition, the launch of DTT in late 2012 will provide an enhanced channel selection that will be largely available free, providing new competition for pay TV. We expect that a growing DTT market will cut into subscription household growth during the latter part of the forecast period.

We project two additional years of double-digit growth in the pay-TV subscriber base. By 2016, however, growth will drop to mid-single-digit increases.

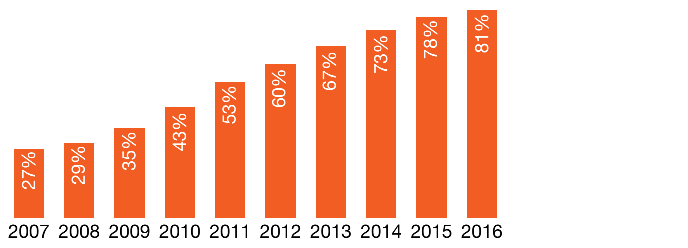
The overall number of subscription households will increase from 3.7 million in 2011 to a projected 5.9 million by 2016, a 9.8% compound annual increase. Subscription household penetration will reach 81.4% in 2016 from 52.9% in 2011.

Subscription TV households (millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Subscription households (millions)	1.80	1.95	2.40	3.00	3.70	4.25	4.75	5.20	5.60	5.90	
% change	*7.8*	*8.3*	*23.1*	*25.0*	*23.3*	*14.9*	*11.8*	*9.5*	*7.7*	*5.4*	*9.8*
Subscription penetration of TV households (%)	26.5	28.5	34.8	43.2	52.9	60.3	66.9	72.7	77.8	81.4	

Note: Subscription figures are annual averages, not year-end totals
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 3.2: Penetration of subscription TV households (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Average monthly spending slowed during the past two years, reflecting the impact of the economy. We look for a pick-up in 2012 and larger increases during 2013-16, reflecting improving economic conditions, new HD offerings and more channels.

We project that by 2016, the average subscriber will pay R308.35 per month, a 2.7% compound annual increase from R270 per month in 2011.

Overall subscription spending will increase at a 12.7% compound annual rate from R12 billion in 2011 to R21.8 billion in 2016.

Subscription spending (R millions)

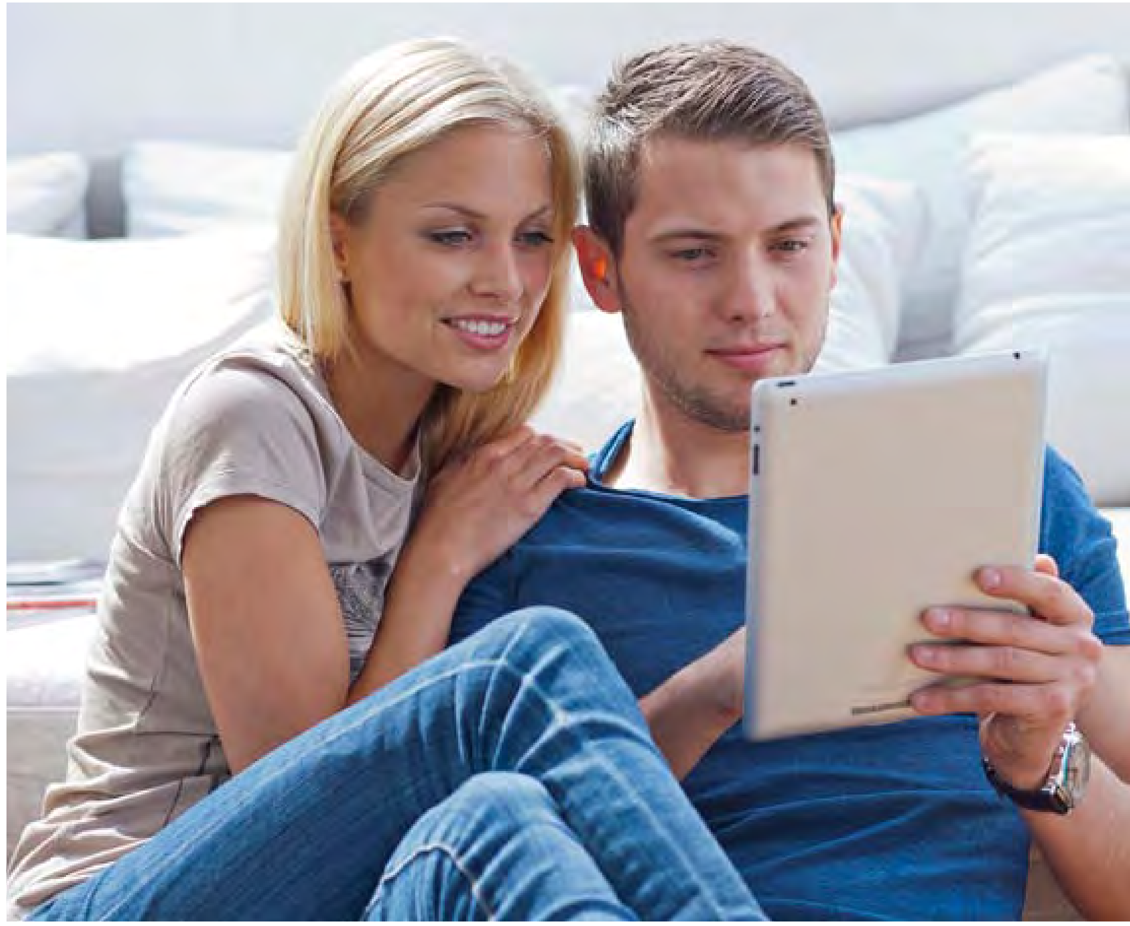
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Subscription households (millions)	1.80	1.95	2.40	3.00	3.70	4.25	4.75	5.20	5.60	5.90	
% change	*7.8*	*8.3*	*23.1*	*25.0*	*23.3*	*14.9*	*11.8*	*9.5*	*7.7*	*5.4*	*9.8*
Average monthly spending (R)	256.00	262.25	268.55	269.00	270.00	276.00	283.50	291.50	299.65	308.35	
% change	*2.5*	*2.4*	*2.4*	*0.2*	*0.4*	*2.2*	*2.7*	*2.8*	*2.8*	*2.9*	*2.7*
Subscription spending (R millions)	5 530	6 137	7 734	9 684	11 988	14 076	16 160	18 190	20 136	21 831	
% change	*10.5*	*11.0*	*26.0*	*25.2*	*23.8*	*17.4*	*14.8*	*12.6*	*10.7*	*8.4*	*12.7*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile TV subscriptions

DStv Mobile launched in late 2010 and began to attract subscribers in 2011. Vodacom and MTN also have the technology and handsets for video streaming. Wireless carriers are planning LTE rollouts pending the availability and licensing of spectrum. LTE will facilitate wireless video streaming and mobile TV in general.

DStv's mobile television has seen a successful start to its operations and has since launched various new mobile decoders, including the iDrifta for specific use on an iPad. It also launched a USB version for use on a PC and the original version for Wi-Fi enabled devices. An all-in-one solution has also been developed, the DStv Walka, which is a small-screen device that doesn't require a separate decoder.



Tablet penetration is growing in South Africa. Currently, tablets are used principally for video content, and growth in tablet penetration will drive mobile TV penetration. Tablets provide a good platform for mobile TV because of their larger screens and high video resolution.

Mobile TV offered on a subscription basis has struggled in most countries. People appear to like mobile TV, but only if it is free. Pay-TV providers are offering mobile TV as part of TV Everywhere packages that allow subscribers to access programming on any device.

It is not yet clear how mobile TV will develop in South Africa. Currently, it is principally a free service to premium DStv subscribers. Nevertheless, we believe that premium content such as sports will attract paid subscriptions.

We estimate that 0.03% of wireless telephone subscribers subscribed to mobile TV in 2011, a share we project will rise to 0.23% by 2016. We estimate there will be 130 000 mobile TV subscribers by 2016.

We estimate that subscribers spent R30 per month on mobile TV in 2011, a figure that will rise to R35 by 2016 as mobile TV carriers provide more premium content.

By 2016, mobile TV subscription spending will total an estimated R55 million.

Mobile TV subscription market

	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Mobile telephone subscribers (millions)	52.5	54.0	55.0	56.0	56.5	57.0	
% change		*2.9*	*1.9*	*1.8*	*0.9*	*0.9*	*1.7*
Percent subscribing to mobile TV (%)	0.03	0.05	0.08	0.12	0.17	0.23	
Mobile TV subscribers (millions)	0.02	0.03	0.04	0.07	0.10	0.13	
% change		*71.4*	*63.0*	*52.7*	*42.9*	*36.5*	*52.8*
Average monthly spending (R)	30	31	32	33	34	35	
% change		*3.3*	*3.2*	*3.1*	*3.0*	*2.9*	*3.1*
Aggregate annual spending (R millions)	6	10	17	27	39	55	
% change		*66.7*	*70.0*	*58.8*	*44.4*	*41.0*	*55.8*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

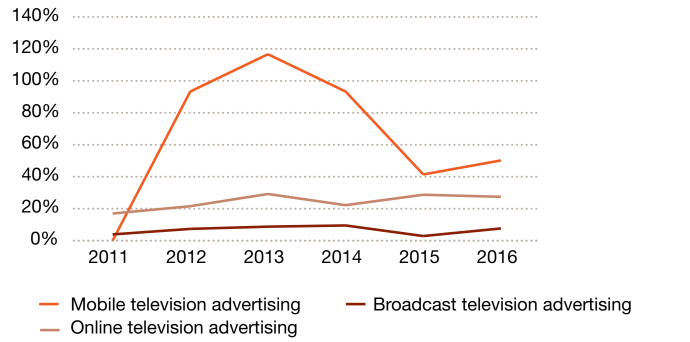
Advertising

Broadcast advertising

Broadcast television advertising is the largest advertising medium in South Africa and has generally thrived when the economy has been growing. Conversely, the 2009 recession led to a 9.6% drop in spending. Advertising associated with the FIFA World Cup contributed to a 28.0% increase in 2010 and spending rose an additional 4.2% in 2011 despite the loss of FIFA World Cup advertising.

Although we look for slower economic growth in 2012, televised coverage of the London Olympics will provide a boost to the market, leading to a projected 7.9% increase.

Figure 3.3: Advertising growth rates (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The introduction of DTT in 2012 should provide an incremental lift to the market. In June 2012, the South Africa Bureau of Standards ratified SANS862:2012, the set-top box decoder standard for digital television. The standard establishes the minimum requirements for the production of decoders. The decoders are expected to cost around R450 each.

Meanwhile, Sentech, which is responsible for the digital broadcasting network using the DVT-T2 standard, rolled out that network to more than 60% of the population in mid-2012 and expect to have 80% coverage by March 2013. Coverage was in excess of 90% in Gauteng and the North West Province and more than 70% in the Western Cape.

It is anticipated that the first phase of DTT will go live at the end of September. The first phase launch is planned for the Northern Cape and is not intended to be a commercial launch, but rather a test to ensure that DTT works. The commercial launch of the digital network is not expected before late in the 4th quarter of 2012 or in early 2013. The introduction of DTT in other countries has expanded the number of channels and has provided a boost to broadcast advertising. We expect a similar development in South Africa.

Another positive development is the emergence of community TV stations. These stations had been struggling in recent years, but in 2011 began to attract more interest from viewers and advertisers.

Broadcast advertising (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Broadcast advertising	7 800	8 300	7 500	9 600	10 000	10 785	11 800	13 000	13 400	14 500	
% change	21.9	6.4	-9.6	28.0	4.2	7.9	9.4	10.2	3.1	8.2	7.7
Advertising per TV household (R)	1 147	1 212	1 087	1 381	1 429	1 530	1 662	1 818	1 861	2 000	
% change	*21.0*	*5.7*	*-10.3*	*27.0*	*3.5*	*7.1*	*8.6*	*9.4*	*2.4*	*7.5*	*7.0*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Soweto TV, which only began in 2007, now reaches more than two million viewers each month while Cape Town TV reaches 1.5 million viewers per month. Both stations are now generating meaningful advertising. While community television is not on its own a significant component of the market, the fact that it is attracting advertising indicates the underlying strength of television as an advertising medium.

We also expect growth in the number of HD channels, both on pay-TV platforms and ultimately on DTT. HD attracts viewers and in turn also attracts more advertisers. MultiChoice already has seven HD channels available on its premium bouquet.

We project broadcast advertising to increase to R14.5 billion in 2016, a 7.7% compound annual increase from R10 billion in 2011.

Broadcast advertising per TV household will grow at an estimated 7.0% compound annual rate from R1 429 in 2011 to R2 000 by 2016.

Online TV advertising

Online TV advertising is still a fledgling market, totalling only R13 million in 2011.

Low broadband penetration has hampered development of this market as it limits the potential audience and therefore the reach of online advertising on TV websites. Fewer than 10% of households in South Africa had a broadband connection in 2011.

This limitation is now diminishing as broadband growth is expanding rapidly. We expect the number of broadband households to more than quadruple during the next five years. While still low by EMEA standards, with nearly 40% of households projected to subscribe to broadband in 2016, the potential market for online TV advertising will expand.

Contributing to growth will be the ability to watch online TV on a TV set instead of a computer. The Vodafone Webbox, introduced in 2011, provides an Internet connection to a TV set. Internet-connected TVs also facilitate the streaming of online shows directly to the set. Online streaming to TV sets will expand usage and boost advertising.

We expect online TV advertising to more than triple during the next five years to R44 million in 2016, a 27.6% compound annual increase from 2011. Even with this gain, online TV advertising will amount to only 0.3% of broadcast TV advertising in 2016.

Online television advertising (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Online television advertising	3	6	8	11	13	16	21	26	34	44	
% change	*50.0*	*100.0*	*33.3*	*37.5*	*18.2*	*23.1*	*31.3*	*23.8*	*30.8*	*29.4*	*27.6*

Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile television advertising

In countries where mobile TV has been present for several years, the launch of the iPad and other tablets has boosted mobile usage. Among young people, tablets are principally used to watch video content, including TV programmes.

We expect a similar pattern in South Africa. As tablet penetration increases, we expect mobile TV usage to also increase. Smartphone penetration is also increasing, which is expanding the potential universe for mobile TV. We project that the number of mobile TV users will reach 700 000 by 2016.

Although expected to grow rapidly in percentage terms, the mobile TV user base is still small, which means that its advertising potential is still limited. Mobile advertising per user will be much lower than broadcast advertising per household, reflecting the fact that the audience in the aggregate is still insignificant and that an ad reaches only one person on a mobile device, but multiple people in a household.

We estimate that advertisers paid R71 annually per mobile viewer in 2011, a figure we project will rise to R100 by 2016 as the size of the audience increases and as the medium develops. We project mobile TV advertising to total R40 million by 2016, up from only R2 million in 2011.

Mobile television advertising market

	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Mobile telephone subscribers (millions)	52.5	54.0	55.0	56.0	56.5	57.0	
% change		*2.9*	*1.9*	*1.8*	*0.9*	*0.9*	*1.7*
Percent using mobile TV (%)	0.05	0.10	0.20	0.35	0.50	0.70	
Mobile TV users (millions)	0.03	0.05	0.11	0.20	0.28	0.40	
% change		*105.7*	*103.7*	*78.2*	*44.1*	*41.2*	*72.3*
Average annual advertising per mobile TV user (R)	71	77	83	91	93	100	
Mobile television advertising (R millions)	2	4	9	18	26	40	
% change		*100.0*	*125.0*	*100.0*	*44.4*	*53.8*	*82.1*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Public TV licence fees

Any household or business that owns or uses a television is required to pay an annual licence fee to support the SABC, the public broadcaster. The annual licence fee per household or business increased to R270 in 2011 from R250 in 2010. SABC relies on both advertising and licence fees for its funding.

The growth of pay-TV subscriptions has boosted pay-TV viewing, which is eroding the SABC's audience, particularly in the demographics most attractive to advertisers. With a significant number of households now subscribing to a pay service the SABC is facing the prospect of ongoing share losses.

The quality of content and limited choices available on the SABC channels are the main factors underlying the migration of viewers to pay TV. The launch of DTT will exacerbate this trend as broadcasters such as e.tv and M-Net introduce new channels on DTT bouquets.

Television

Public television licence fees (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Public TV licence fees	1 004	1 012	1 024	1 031	1 042	1 048	1 059	1 065	1 076	1 081	
% change	*1.2*	*0.8*	*1.2*	*0.7*	*1.1*	*0.6*	*1.0*	*0.6*	*1.0*	*0.5*	*0.7*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consequently, public TV licence fees will become more important to the SABC. However, it appears that a growing number of pay-TV subscribers are not paying their licence fee. In a controversial attempt, the SABC is trying to enlist pay-TV operators to help collect those licence fees from the subscribers by billing them along with their subscription account.

We do not know how successful this effort will be, but we do anticipate somewhat slower underlying growth in public TV licence fees as pay-TV penetration increases. We expect growth to average 0.7% compounded annually during the next five years, compared with 1.0% compounded annually between 2007 and 2011.

We still expect rate increases to occur every other year and project public TV licence fees to reach R1.08 billion in 2016 from R1.04 billion in 2011.

The pay television landscape in Africa

Nigeria

Nigeria has a well-developed television market with more than 100 TV stations and more than 40 cable stations. There are seven million TV households in Nigeria, compared to the TV household base in South Africa of 3.7 million. With respect to TV household penetration, however, only about 25% of households in Nigeria have a television compared with 72% in South Africa.

Most stations in Nigeria are owned by the federal and state governments. The Nigerian Television Authority (NTA) coordinates the network of government-owned stations. The NTA's mandate is to provide an impartial and independent service, operate in the national interest and support the culture of Nigeria.

The NTA provides two programming services. NTA 1 distributes programming to government-owned stations in each state. Each state has one or two stations operated by government broadcasting companies, which are funded primarily by the respective state governments. There are no TV licence fees in Nigeria and TV funding is generated from general tax revenues. NTA 2 is a national service that is advertiser-supported.

There are also private television broadcasters, including Channels Television, Silverbird Television, Superscreen Television and Africa Independent Television.

Nigeria's pay-TV market is booming, more than doubling between 2007 and 2009 and more than doubling again between 2009 and 2011.

As part of MultiChoice Africa's rollout of a full Pan-African DVB-T2 network to over 15 countries in Africa, GOtv has been launched in selected cities in Nigeria over the past year. GOtv is a pay-TV service with a low subscriber cost offering a total bouquet of more than 50 different channels in various languages. The service requires a DTT decoder and an antenna as opposed to the DStv decoder and satellite dish that is required to view the DStv satellite television service.

Nigeria's broadcast advertising market is also strong. The FIFA World Cup was a great success in football-loving Nigeria and generated a 21% increase in advertising in 2010. The market continued to expand in 2011 despite the loss of FIFA World Cup-related advertising.

The overall television market in Nigeria is less than 30% the size of the market in South Africa. Spending in 2011 rose 28.0%, fuelled by a 45.7% rise in subscription spending and a 4.2% gain in broadcast advertising.

Subscription spending, which accounted for 65% of the market in 2011, will continue to be the principal driver, expanding at a projected 22.4% compound annual rate to R11.6 billion in 2016 from $4.2 billion in 2011.

Broadcast advertising will rise at a projected 9.6% compound annual rate from R2.2 billion in 2011 to R3.6 billion in 2016.

Overall spending will increase from R6.5 billion in 2011 to a projected R15.1 billion in 2016, an 18.5% compound annual increase.

Television market in Nigeria (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Broadcast advertising	1 754	1 829	1 784	2 158	2 249	2 451	2 699	3 171	3 238	3 553	
% change	*11.4*	*4.3*	*-2.5*	*21.0*	*4.2*	*9.0*	*10.1*	*17.5*	*2.1*	*9.7*	*9.6*
Subscription spending	939	1 392	1 975	2 890	4 210	5 444	7 153	8 549	10 019	11 561	
% change	*55.5*	*48.2*	*41.9*	*46.3*	*45.7*	*29.3*	*31.4*	*19.5*	*17.2*	*15.4*	*22.4*
Total	**2 693**	**3 221**	**3 759**	**5 048**	**6 459**	**7 895**	**9 852**	**11 720**	**13 257**	**15 114**	
% change	*23.6*	*19.6*	*16.7*	*34.3*	*28.0*	*22.2*	*24.8*	*19.0*	*13.1*	*14.0*	*18.5*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Subscription market

The subscription market in Nigeria is surging with the number of pay-TV households rising 41.2% in 2011 to 1.2 million, a figure four times higher than in 2007.

Despite this growth, subscription penetration in Nigeria was only 17.1% in 2011, much lower than South Africa's 52.9% penetration rate. Consequently, there remains ample room for growth.

We project the number of pay TV households to continue to increase at double-digit annual rate, rising to 2.8 million by 2016, an 18.5% compound annual increase from 2011.

Subscription penetration of TV households will reach an estimated 37.3% by 2016, still low by international standards.

Subscription TV households in Nigeria (millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Subscription households (millions)	0.30	0.43	0.60	0.85	1.20	1.50	1.90	2.20	2.50	2.80	
% change	*50.0*	*43.3*	*39.5*	*41.7*	*41.2*	*25.0*	*26.7*	*15.8*	*13.6*	*12.0*	*18.5*
Subscription penetration of TV households (%)	4.5	6.4	8.8	12.3	17.1	21.1	26.4	30.1	33.8	37.3	

Note: Subscription figures are annual averages, not year-end totals.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Subscription rates are more expensive in Nigeria than in South Africa, a factor limiting penetration. The average subscriber paid R292.35 per month in 2011, 8% more than in South Africa. We project average monthly spending to rise at a 3.3% compound annual rate to R344.08 in 2016.

Subscription spending totalled an estimated R4.2 billion in 2011, a figure we project will more than double to R11.6 billion in 2016, growing by 22.4% compounded annually.

Subscription spending in Nigeria (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Subscription households (millions)	0.30	0.43	0.60	0.85	1.20	1.50	1.90	2.20	2.50	2.80	
% change	*50.0*	*43.3*	*39.5*	*41.7*	*41.2*	*25.0*	*26.7*	*15.8*	*13.6*	*12.0*	*18.5*
Average monthly spending (R)	260.87	269.86	274.36	283.36	292.35	302.47	313.72	323.84	333.96	344.08	
% change	*3.6*	*3.4*	*1.7*	*3.3*	*3.2*	*3.5*	*3.7*	*3.2*	*3.1*	*3.0*	*3.3*
Subscription spending (R millions)	939	1 392	1 975	2 890	4 210	5 444	7 153	8 549	10 019	11 561	
% change	*55.5*	*48.2*	*41.9*	*46.3*	*45.7*	*29.3*	*31.4*	*19.5*	*17.2*	*15.4*	*22.4*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Advertising

Television is the dominant advertising medium in Nigeria, accounting for 34% of total advertising spend.

The telecommunications and financial sectors are driving the advertising market. Following a 2.5% dip in 2009, TV advertising during the past two years rose by an average of 26%.

Nigeria represents an appealing market to advertisers as 70% of the population is under 30. At the same time, low TV household penetration limits the effectiveness of advertising.Growth in TV households and a rapidly expanding subscription market will boost broadcast advertising during the next five years.

We project broadcast advertising to reach R3.6 billion by 2016, a 9.6% compound annual increase from 2011.

Advertising per TV household will increase at an 8.1% compound annual rate from R321 in 2011 to R474 in 2016.

Broadcast advertising in Nigeria (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Broadcast advertising	1 754	1 829	1 784	2 158	2 249	2 451	2 699	3 171	3 238	3 553	
% change	*11.4*	*4.3*	*-2.5*	*21.0*	*4.2*	*9.0*	*10.1*	*17.5*	*2.1*	*9.7*	*9.6*
Advertising per TV household (R)	266	273	262	313	321	345	375	434	438	474	
% change	*9.9*	*2.6*	*-4.0*	*19.5*	*2.6*	*7.5*	*8.7*	*15.7*	*0.9*	*8.2*	*8.1*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Television

Kenya

Kenya has four million TV households, a penetration rate of approximately 50%. There are five national commercial stations and 15 regional stations in Kenya. The government-owned Kenyan Broadcasting Corporation (KBC) is the leading broadcaster and the only national broadcaster. KBC was originally funded by tax revenues, but it now receives most of its funding through advertising.

In addition to KBC, there are a number of private broadcasters, including Citizen TV, the Kenya Television Network (KTN), NTV, KISS TV, Family TV and Sayare TV.

MultiChoice also has a major presence in Kenya, carrying 40 international channels as well as Citizen, NTV, and KBC. These channels along with many others are also free-to-air.

In addition to MultiChoice, Zuku TV offers a pay satellite service as well as a cable service. Safaricom is an IPTV and mobile TV provider while Smart TV and GOtv (owned by DStv) offer DTT service. DTT in Kenya utilises the DVB T2 standard and most regions in the country are expected to have DTT coverage by the end of the year.

Zambia

Zambia is a much smaller market with only 700 000 TV households for a penetration rate of approximately 40%.

Except for Lusaka Province, the Zambia National Broadcasting Corporation (ZNBC) is effectively a monopoly provider of free-to-air television.

Muvi TV, Mobi TV, and several other channels are available over the air in Lusaka Province.

MultiChoice also has a presence in Zambia, offering both a satellite television and DTT service. MultiChoice Zambia partnered with the Zambia National Broadcasting Corporation (ZNBC) to launch DTT in the country using the DVB-T2 standard.

In 2011, MultiChoice first introduced GOtv in Zambia for R663 for the decoder and the first three months' subscription. Packages are available between R52 and R72 per month for between 16 and 26 channels.

Packages include entertainment and movie channels, children's channels, news channels, music channels, a sports channel and the national broadcaster's two channels.

Television: The most tightly regulated media sector

Television in South Africa is regulated by the Independent Communications Authority of South Africa (ICASA) Act, the Electronic Communications (EC) Act, the Broadcasting Act, the Film and Publications Act, the Independent Broadcasting Authority Act, the Promotion of Access of Information Act and the Public Finance Management Act.

Codes developed by self-regulatory bodies and ICASA are also relevant to the sector. Broadcast rights are issued by invitation. Broadcast licences mandate percentages of local, community and educational content as conditions of license.

The following key legislation is relevant to the broadcasting industry in South Africa:

- **African Charter on Broadcasting:** This provides a three-tier system of broadcasting (public, private and community). It also stipulates respect for freedom of expression, diversity and the free flow of information.
- **Broadcasting Act:** The Act provides specific requirements for broadcasting, but overlaps substantially with the EC Act. The Act recognises different services: free-to-air, subscription and terrestrial and satellite services. Differing obligations exist for the various sectors.
- **Broadcasting Complaints Commission (BCCSA):** The Commission adjudicates complaints from the public about broadcasters. All broadcasters subscribing to the BCCSA Code have to advertise how to lay a complaint with the Commission.
- **BCCSA Code of Conduct:** Provides for the requirement to report news truthfully, accurately and fairly.
- **Competition Act:** This Act includes prohibitions of anti-competitive conduct. Certain applications for mergers require prior approval. It also addresses ownership, control and industry pricing issues.
- **The Constitution:** Provides for freedom of expression, but states that freedom of expression is not a non-derogable right and needs to be balanced against other rights. The Constitution also deals with access to information; and requires that national legislation must establish an independent authority to regulate broadcasting in the public interest.
- **Consumer Protection Act:** Consumer rights should be considered when engaging in marketing and competitions.
- **Copyright Act:** Ownership vests in the author without need for registration. The employed media owner is the owner of the copyright. It also provides for an ethical newsroom culture: either the journalist has witnessed the event first hand or sources of information are clearly identified. Confidential sources will remain so.
- **Electronic Communications Act:** This Act promotes convergence of telecoms and broadcasting. It introduced a new licensing system applicable to broadcasters and electronic communications services: individual licences and class licences.

  The Act endorses the principle of self-regulation and encourages diversity in the public interest. It makes provision for three tiers: public, commercial, community, as well as regular news; fair competition, and investment and innovation. The Act recognises traditional broadcasting categories (public, commercial, community stations) and now a frequency spectrum license.

The print, broadcast and electronic media have a particular role in the protection of freedom of expression in our society.... The ability of each citizen to be a responsible and effective member of our society depends upon the manner in which the media carry out their responsibility.... The media thus rely on freedom of expression and must foster it.... Furthermore, the media are important agents in ensuring that government is open, responsive and accountable.... The manner in which the media carry out their constitutional mandate will have a significant impact on the development of our democratic society. If the media are scrupulous and reliable... they will invigorate and strengthen our fledgling democracy. If they vacillate... the constitutional goals will be imperilled.

– Khumalo and Others v Holomisa (CCT53/01) [2002]

It provides limitations for cross-media control of broadcasting services; control of commercial broadcasting services; and foreign control of commercial broadcasting services. The Act does not prohibit granting a broadcasting licence to any party-political entity. No foreign person/entity may own or control more than 20% of any broadcasting licence; no person/entity may control more than one commercial TV channel or more than two FM/AM commercial radio stations.

- **ICASA Act & Regulations:** The Act establishes the independent authority; it requires that free-to-air services air regular news bulletins and provides for diversity of news and news formats. Commercial radio stations are required to broadcast at least 30 minutes of news each day and private free to air television is required to broadcast one hour of news per day. The Act may prescribe content regulations – minimum quantified content, quotas relevant to a particular category.
- **ICASA Code of Conduct:** The Code provides for the protection children, including alerts regarding offensive content and a watershed period airing for adult content. Violence; offensive language and news must be presented in the appropriate context. Any materially incorrect report is required to be corrected without delay, with comments clearly shown as comment not fact.
- **Media Development and Diversity Act (MDDA):** This Act governs ownership and control by previously-disadvantaged communities, language and cultural groups, and endorses public-private partnerships to redress exclusion and marginalisation.
- **Promotion of Access to Information Act:** Stipulates rules for promoting access to information by the public and stakeholders.
- **Promotion of Equality and Prevention of Unfair Discrimination Act:** prohibits publication of words reasonably construed to demonstrate a clear intention to be hurtful, harmful, incite harm or promote hatred.
- **Protection of Personal Information (POPI) Bill.** Once enacted, POPI will impact the collection of personal information, the use of such information, permitted disclosures, retention of personal information and security safeguards.

  This is of particular relevance to media practitioners: media houses will have to reconsider how they access and use sources, and how they deal with (and retain) personal information.

  Journalists will be obliged to protect personal information and will have to review their investigative practices. POPI will allow for journalistic privilege: information used exclusively for journalistic purposes by responsible parties, subject to a code of ethics, is exempt.
- **Public Finances Management Act.** The SABC and ICASA are required to abide by requirements which set out rules on expenditure and accounting for public finances.

Denise Fouché - Technology Legal Advisory Services, PwC

Global trends in television subscriptions and licence fees

Outlook

- The global television subscription and licence fee market will increase from $215.5 billion in 2011 to $290.6 billion in 2016, a compound annual growth rate of 6.2%.
- Subscription spending, the principal component of the overall market at $183 billion in 2011, and 85% of the total, will increase at a 6.8% compound annual rate to $254.7 billion in 2016.
- Public TV licence fees will grow at a more modest 1.3% annually to $33.1 billion from $31 billion.
- Mobile TV subscription spending will reach $2.8 billion in 2016 from $1.5 billion in 2011, a 13.3% increase compounded annually.

Key drivers

- Approaching saturation and competition for over-the-top services in North America and competition from free digital terrestrial television in EMEA, will limit subscription spending growth in those regions. Meanwhile, continued expansion in the subscription household universe in Asia-Pacific and Latin America will drive subscription spending in those regions.
- TV providers are enhancing their offerings with more high-definition and video-on-demand selections as well as attractive sports packages, while introducing TV Everywhere and upgrading digital-video-recorder (DVR) services to retain their subscribers.
- Broadband enhancements also are helping companies attract television subscribers.
- Smartphone and tablet penetration growth and fourth-generation (4G) rollouts will expand mobile TV. However, usage will be largely advertiser supported or included in TV Everywhere packages and funded by TV subscription providers to help them retain subscribers.

Global trends in the television advertising industry

Outlook

- The global television advertising market grew by 3.1% in 2011. This represented a significant slowdown from the 11.8% increase registered in 2010, which was enhanced in many countries by advertising associated with the FIFA World Cup and the Winter Olympics.
- The global television advertising market as a whole will increase at a 6.6% compound annual rate, rising to $254.7 billion in 2016 from $185 billion in 2011.
- Terrestrial advertising remains the largest component of total television advertising, at $121.1 billion in 2011. Terrestrial advertising will increase to $155.8 billion in 2016, a 5.2% compound annual increase.
- Multichannel advertising will grow at an 8.5% compound annual rate to $76 billion by 2016 from $50.4 billion in 2011.
- Total broadcast television advertising – terrestrial and multichannel combined – will rise from $180 billion to $241 billion, a 6.0% increase compounded annually.
- Online television advertising will increase from a comparatively small base at a 19.8% compound annual rate to $9.5 billion in 2016 from $3.8 billion in 2011. Mobile television advertising will rise from $1.1 billion to $4.2 billion, a 30.0% increase compounded annually.
- As a result, total online and mobile television advertising will average 22.5% compounded annually, from $5 billion to $13.7 billion.

Key drivers

- Broadcast advertising will benefit from three significant trends:
- More channels becoming available to more people from new or expanded multichannel platforms;
- The shift from analogue to digital distribution; and
- Rising levels of viewing generated by growing high-definition penetration, as well as improvements in the size and picture quality of TV sets.
- Catch-up services and over-the-top launches are boosting online viewing of television, which is driving online TV advertising.
- Growing penetration of web-connected TV sets in North America and EMEA is facilitating online viewing on TV sets.
- Tablets are becoming popular platforms for television, and growing tablet penetration will expand mobile television usage and advertising.

Global TV subscription and license fee market by component (US$ millions)

	2007	2008	2009	2010	2011p	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Subscriptions	137 671	148 844	158 652	168 582	182 959	196 042	209 629	223 832	239 143	254 683	
% change	*9.2*	*8.1*	*6.6*	*6.3*	*8.5*	*7.2*	*6.9*	*6.8*	*6.8*	*6.5*	*6.8*
Public TV license fees	29 226	29 614	30 648	30 997	31 049	31 365	31 850	32 146	32 516	33 066	
% change	*2.7*	*1.3*	*3.5*	*1.1*	*0.2*	*1.0*	*1.5*	*0.9*	*1.2*	*1.7*	*1.3*
Mobile TV	632	1 097	1 265	1 437	1 528	1 685	1 889	2 170	2 492	2 847	
% change	*136.7*	*73.6*	*15.3*	*13.6*	*6.3*	*10.3*	*12.1*	*14.9*	*14.8*	*14.2*	*13.3*
Total	**167 529**	**179 555**	**190 565**	**201 016**	**215 536**	**229,092**	**243,368**	**258,148**	**274,151**	**290,596**	
% change	***8.2***	***7.2***	***6.1***	***5.5***	***7.2***	***6.3***	***6.2***	***6.1***	***6.2***	***6.0***	***6.2***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Global television advertising market by component (US$ millions)

	2007	2008	2009	2010	2011p	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Broadcast television advertising											
Terrestrial television advertising	119 549	118 914	107 704	120 356	121 120	127 488	128 876	141 531	141 890	155 841	
% change	*0.9*	*-0.5*	*-9.4*	*11.7*	*0.6*	*5.3*	*1.1*	*9.8*	*0.3*	*9.8*	*5.2*
Multichannel television advertising	40 117	42 404	41 907	46 742	50 442	54 394	58 690	64 831	69 292	76 011	
% change	*8.6*	*5.7*	*-1.2*	*11.5*	*7.9*	*7.8*	*7.9*	*10.5*	*6.9*	*9.7*	*8.5*
Total broadcast television advertising†	169 815	170 841	157 722	175 603	180 020	190 322	196 060	215 129	220 102	241 010	
% change	*2.8*	*0.6*	*-7.7*	*11.3*	*2.5*	*5.7*	*3.0*	*9.7*	*2.3*	*9.5*	*6.0*
Online and mobile television advertising											
Online television advertising	1 347	1 948	2 283	3 063	3 845	4 640	5 656	6 831	8 015	9 503	
% change	*70.7*	*44.6*	*17.2*	*34.2*	*25.5*	*20.7*	*21.9*	*20.8*	*17.3*	*18.6*	*19.8*
Mobile television advertising	109	369	556	813	1 140	1 545	2 117	2 750	3 438	4 232	
% change	*445.0*	*238.5*	*50.7*	*46.2*	*40.2*	*35.5*	*37.0*	*29.9*	*25.0*	*23.1*	*30.0*
Total online and mobile television advertising	1 456	2 317	2 839	3 876	4 985	6 185	7 773	9 581	11 453	13 735	
% change	*80.0*	*59.1*	*22.5*	*36.5*	*28.6*	*24.1*	*25.7*	*23.3*	*19.5*	*19.9*	*22.5*
Total	**171 271**	**173 158**	**160 561**	**179 479**	**185 005**	**196 507**	**203 833**	**224 710**	**231 555**	**254 745**	
% change	***3.2***	***1.1***	***-7.3***	***11.8***	***3.1***	***6.2***	***3.7***	***10.2***	***3.0***	***10.0***	***6.6***

†Germany and Spain are not included in the terrestrial and multichannel figures but are included in the total.

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, Global entertainment and media outlook 2012-2016 (PwC, 2012)

Chapter 4

Filmed entertainment

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The filmed entertainment market consists of out-of-home and in-home components. Out-of-home includes consumer spending at the box office for theatrical motion pictures and cinema advertising, which consists of on-screen ads prior to the movie.

In-home consists of physical home video and electronic home video of films, TV programming and other content. Physical home video includes spending on rentals of videos at video stores and other retail outlets and the purchase of physical home video products. Electronic home video consists of spending through TV set-top boxes and access over the Internet.

The figures do not include music videos (which are included in the chapter on music). They also do not include movies or other content licensed to pay TV or other television content providers (which are included in the chapter on television). Concession sales of beverages and refreshments in theatres are also not included.

Outlook

… at a glance

Filmed entertainment market total spending (R millions)

	2011	2016	2012-16 CAGR(%)
Filmed entertainment market total spending (R millions)	2 899	3 569	4.2

Filmed entertainment market (R millions)

	2011	2016	2012-16 CAGR (%)
Cinema			
Box office	941	1 328	7.1
Cinema advertising	265	415	9.4
Total cinema	1 206	1 743	7.6
Home video			
Physical sell-through	982	1 089	2.1
Physical rentals	710	725	0.4
Electronic home video*	1	12	64.4
Total home video	1 693	1 826	1.5
Total	**2 899**	**3 569**	**4.2**

* Electronic home video included for the first time following the launch of DStv BoxOffice in 2011.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

…in brief

- Government initiatives and experienced local production crews continue to bolster the local film industry.
- Growth in the number of films shot in South Africa is expected to have a positive impact on box office spending.
- Substantial progress has been made with three-dimensional (3D) films, driven by the digitisation of cinemas and the availability of 3D films.
- Conversion to a digital format will significantly reduce the cost of producing films and also enable more 3D content to be screened, enhancing the appeal of going to the movies.
- Video-on-demand has been successful in other countries and we expect it will also be successful in South Africa.
- The filmed entertainment market in South Africa will increase at a projected 4.2% compound annual growth rate from 2011 to reach R3.6 billion in 2016.

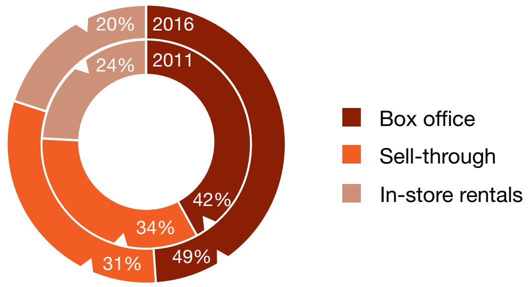
Overview

Filmed entertainment spending rose 1.0% in 2011, the smallest gain since 2007. The cinema component of the market fell 0.1%, while home video increased 1.8%.

Local films did not do as well in 2011 as they had in 2010 and 3D Hollywood releases were also less popular. While more 3D films were released in 2011 than ever before, their appeal waned compared with the prior few years. Overall box office spending in South Africa fell 2.7% in 2011.

We expect a rebound in box office spending in 2012, benefiting from stronger international releases and a pickup in local films. Increased support for local films and growth in the number of films shot in South Africa should have a positive impact on box office spending.

Figure 4.1: Share of filmed entertainment market per sub industry 2011 vs 2016



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Filmed entertainment

Filmed entertainment market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Cinema											
Box office	668	714	837	967	941	1 052	1 118	1 186	1 256	1 328	
% change	*-0.7*	*6.9*	*17.2*	*15.5*	*-2.7*	*11.8*	*6.3*	*6.1*	*5.9*	*5.7*	*7.1*
Cinema advertising	245	255	205	240	265	295	325	355	385	415	
% change	*-7.5*	*4.1*	*-19.6*	*17.1*	*10.4*	*11.3*	*10.2*	*9.2*	*8.5*	*7.8*	*9.4*
Total cinema	913	969	1 042	1 207	1 206	1 347	1 443	1 541	1 641	1 743	
% change	-2.7	6.1	7.5	15.8	-0.1	11.7	7.1	6.8	6.5	6.2	7.6
Home video											
Physical sell-through	850	873	959	963	982	1 018	1 065	1 088	1 101	1 089	
% change	*4.3*	*2.7*	*9.9*	*0.4*	*2.0*	*3.7*	*4.6*	*2.2*	*1.2*	*-1.1*	*2.1*
Physical rentals	709	704	701	700	710	719	726	728	728	725	
% change	*0.1*	*-0.7*	*-0.4*	*-0.1*	*1.4*	*1.3*	*1.0*	*0.3*	*0.0*	*-0.4*	*0.4*
Total physical home video	1 559	1 577	1 660	1 663	1 692	1 737	1 791	1 816	1 829	1 814	
% change	*2.4*	*1.2*	*5.3*	*0.2*	*1.7*	*2.7*	*3.1*	*1.4*	*0.7*	*-0.8*	*1.4*
Electronic home video	—	—	—	—	1	1	3	5	8	12	
% change	—	—	—	—	—	*0.0*	*200.0*	*66.7*	*60.0*	*50.0*	*64.4*
Total home video	1 559	1 577	1 660	1 663	1 693	1 738	1 794	1 821	1 837	1 826	
% change	*2.4*	*1.2*	*5.3*	*0.2*	*1.8*	*2.7*	*3.2*	*1.5*	*0.9*	*-0.6*	*1.5*
Filmed entertainment total	**2 472**	**2 546**	**2 702**	**2 870**	**2 899**	**3 085**	**3 237**	**3 362**	**3 478**	**3 569**	
% change	*0.4*	*3.0*	*6.1*	*6.2*	*1.0*	*6.4*	*4.9*	*3.9*	*3.5*	*2.6*	*4.2*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Cinema advertising rose 10.4% in 2011, despite the drop in box office spending. An expanding economy will continue to boost cinema advertising during the next five years.

In the home video market, physical sell-through spending rose 2.0% in 2011, up from the 0.4% rise in 2010, but well below the gains recorded during 2007-2009. More moderate price declines will lead to larger spending growth in the near term.

The physical rental market edged up 1.4% in 2011, the first increase since 2007. We look for modest increases during the next few years.

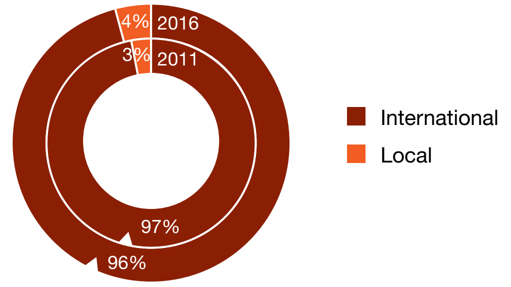
An electronic streaming service was introduced in 2011 and we expect a small but expanding market to emerge in South Africa.

Filmed entertainment as a whole will expand at a projected 4.2% compound annual rate during the next five years, rising to an estimated R3.6 billion in 2016 from R2.9 billion in 2011. Total cinema spending will total an estimated R1.7 billion in 2016, up 7.6% compounded annually from R1.2 billion in 2011. Home video will rise from R1.7 billion in 2011 to R1.8 billion in 2016, a 1.5% compound annual gain.

Cinema

Box office

Figure 4.2: Share of filmed entertainment market per sub industry 2011 vs 2016



Source: Aquidneck Consulting

Courtesy of Soweto Theatre

South Africa is gaining popularity as a location for movie production. The country has long been an appealing site for location shooting, but it is now attracting productions in which the setting is less critical. *Safe House* and *Chronicle* are among the hit movies shot in South Africa that are doing well in 2012. *Gettysburg* and *America: The Story of Us*, *Dredd*, *Elysium (Dredd)* and *Vehicle 19* are other successful films shot in South Africa. The still-to-be released film, *Dredd*, based on the science-fiction comic *Judge Dredd*, was the first major international 3D feature film to be produced in South Africa.

South Africa's growing appeal stems from increased support and a favourable cost structure, as well as from a strong infrastructure. With respect to support, the R20 million cap on production incentives has now been lifted. The Foreign Film and Television Production Incentive provides for a 15% rebate on spending in South Africa, with no upper limit any longer. The South African Film and Television Production and Co-Production Incentive provides 35% on the first R6 million spent in South Africa and 25% on spending above R6 million, also now with no upper limit.

Adding to South Africa's prominence in the global film industry are well-trained and experienced local production crews, which are comparatively cheaper because of the weaker rand.

A limiting factor in box office spending is a shortage of cinemas serving lower-income communities. The National Film and Video Foundation is looking to support cinema construction in these areas, which should significantly expand the market potential for box office spending.

South Africa is in the business of making movies that cost half as much as they look

– Michael Murphy, co-producer of Dredd.

Source: 'Funny Business', FM (Accessed 6 July 2012.)

The Government is also funding a R30-million project over three years to support local filmmakers. While by no means guaranteeing success, increased support improves the likelihood of success for local films.

South African films were not as successful in 2011 as in 2010, accounting for about 5% of 2011 box-office spending compared with 11% in 2010. In 2010, a local release was the top film and there were two South African films in the top 10.

In 2011, there were no local films in the top 10. It is, however, looking promising in 2012, with *Mad Buddies*, Leon Schuster's latest film, grossing more in its opening week than *Schuks Tshabalala's Survival Guide to South Africa,* which was the top film in South Africa in 2010. Disney has signed on to distribute *Mad Buddies,* which is a first-of-its-kind deal for a South African movie.

Nevertheless, the top-10 films as a group in 2011 outperformed the top 10 in 2010, generating R227 million and comprising 24% of total box-office spending, compared with R223.3 million and a 23% share in 2010.

Top 10 films of 2011 in South Africa

	Box office revenues (R millions)
The Twilight Saga: Breaking Dawn Part I	28.2
The Smurfs	27.8
Pirates of the Caribbean: On Stranger Tides	26.4
Tangled	22.3
Transformers 3	21.7
Rio	21.3
Kung Fu Panda 2	21.1
Puss in Boots	19.6
Fast Five	19.4
The Hangover Part II	19.2

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Despite not making the top 10 in South Africa, *Harry Potter and Deathly Hallows: Part II* was the leading film globally. *The Twilight Saga: Breaking Dawn Part I*, the leading film in South Africa, ranked second in Africa and the Middle East and fourth globally.

Top 10 films of 2011

Africa and the Middle East	Global
The Smurfs	Harry Potter and the Deathly Hallows: Part II
The Twilight Saga: Breaking Dawn Part I	Transformers 3
Pirates of the Caribbean: On Stranger Tides	Pirates of the Caribbean: On Stranger Tides
Transformers 3	The Twilight Saga: Breaking Dawn Part I
Harry Potter and the Deathly Hallows: Part II	Mission Impossible – Ghost Protocol
Fast Five	Kung Fu Panda 2
Rio	Fast Five
Kung Fu Panda 2	The Hangover Part II
Mission Impossible – Ghost Protocol	The Smurfs
The Hangover Part II	Cars 2

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

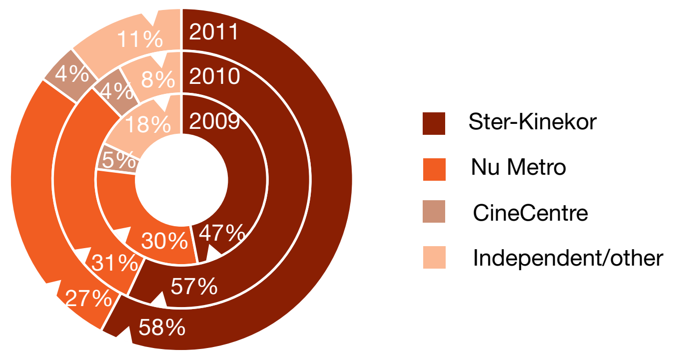
Ster-Kinekor (owned by Primedia) is the largest exhibition chain in South Africa with more than 400 screens. It accounted for 58% of total box office spending in 2011, up from 57% in 2010. In 2012, Ster-Kinekor opened a high-end cinema in The Zone @ Rosebank, Johannesburg, the Ster-Kinekor Cine Prestige, which features leather reclining seats and has a ticket price of R85, nearly three times the national average.

Nu Metro (owned by Avusa) is the next-largest chain with approximately 200 screens. Due to the impact of the digital movie rental business and new technology such as 3D TV, Nu Metro closed the Brightwater Commons cinema in 2011 and another, Sunny Park in Pretoria, in 2012. Its share fell from 31% in 2010 to 27% in 2011.

CineCentre (owned by Avalon Group) is the only other significant chain in South Africa, but it is much smaller than the two leading chains with only about 20 screens. It accounted for 4% of 2011 box office spending, the same share as in 2010.

There are also a number of independent exhibitors not affiliated to a national chain. These theatres accounted for 11% of box office spending in 2011, up from 8% in 2010.

Figure 4.3: Estimated share of box office spending 2009 vs 2010 vs 2011



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Overall admissions fell 5.9% in 2011 to 32 million. A key development in our view is the moderation in average ticket prices. After growing by 5.4% in 2010, the average price increased 3.3% in 2011, reflecting a lower share for 3D films and more moderate price increases in general.

Total box office spending declined 2.7% to R941 million.

The loss of the novelty-effect of 3D, combined with higher price points and the perception that the quality of the films themselves had diminished, most likely accounted for the drop in 3D grosses.

Consumers were reluctant to pay the surcharge for a 3D film that was not considered a must-see. These trends mean that exhibitors may look to limit price growth of 3D films, which could lead to a narrowing in the price differential over films in 2D.

Notwithstanding these developments, we are reluctant to place too much emphasis on a single year's performance, because box office results are affected by the appeal of the roster of releases, which can vary from year to year.

South African films, and films in general, were doing well at the time of writing. The local releases, *Semi-Soet* and *Material* were among the box office leaders for two months.

We expect admissions to bounce back in 2012 with a 7.8% increase for the year as a whole.

Going to a movie has become more of a financial consideration than in the past, and consumers have become more selective. Faced with admission declines, it appears that exhibitors have become less aggressive with respect to pricing and we believe this will have a positive effect on admissions.

By providing additional incentives such as assigned seating, larger seats with special services and 4D experiences, exhibitors are also broadening their offers to differentiate themselves and capture additional surcharges.

Growth in support for local filmmakers and new screens in townships should help expand the market. Ster-Kinekor recently announced an overhaul of approximately 400 screens from film to digital, significantly reducing the cost for local filmmakers. The conversion to digital will also allow Ster-Kinekor to screen more 3D content and will enhance the appeal of going to the movies.

Growth in the number of digital and 3D screens should also expand the market, although the 3D format by itself does not guarantee box office success.

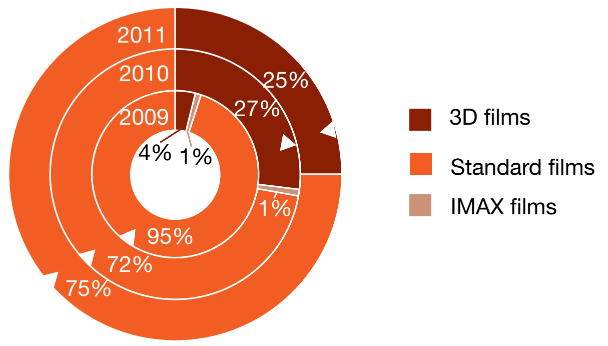
In 2011, 3D films generated R235 million in box-office spending, down from R265 million in 2010 because the slate of international 3D releases in 2011 was less appealing than in 2010.

Revenue split by film format (R millions)

	2010	2011	% change
3D films	265	235	-11.3
IMAX films	7	10	-100.0
Standard films	695	706	1.6
Total	**967**	**941**	**-2.7**

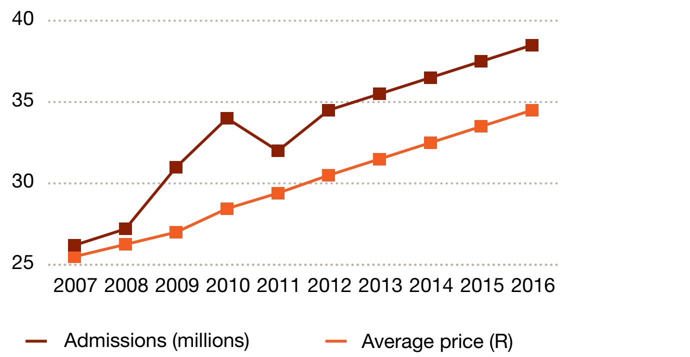
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 4.4: Revenue split by film format 2009 vs 2010 vs 2011



Note: The last IMAX theatre closed in June 2010
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 4.5: Box office admissions and average price



Sources: National Film and Video Foundation, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Additionally, growth in the number of international films shot in South Africa will likely generate an above-average following at the box office in South Africa.

Historically, 3D helped distinguish the theatrical experience from the home video and online experience of watching a movie, and it should continue to have a positive impact on admissions in the near term. Now 3D is also an option at home, albeit currently one with low penetration. Moderating price growth will also have a positive impact on admissions.

At the same time, with film entering home video much sooner than in the past, box office is facing greater competition than in the past. Some films are now being released digitally simultaneously with the theatrical release, or before the home entertainment window opens.

On balance, we expect that the positive impacts of moderating prices and 3D will help neutralise the negative impact of shorter release windows, leading to a modest growth in admissions.

We expect admissions to rise at a projected 2.8% compound annual rate between 2012 and 2016, and to average 3.8% compounded annually for the forecast period as a whole, rising to 38.5 million in 2016. These estimates do not take into account the appeal of actual releases that can significantly enhance or reduce admissions in any given year.

Price growth moderated in 2011 and we expect this pattern to continue. Growth will average an estimated 3.3% compounded annually, equal to the increase in 2011. By 2016, the average price for a cinema admission will reach R34.50 from R29.40 in 2011.

Overall box office spending will rise to an estimated R1.3 billion in 2016, a 7.1% increase compounded annually from 2011.

Box office market

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Admissions (millions)	26.2	27.2	31.0	34.0	32.0	34.5	35.5	36.5	37.5	38.5	
% change	*-3.7*	*3.8*	*14.0*	*9.7*	*-5.9*	*7.8*	*2.9*	*2.8*	*2.7*	*2.7*	*3.8*
Average price (R)	25.50	26.25	27.00	28.45	29.40	30.50	31.50	32.50	33.50	34.50	
% change	*3.0*	*2.9*	*2.9*	*5.4*	*3.3*	*3.7*	*3.3*	*3.2*	*3.1*	*3.0*	*3.3*
Box office spending (R millions)	668	714	837	967	941	1 052	1 118	1 186	1 256	1 328	
% change	*-0.7*	*6.9*	*17.2*	*15.5*	*-2.7*	*11.8*	*6.3*	*6.1*	*5.9*	*5.7*	*7.1*

Sources: National Film and Video Foundation, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Cinema advertising (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Cinema advertising	245	255	205	240	265	295	325	355	385	415	
% change	*-7.5*	*4.1*	*-19.6*	*17.1*	*10.4*	*11.3*	*10.2*	*9.2*	*8.5*	*7.8*	*9.4*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Cinema advertising

Cinema advertising consists of on-screen advertising shown prior to the movie. Cinema advertising rose 10.4% in 2011, the second consecutive double-digit increase following the 19.6% plunge in 2009.

Cinema advertising is becoming more appealing as the audience is not distracted by electronic media and is focused on the screen. Movies also allow for longer ads than the 30- or 60-second ads aired on television.

The audience tends to be young, well educated and more affluent than the typical audience reached by other media.

With many screens converting to digital, it will become easier and less expensive for advertisers to distribute their ads digitally. Digital distribution will enlarge the potential market of advertisers that can participate.

Cinema advertising, like all advertising, will benefit from ongoing economic growth.

We project cinema advertising to rise from R265 million in 2011 to R415 million by 2016, a 9.4% compound annual increase.

Total cinema market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Box office	668	714	837	967	941	1 052	1 118	1 186	1 256	1 328	
% change	*-0.7*	*6.9*	*17.2*	*15.5*	*-2.7*	*11.8*	*6.3*	*6.1*	*5.9*	*5.7*	*7.1*
Cinema advertising	245	255	205	240	265	295	325	355	385	415	
% change	*-7.5*	*4.1*	*-19.6*	*17.1*	*10.4*	*11.3*	*10.2*	*9.2*	*8.5*	*7.8*	*9.4*
Total cinema	**913**	**969**	**1 042**	**1 207**	**1 206**	**1 347**	**1 443**	**1 541**	**1 641**	**1 743**	
% change	*-2.7*	*6.1*	*7.5*	*15.8*	*-0.1*	*11.7*	*7.1*	*6.8*	*6.5*	*6.2*	*7.6*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

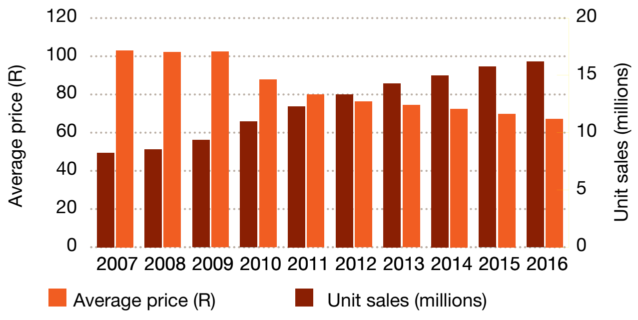
Total cinema market

The total cinema market in South Africa will grow at a projected 7.6% compound annual rate to R1.7 billion in 2016 from R1.2 billion in 2011.

Physical home video

Sell-through

Figure 4.6: Sell-through market for DVDs



Sources: Aquidneck Consulting, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In contrast with most other countries, physical sell-through spending in South Africa has been expanding. Falling prices and the availability of videos in supermarkets has aided growth. During the past two years, unit sales have risen at double-digit annual rates.

Between 2009 and 2011, the average price fell 22%. With the average price now less than R80, further decreases are expected to be more modest. We project the average video to cost R67.25 in 2016, a 3.4% compound annual decrease from 2011.

The effect of modest price declines will lead to slower growth rates in unit sales. We project unit sales to rise at a 5.7% compound annual rate to 16.2 million in 2016 from 12.3 million in 2011.

Physical sell-through spending will continue to expand through to 2015 and then decline in 2016. In effect, South Africa will catch up with the rest of the world where physical sell-through has been declining for several years. Spending on physical sell-through in South Africa in 2016 will total an estimated R1.1 billion, a 2.1% compound annual increase from R982 million in 2011.

There are a number of factors that will lead to this decrease. The appeal of owning a film library may be less attractive to consumers in part because of a difficult economy, and in larger part because there are so many other ways to access films that are less expensive than a purchase.

The DVD, which is still the principal platform for sell-through, is becoming an inferior product as an increasing number of households are acquiring high-definition television (HDTV) sets and are becoming more accustomed to watching shows and movies in high definition. Blu-ray Disc (BD) technology has opened up a new market for consumers to watch new movie releases and even replace their current legacy DVD libraries.

Physical sell-through market

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Unit sales (millions)	8.25	8.55	9.36	10.97	12.29	13.35	14.30	15.00	15.75	16.20	
% change	*5.8*	*3.6*	*9.5*	*17.2*	*12.0*	*8.6*	*7.1*	*4.9*	*5.0*	*2.9*	*5.7*
Average price (R)	103.03	102.11	102.46	87.78	79.90	76.25	74.50	72.5	69.90	67.25	
% change	*-1.4*	*-0.9*	*0.3*	*-14.3*	*-9.0*	*-4.6*	*-2.3*	*-2.7*	*-3.6*	*-3.8*	*-3.4*
Sell-through spending (R millions)	850	873	959	963	982	1 018	1 065	1 088	1 101	1 089	
% change	*4.3*	*2.7*	*9.9*	*0.4*	*2.0*	*3.7*	*4.6*	*2.2*	*1.2*	*-1.1*	*2.1*

Sources: Aquidneck Consulting, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Physical rental market

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Rental turns (millions)	31.5	31.5	31.5	32.0	33.0	34.0	34.9	35.7	36.4	37.0	
% change	*1.6*	*0.0*	*0.0*	*1.6*	*3.1*	*3.0*	*2.6*	*2.3*	*2.0*	*1.6*	*2.3*
Average price (R)	22.50	22.35	22.25	21.88	21.50	21.15	20.80	20.40	20.00	19.60	
% change	*-1.5*	*-0.7*	*-0.4*	*-1.7*	*-1.7*	*-1.6*	*-1.7*	*-1.9*	*-2.0*	*-2.0*	*-1.8*
Rental spending (R millions)	709	704	701	700	710	719	726	728	728	725	
% change	*0.1*	*-0.7*	*-0.4*	*-0.1*	*1.4*	*1.3*	*1.0*	*0.3*	*0.0*	*-0.4*	*0.4*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Rentals

Until 2011, there had not been an in-home video-on-demand market to compete with physical rentals. Consequently, while physical rental spending has declined in most countries, it has been relatively steady in South Africa.

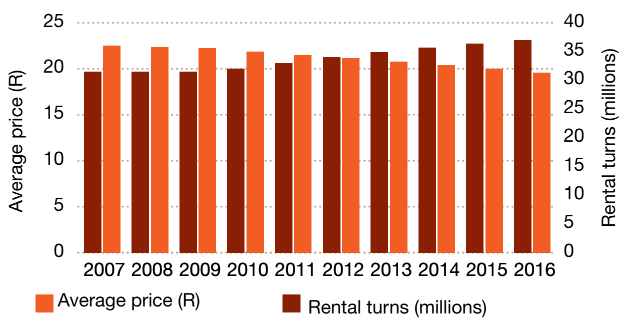
In 2011, the number of rental turns rose 3.1% and rental spending increased 1.4%, in both cases the largest increase during the past five years. In part, successful South African films at the box office in 2010 hit the home-video market in 2011, boosting both rentals and sell-through.

Declining prices have been stimulating rental transactions and we expect this will continue to be the case, although growth will moderate during the latter part of the forecast period as in-home electronic distribution gains momentum.

We project the number of rental turns to increase to 37 million in 2016, a 2.3% compound annual increase from 33 million in 2011.

Rental spending will increase at decreasing rates during the next three years, with spending projected to be flat in 2015 and to decline in 2016. For the forecast period as a whole, spending will rise to a projected R725 million by 2016, growing at a 0.4% compound annual rate from R710 million in 2011.

Figure 4.7: In-store rental market for DVDs



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Electronic home video

In mid 2011, MultiChoice launched BoxOffice, an on-demand movie rental service, to its premium subscribers. Films are stored on the in-home personal video recorder (PVR) and are easily accessible. On the current decoder models, up to 15 films are available at any time at a cost of R25 per viewing, with some blockbuster movies available the same day as their release on DVD.

Video-on-demand (VOD) offers the convenience of not having to go to the video store or to return videos. Films can be accessed instantly, which promotes impulse buying. There is also no danger that a popular film will be out of stock.

The average VOD price is typically slightly higher than the average rental price.

VOD has been successful in other countries and we expect it will be successful in South Africa too, with monthly downloads averaging 300 000 movies. MultiChoice had planned to launch an online version of BoxOffice in late 2011, but the project is currently still in its beta testing phase.

As a new service, we anticipate that the initial ramp up will be slow, but that it will accelerate over time, which is the typical development pattern for a new market.

We project electronic home video spending to reach R12 million by 2016.

Electronic home video (R millions)

	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Electronic home video	1	1	3	5	8	12	
% change		*0.0*	*200.0*	*66.7*	*60.0*	*50.0*	*64.4*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Overall home video market

Physical home video spending rose by 1.7% in 2011 and when electronic is included, growth was 1.8%.

We project the physical market to expand at a 1.4% compound annual rate to R1.81 billion in 2016 from R1.69 billion in 2011.

The overall home video market, including electronic home video, will increase at an estimated 1.5% compound annual rate to R1.83 billion in 2016.

Home video market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Physical sell-through	850	873	959	963	982	1 018	1 065	1 088	1 101	1 089	
% change	*4.3*	*2.7*	*9.9*	*0.4*	*2.0*	*3.7*	*4.6*	*2.2*	*1.2*	*-1.1*	*2.1*
Physical rentals	709	704	701	700	710	719	726	728	728	725	
% change	*0.1*	*-0.7*	*-0.4*	*-0.1*	*1.4*	*1.3*	*1.0*	*0.3*	*0.0*	*-0.4*	*0.4*
Total physical home video	1 559	1 577	1 660	1 663	1 692	1 737	1 791	1 816	1 829	1 814	
% change	*2.4*	*1.2*	*5.3*	*0.2*	*1.7*	*2.7*	*3.1*	*1.4*	*0.7*	*-0.8*	*1.4*
Electronic home video	—	—	—	—	1	1	3	5	8	12	
% change	—	—	—	—	—	*0.0*	*200.0*	*66.7*	*60.0*	*50.0*	*64.4*
Total home video	**1 559**	**1 577**	**1 660**	**1 663**	**1 693**	**1 738**	**1 794**	**1 821**	**1 837**	**1 826**	
% change	*2.4*	*1.2*	*5.3*	*0.2*	*1.8*	*2.7*	*3.2*	*1.5*	*0.9*	*-0.6*	*1.5*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Filmed entertainment

A film is a little bit of celluloid and a lot of marketing…

Cay Wesnigk, independent filmmaker

Source: www.thefilmcollaborative.org/blog

The legal challenges in filmed entertainment

Film production is a notoriously costly process. Filmmakers have to prepare and negotiate numerous contracts and other legal arrangements to protect their investment in a film product. Recent challenges to the industry in the form of digital rights lockers, electronic distribution, video on demand and streaming of content require an awareness of the myriad legal challenges to the industry.

These challenges include:

- **Advertising:** Cinema advertising must conform with the Advertising Code of Conduct. The Tobacco Products and Control Amendment Act bans all advertising and promotion of tobacco products, including sponsorship and free distribution of tobacco products.
- **Acquisition of rights:** Rights to the intellectual property in a film are documented in an option or purchase agreement that is negotiated with the owner of the intellectual property. When foreign companies fund a production in its entirety, the intellectual property rights (and the full benefit of the production) rest with the foreign company.
- **Classification:** The Film and Publications Board is a statutory body established by the Films and Publications Act of 1996. The Board classifies films, videos, DVDs, computer games and certain publications for their suitable age viewership.
- **Copyright:** Cinematographic films are classified as a work eligible for copyright protection under the Copyright Act. The production company will own or license all of the intellectual property associated with a film. The rights to use the script, the title and any brand names in the film, the rights to actors' performances, licences for music and other protected visual works. The collaborative nature of film production calls for well-crafted collaboration agreements between co-writers and co-producers.
- **Clearance rights:** In order to exploit a film, clearance rights must be obtained. These rights control the distribution aspect of the work. Clearances are required for: scripts, content, music, location, actors and contributors. These clearances should be acquired in order to exploit the filmic work.
- **Consumer rights:** Consumer rights include, among others, protection from unfair contract terms and the right to redress for faulty supply of goods and services.
- **Defamation:** Scripts must be evaluated to protect against potential defamation claims.
- **Digital rights:** Filmmakers should be aware of distributors and foreign sales companies acquiring 'all rights', including 'all digital distribution rights'. A number of delivery channels are developing and rights should be protected for download-to-rent; download-to-burn; download-to-own; electronic sell through; electronic rental and subscription video on demand. The definition of 'video on demand' must be carefully considered as it can encompass many rights and meanings.
- **Entity registration:** Filmmakers should establish a business entity to act as the production company. Such an entity will provide for control, financing, liability and tax issues. This is useful not only to avoid personal liability for breaches of agreements or wrongful acts by production company employees, but it provides a vehicle to develop, produce, own and exploit the film and its ancillary rights.
- **Freedom of expression:** Section 16 of the Constitution provides a general right to freedom of expression. Films are protected under Section16(1)(c), which grants protection for freedom of artistic creativity. This freedom is limited by the classifications imposed by the Film and Publications Board.
- **Internet distribution:** The Internet provides a new distribution and marketing channel for film products. Contractual agreements must cover copyright issues, online data collection and protection, consumer rights, payment conditions, marketing and sale of merchandise and advertising. Website terms and conditions must make provision for the supply of film products and merchandise over the Internet. Film content on mobile devices must take into account the placement of website terms and conditions.
- **Internet service providers (ISPs):** Section 27A of the Films and Publications Act requires ISPs to register with the board and take all reasonable steps to prevent the use of their services for the hosting and distribution of child pornography films. If the ISP is aware that their service is being used for the hosting or distributing of child pornography, the ISP must take steps to prevent access to the offending material and report the presence and particulars of the person hosting the IP address to a police official and take steps to preserve evidence for investigation and prosecution purposes.
- **Legal liability:** The film should contain disclaimers stating that all characters are purely fictional and that any similarities to anyone living or deceased are merely a coincidence.
- **Marketing and publicity:** Filmmakers must take the provisions of the Consumer Protection Act and the Electronic Communications and Transactions (ECT) Act into account when devising marketing campaigns and marketing to customers.
- **Privacy:** Care should be taken not to include characters based on real persons. The ECT Act requires websites collecting personal information to address the privacy concerns of consumers.
- **Tax:** A special allowance in the Income Tax Act (Section 24F) provides for deductions in respect of production and post-production costs incurred by a film owner. Films qualifying for tax allowances include digital, video and other formats.

Denise Fouché – Technology Legal Advisory Services, PwC

Global trends in the filmed entertainment industry

Outlook

- We project that global spending on filmed entertainment will rise at a 3.1% compound annual rate over the five-year forecast period, reaching $99.7 billion in 2016 from $85.4 billion in 2011.
- Global box office spending will increase from $34.6 billion in 2011 to $47 billion in 2016, a 6.3% compound annual increase.
- Cinema advertising will grow at a projected 5.3% compound annual rate to $2.8 billion in 2016 from $2.2 billion in 2011.
- Total out-of-home spending will rise from $36.7 billion in 2011 to $49.8 billion in 2016.
- Physical sell-through will fall at a 3.4 % compound annual rate to $23 billion in 2016 from $27.3 billion in 2011.
- Physical rental spending will decline from $12.1 billion in 2011 to $8.9 billion in 2016, a 6.0 % compound annual decrease. The overall physical home-video market will total $31.8 billion in 2016, down 4.2% on a compound annual basis from $39.4 billion in 2011.
- Electronic spending through TV subscription providers will increase at a 6.8 % compound annual rate to $7 billion in 2016 from $5 billion in 2011. Over-the-top/streaming spending will rise at a 21.0% compound annual rate from $4.3 billion in 2011 to $11 billion in 2016, overtaking spending through TV subscription providers in 2012.
- The total electronic home video market will reach $18 billion in 2016 from $9.3 billion in 2011, a 14.2% increase compounded annually.
- Overall home video spending will increase at a projected 0.5% compound annual rate to $49.9 billion from $48.7 billion in 2011.

Key drivers

- Moderating price growth, new multiplexes, and growth in 3D screens will stimulate the box office market, although the incremental impact of 3D is diminishing.
- Favourable demographics and an expanding box office market will boost cinema advertising, as will the migration to digital cinema, by reducing the costs and complexity of screening advertisements.
- A shortening home video window and experiments in modifying the current windowing structure (e.g. premium VOD and day-and-date digital releases) will benefit electronic video spending.
- Competition from electronic platforms will adversely affect the physical home video market, leading to spending declines in most countries. However, growth in the Blu-ray platform will limit declines in physical home video during the latter part of the forecast period. Nevertheless, the Blu-ray market is growing more slowly than we anticipated in last year's *Outlook*, leading us to project ongoing decreases for physical sell-through as a whole.
- Emerging over-the-top/streaming services and growth in digital cable and telephone company TV subscription services that promote video on demand will boost electronic distribution. The availability of content on tablets and other devices as well as Internet-connected TVs will further foster growth in electronic distribution.
- Piracy will continue to hold down spending, particularly in Asia-Pacific and Latin America, as well as a number of countries in EMEA.
- Major considerations affecting the market in any given year are the quality of releases and their appeal to consumers, which are factors that cannot be predicted.

Global filmed entertainment market by component (US$ millions)

	2007	2008	2009	2010	2011p	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Out-of-home											
Box office	28 110	29 014	32 129	33 878	34 580	36 762	39 190	41 648	44 259	46 964	
% change	*28 110*	*3.2*	*10.7*	*5.4*	*2.1*	*6.3*	*6.6*	*6.3*	*6.3*	*6.1*	*6.3*
Cinema advertising	1 932	1 911	1 860	2 052	2 160	2 258	2 380	2 509	2 651	2 799	
% change	*9.8*	*-1.1*	*-2.7*	*10.3*	*5.3*	*4.5*	*5.4*	*5.4*	*5.7*	*5.6*	*5.3*
Total out-of-home	**30 042**	**30 925**	**33 989**	**35 930**	**36 740**	**39 020**	**41 570**	**44 157**	**46 910**	**49 763**	
% change	*4.2*	*2.9*	*9.9*	*5.7*	*2.3*	*6.2*	*6.5*	*6.2*	*6.2*	*6.1*	*6.3*
Physical home video											
Sell-through	33 918	32 601	30 446	29 291	27 283	25 952	24 953	24 173	23 533	22 970	
% change	*0.3*	*-3.9*	*-6.6*	*-3.8*	*-6.9*	*-4.9*	*-3.8*	*-3.1*	*-2.6*	*-2.4*	*-3.4*
Rental	14 766	13 993	13 713	13 296	12 116	11 722	11 242	10 595	9 804	8 877	
% change	*-3.1*	*-5.2*	*-2.0*	*-3.0*	*-8.9*	*-3.3*	*-4.1*	*-5.8*	*-7.5*	*-9.5*	*-6.0*
Total physical home video	**48 684**	**46 594**	**44 159**	**42 587**	**39 399**	**37 674**	**36 195**	**34 768**	**33 337**	**31 847**	
% change	*-0.8*	*-4.3*	*-5.2*	*-3.6*	*-7.5*	*-4.4*	*-3.9*	*-3.9*	*-4.1*	*-4.5*	*-4.2*
Electronic home video											
Through TV subscription providers	3 156	3 790	4 028	4 594	5 034	5 470	5 884	6 286	6 659	7 007	
% change	*19.9*	*20.1*	*6.3*	*14.1*	*9.6*	*8.7*	*7.6*	*6.8*	*5.9*	*5.2*	*6.8*
Over-the-top/streaming	376	710	1 183	1 786	4 260	5 713	7 075	8 440	9 808	11 040	
% change	*272.3*	*88.8*	*66.6*	*51.0*	*138.5*	*34.1*	*23.8*	*19.3*	*16.2*	*12.6*	*21.0*
Total electronic home video	**3 532**	**4 500**	**5 211**	**6 380**	**9 294**	**11 183**	**12 959**	**14 726**	**16 467**	**18 047**	
% change	*29.2*	*27.4*	*15.8*	*22.4*	*45.7*	*20.3*	*15.9*	*13.6*	*11.8*	*9.6*	*14.2*
Total home video	**52 216**	**51 094**	**49 370**	**48 967**	**48 693**	**48 857**	**49 154**	**49 494**	**49 804**	**49 894**	
% change	*0.8*	*-2.1*	*-3.4*	*-0.8*	*-0.6*	*0.3*	*0.6*	*0.7*	*0.6*	*0.2*	*0.5*
Total	**82 258**	**82 019**	**83 359**	**84 897**	**85 433**	**87 877**	**90 724**	**93 651**	**96 714**	**99 657**	
% change	*2.0*	*-0.3*	*1.6*	*1.8*	*0.6*	*2.9*	*3.2*	*3.2*	*3.3*	*3.0*	*3.1*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, Global entertainment and media outlook 2012-2016 (PwC, 2012)

Chapter 5

Radio

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The radio market consists of advertiser spending on radio stations and radio networks, as well as public funding provided to the public broadcaster.

Outlook

… at a glance

Radio total spending (R millions)

2011
3 688

2016
5 045

2012-16 CAGR(%)
6.5

Outlook in brief

Radio market (R millions)	2011	2016	2012-16 CAGR (%)
Advertising	3 243	4 565	7.1
Public funding	445	480	1.5
Total	**3 688**	**5 045**	**6.5**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Radio

…in brief

- Radio remains an important medium in South Africa, reaching over 88% of the population in a typical week.
- Listeners' options have been expanded through the introduction of digital radio and online radio. However, these technologies are not expected to add significant revenues in the forecast period.
- Advertising revenues increased by 7.4% in 2011. This was lower than the 13.3% gain experienced in 2010, which was boosted by the FIFA World Cup.
- Needletime levies are expected to have a significant impact on the radio broadcasting industry.
- Ukhozi FM, a Zulu-language station remains the country's most popular station with over seven million listeners per week, while 94.7 Highveld Stereo continued to attract the most advertising in 2011.
- Total radio spending is expected to grow at a 6.5% compound annual growth rate from R3.7 billion in 2011 to R5.0 billion in 2016.

Overview

Radio remains an important medium, reaching over 88% of people in rural and urban centres aged 15 years and older in a typical week in South Africa. There are more than 10 million households with radios and many more listeners in the country. This is a higher penetration than television, newspapers and the Internet. Usage remains high despite competition from digital music and Internet radio.

Broadcast radio advertising is by far the dominant segment of the radio market and will continue to be so for the forecast period. Radio advertising accounted for 88% of total radio spending in 2011. Radio advertising revenues increased by 7.4% in 2011, lower than the 13.3% registered in 2010, which was boosted by the FIFA World Cup.

The expansion of community stations, the addition of the new commercial stations and continuing economic growth will spur the above-average increase in advertising spending over the forecast period. Radio advertising is projected to increase by 7.1% on a compound annual rate from R3.2 billion in 2011 to R4.6 billion in 2016.

Public funding, which excludes advertising revenue earned by public stations, rose by 0.7% in 2011. We are expecting an increase in the annual television licence fee, which is used to cross-subsidise the public radio stations in 2013 after which growth in public funding will be modest, based on an increase in television households. Public funding is projected to expand at a 1.5% compound annual rate to R480 million in 2016.

Broadcasters are expanding their listening audiences by streaming their programmes online. Streaming enables consumers to listen to their favourite programmes on their computers, smartphones or tablets wherever they are, even when they are travelling. Broadcasters are also making use of apps to enable listeners to listen to their programming while on the go. Broadcasters such as *Jacaranda 94.2* and *5FM* have their own apps, while other stations can be accessed via a group app such as tfsRadio South Africa.

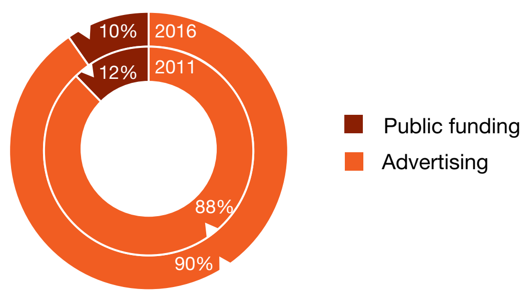
Radio market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Advertising	2 422	2 650	2 664	3 019	3 243	3 460	3 715	3 990	4 290	4 565	
% change	*14.3*	*9.4*	*0.5*	*13.3*	*7.4*	*6.7*	*7.4*	*7.4*	*7.5*	*6.4*	*7.1*
Public funding	430	434	439	442	445	449	470	473	476	480	
% change	*1.2*	*0.9*	*1.2*	*0.7*	*0.7*	*0.9*	*4.7*	*0.6*	*0.6*	*0.8*	*1.5*
Total	**2 852**	**3 084**	**3 103**	**3 461**	**3 688**	**3 909**	**4 185**	**4 463**	**4 766**	**5 045**	
% change	*12.1*	*8.1*	*0.6*	*11.5*	*6.6*	*6.0*	*7.1*	*6.6*	*6.8*	*5.9*	*6.5*

Sources: Radio Advertising Bureau, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We project the radio market as a whole to increase to an estimated R5.0 billion in 2016 from R3.7 billion in 2011, a 6.5% compound annual increase.

Figure 5.1: Sources of income: 2011 vs 2016



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

A snapshot of the radio industry

The South African market is made up of an almost even split between male and female listeners, but displays a diverse listenership according to age, with people of all ages tuning in.

Figure 5.2: Gender of listenership: 2012

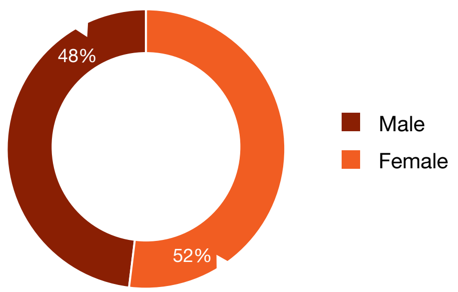
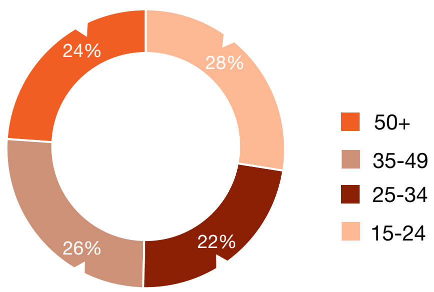


Figure 5.3: Average age of listenership 2012



Source: Source: South African Advertising Research Foundation RAMS June 2012

Programmes are broadcast in all 11 of the country's official languages, as well as in German, Hindi, Portuguese, Greek and the San Bushman languages of !Xu and Khwe.

KwaZulu-Natal is the leading province in terms of radio listenership with 20% of total listeners in South Africa. Gauteng is next at 19% followed by Limpopo and the Eastern Cape at 13% each.

English-language radio programming is the most popular in South Africa, accounting for 41.1% of all listening in 2011. Zulu is next at 13.5% followed by Afrikaans at 9.3%.

Market share of radio by language, 2011

Language	Market share (%)
English	41.1
Zulu	13.5
Afrikaans	9.3
Xhosa	7.9
Setswana	6.7
Sesotho	6.0
Sepedi	5.7
Ndebele	2.9
Swazi	2.6
Tsonga	2.1
Venda	1.9
Other	0.3

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Music is by far the most popular format on the major stations with contemporary, traditional gospel and classical among the most popular genres. Additionally, other stations air phone-in talk shows, current affairs and news programming.

The radio industry is comprised of three segments: a public service broadcasting sector, a commercial sector and community radio stations.

The public broadcaster, the South African Broadcasting Corporation (SABC), is state owned and funded through public licence fees as well as advertising. The SABC operates public service stations in all of the official languages as well as stations for the Indian (*Lotus FM*) and San (*X-K FM*) communities.

The SABC's isiZulu cultural service, *Ukhozi FM*, is the most popular station in the country, reaching more than six million listeners weekly. *Umhlobo Wenene FM* provides service to those who speak Xhosa, the second-largest population group in South Africa. This station, which is the second-largest public station, broadcasts news and information programmes as well as music.

The SABC also operates three commercial stations that help to subsidise the public service stations. The commercial stations include *Metro FM*, *5FM* and *Good Hope FM*. *Metro FM*'s target audience is 25-34 year old black urban adults. The station offers contemporary music programming and is the largest national commercial station in South Africa. A national English station, *5FM* is geared to the nation's youth with an emphasis on contemporary music and entertainment news. *Good Hope FM* is an adult contemporary station based in Cape Town.

Jacaranda 94.2, broadcasting mainly in Gauteng, is the largest independent commercial station, reaching approximately 1.8 million listeners weekly with easy listening adult contemporary music and news. *East Coast Radio*, the second-largest regional station, broadcasts a combination of music and news in Durban and throughout KwaZulu-Natal.

There are more than 100 community radio stations that provide diverse programming in different languages for local areas. A community broadcasting service, as defined by the Broadcasting Act of 1999, is one that is controlled by a non-profit entity that serves a particular community. It may be funded by donations, sponsorships, membership fees or advertising. These stations range from *Jozi FM*, which reaches more than 400 000 listeners in Johannesburg, to small stations in remote areas and college stations that reach only a few thousand.

Community radio stations continue to struggle to get advertising and often require private donations and government support to stay afloat. Listenership of community stations continues to increase with more than 8.5 million people tuning in each week, comprising more than a quarter of the overall radio-listening audience.

Community radio plays an important role in the broadcasting environment in that it provides diversity for listeners, local information for specific communities, as well as being a training ground for commercial broadcasting talent. Community radio allows advertisers to target their commercials to very specific audiences in their own language. It also reaches out to its local communities by participating in local events and its radio personalities can become community celebrities.

The Independent Communications Authority of South Africa (ICASA), whose role it is to issue broadcast licences, ensure universal access and hear disputes brought against licensees, regulates the industry.

In February 2012, ICASA issued three invitations to apply (ITAs) to provide commercial sound broadcasting in the primary and secondary markets. In the primary markets, the authority intends to award two licences in Gauteng, two in the metropolitan area around Durban and two in the metropolitan area around Cape Town, amounting to a total of six new licences. With regard to the secondary markets, the authority plans to award one licence in the Northern Cape, two in the Free State and one in the Eastern Cape Province, for a total of four new licences in these markets.

Radio provides a reach and frequency that is unmatched by any other medium, making it an important part of any advertising budget. Since radio stations cater to specific audiences, they provide an effective means to reach a geographically or demographically targeted audience.

Top 10 radio stations by listenership (2011)
Ukhozi FM
Metro FM
Umhlobo Wenene FM
Lesedi FM
Motsweding FM
Thobela FM
5FM
RSG FM
Gagasi 99.5
Jacaranda 94.2
East Coast Radio

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates and the South African Advertising Research Foundation

Radio commercials can also be produced relatively cheaply and with short lead times, which provide advertisers with maximum flexibility. The use of radio personalities at advertising events, as well as the use of social media platforms, allows for effective integrated advertising campaigns.

Advertising

Radio is the most popular medium in South Africa, reaching almost 89% of the population on a weekly basis with a wide variety of stations available in most areas. With such a wide audience, advertisers are able to reach a broad range of consumers.

Ukhozi FM, SABC's Zulu-language station, was the top-rated station by audience size in 2011. It was followed by *Metro FM*, the English-language SABC station programming contemporary black-oriented music and *Umhlobo Wenene FM*, a station targeted at Xhosa listeners.

The Radio Audience Measurement Survey (RAMS), issued by the South African Advertising Research Foundation (SAARF) in June 2012, stated that time spent listening to radio declined by nine minutes on a daily basis from last year to three hours and 33 minutes. The weekly penetration rate remained flat with a negligible 0.1% decline from the prior year.

As a group, the African language stations operated by the SABC have the largest audiences. *Metro FM* continues to be the most popular national station, with over six million listeners above the age of 15 per week, followed by *5FM* with over two million listeners.

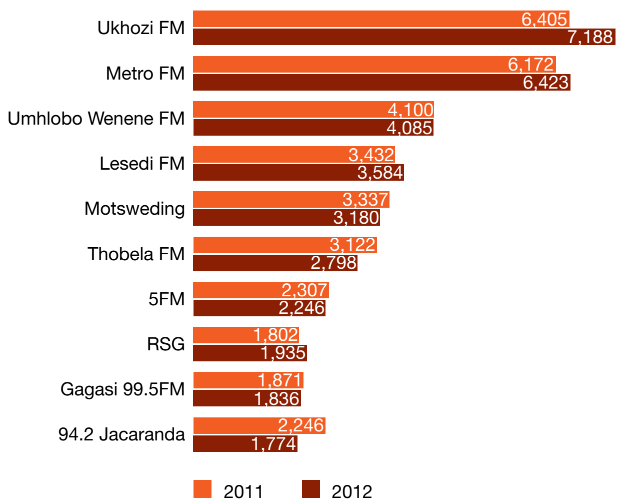
Ukhozi FM is the most popular station overall, with over 7 million listeners per week. *Umhlobo Wenene FM* is next at just over four million, followed by *Lesedi FM* and *Motsweding FM* at more than three million listeners each.

Among the regional non African-language stations, *RSG* has overtaken *Jacaranda 94.2* as the leader with 1.9 million listeners per week.

Community radio stations attract much smaller audiences than the commercial or public stations. Overall, the community stations attract more than eight and a half million listeners weekly, with *Jozi FM* leading with more than 400 000 listeners, followed by *Unitra Community Radio* with more than 350 000 listeners. The June 2012 RAMS report estimates that the entire radio industry attracted around 31 million listeners above the age of 15 every week, a 2.6% increase from the same time last year.

Jacaranda 94.2 is the top radio station for the bilingual English/Afrikaans market in Gauteng. In 2012, *Jacaranda 94.2* launched BrandXpand, a project to encourage new advertisers to try radio. The project entails hosting seminars explaining the benefits of radio advertising as well as providing unsold inventory to a select group of advertisers at deep discounts.

Figure 5.4: Listenership (millions)



Source: South African Advertising Research Foundation RAMS June 2012

Radio

The Radio Advertising Bureau (RAB) was launched in 2008 as an association to promote the use of radio as an advertising platform. The RAB's main focus is educating the advertising community as to the strengths of radio and how to use the medium more effectively.

In 2011, the RAB announced the initial results of RadioGAUGE, the largest radio effectiveness study ever undertaken in South Africa. The study, which used telephone interviews as well as face-to-face interviews, evaluated the effectiveness of different types of adverts and the importance of radio as part of a marketing plan.

The overriding key to success in radio is the same as for all the entertainment and media sectors – attractive content, whether it is new or repackaged.

According to Gilda de Araujo, former General Manager at the RAB, '2012 heralds a brand new chapter for radio advertising and, more and more, savvy advertisers are acknowledging that successful campaigns demand the time, effort and nurturing of an involved team and more.' This is what she believes we can expect from radio advertising in 2012:

- **Branded content:** Programming and advertising are supposed to form a symbiotic relationship. In order for radio advertising to work, it needs to 'move' or entertain first, and then be skilfully integrated into a station's compelling programming line-up.
- **30-second ads are not the be-all-and-end-all of radio advertising:** Advertisers are looking to go beyond the realm of the generic ad and include features such as interviews, drama serials, sponsorships and outside broadcasts for more innovative programme integration and listener relevance. An example of this is FNB's 'Hello Steve' campaign, which moved away from the traditional 30-second slot. This campaign has earned accolades throughout the industry and, according to reports, great results for FNB.
- **The idea first, then duration:** Consumers are no longer constrained by time as it is the quality of an advertising idea that is more important than the media length of the ad.
- **The return of the jingle:** Jingles and pneumonics trigger instant brand recognition in the hearts and minds of the listeners. These help brands build firm relationships with listeners and stand out from the media clutter.
- **Radio drives online:** Radio has the power to create communities of interest and to act as a focal point for communities to talk about things that are happening around them. By tapping into its immediacy and power to start, maintain and grow conversations, radio will remain one of the best mass-reach media to boost awareness of brand presence on new media platforms.
- **Station-advertiser collaboration:** Marketers will see the need to collaborate with stations, increasingly becoming content generators with the focus of entertaining and engaging listeners.
- **Power of personality:** One of radio's strengths lies in the personal relationship created between listeners and radio personalities. With the ever-expanding scope of radio presenters' influence via social media platforms, we'll see more brands matching themselves to a show or host.

Source: 'Reasons not to touch the dial', www.bizcommunity.com (Jan 2012)

With a growing element of campaigns including online and the social media space, advertisers are increasingly looking to radio stations to develop ways for their brands to be integrated into this ever-expanding content generation and to amplify conversations around their brands to achieve meaningful results.

Regardless of novel promotions or new platforms, the overriding key to success in radio is the same as for all the entertainment and media sectors – attractive content, whether it is new or repackaged. Offering unique and local content is a strategy that radio stations are successfully adopting.

Digital radio

Digital radio has the potential to improve the effectiveness of radio by increasing the number of stations that can be broadcast with the same amount of spectrum, thereby increasing the advertising potential. Additionally, as a result of less interference, the sound quality is much improved with FM stations having the sound quality of CD recordings. In addition, digital radio provides a data stream that can be transmitted along with the music, allowing the station to provide information about the songs. The biggest drawback to converting to digital radio is that all existing receivers would become obsolete and would have to be replaced.

Mobile TV, a company that is planning to introduce mobile television services in South Africa using the digital multimedia broadcasting (DMB) standard used in South Korea, would also like to introduce South Africa's first digital audio broadcasting (DAB) radio stations, which could potentially replace FM radio. Mobile TV has completed the technical tests of DMB in Gauteng and is applying for a licence from ICASA.

It is unlikely that the complete migration to digital radio broadcasting will take off in South Africa anytime soon as there are currently no plans to replace the analogue FM service with a digital service. The experience of DAB in other countries has been mixed. The United Kingdom is the most advanced in the penetration of DAB but even there digital radio has not translated into meaningful revenues. As a result, we do not expect digital radio to have a meaningful impact on the South African market in the foreseeable future.

Our digital growth is exploding, but radio isn't going away, it's going everywhere.

– Gary Knell , CEO, US Pew Research Center

Internet radio

By contrast, another new technology – Internet radio – is making significant inroads in the South African market. Many of South Africa's most popular stations are streaming simulcasts of their programming online, thereby enabling listening throughout the country and the world.

Similar to traditional radio, Internet radio involves the streaming of audio that cannot be paused or replayed. This is in contrast to podcasting, in which content is downloaded.

New technology is releasing Internet radio from the computer, allowing it to become more portable and thereby reaching more people. Wi-Fi radios will enable consumers who are unwilling to pay for satellite radio, but who want more than the limited selection on terrestrial radio, to access Internet stations.

The South African radio community has embraced the Internet and the streaming of radio programmes on the Internet by both traditional radio broadcasters and Internet-only broadcasters is on the rise. By streaming their programmes online, station operators can widen their reach beyond their signal area and increase their potential to sell to national advertisers.

The number of people listening to Internet radio is increasing dramatically as people listen to the radio on their computers and mobile devices. A number of apps are available that enable consumers with smartphones like iPhones, Androids and BlackBerrys to listen to Internet radio on their handsets.

The constant levels of listenership that exist alongside the expansion of the Internet effectively dispel the myth that the online age will bring about the demise of radio. Indeed, the Internet is now seen as a well-suited complement to radio rather than a threat to it.

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Radio

It is also possible to develop Internet-only niche stations, thereby increasing the advertising potential. For example, *Ja.fm*, an Afrikaans online-only radio station launched by *Jacaranda 94.2*, utilises an app called Listener Driven Radio (LDR) that lets listeners vote for the songs they want to hear next, thereby enabling them to control the playlist. The station, which targets and reaches Afrikaans speakers worldwide, has a wider playlist than its parent station.

Other examples include *Worldtunes.net-All Hit Radio,* which is a new online station launched in February 2012. The station plays the top hits from the last three decades and features well known DJs who provide entertaining talk in addition to the music.

Ballz Radio, a talk radio station concentrating on sports and current news launched in April 2012 with a number of well-known radio personalities from other stations. *2OceansVibe Radio* is another of the local pioneers in online radio.

For traditional broadcasters and Internet-only broadcasters, online advertising represents a very small portion of their current radio advertising revenues. It is, however, a growing segment of the radio advertising market and with time will prove more important to the industry.

At present, only licensed radio stations are measured in terms of the RAMS surveys and this measurement includes their Internet listenership. As purely Internet-based radio stations are not currently reported on, this may limit their advertising potential. Revenue potential is also hampered by the lack of a consistent and uniform audience measuring system, which impacts the reliability of audience data and is, therefore, a concern for advertisers.

Radio stations have been utilising the digital world to foster their relationships with their listening audiences. Most stations are using social networks such as Twitter and Facebook as communication platforms. Stations are enhancing their websites to provide more information about their DJs and are sometimes providing online video feeds from their studios to give listeners a more immediate experience.

Radio stations have also been building their relationships with their listeners through the use of their websites. The sites provide background information on the stations' personalities as well as providing additional information about promotions and the products advertised.

In the near future, online radio listening on computers will be limited due to low local wired broadband penetration. However, wireless penetration is comparable to that of the USA, thereby providing an opportunity to listen to radio on smartphones, expanding the listening audience. The TuneIn app enables South Africans to listen to most of their favourite stations as well as stations from across Africa on their cell phones. Listening via mobile devices is rapidly gaining popularity, with the latest RAMS survey indicating a 24.7% rise in the number of people tuning in in this fashion.

The business model for traditional radio differs from that of Internet radio because there are no incremental costs for traditional radio for an increase in their listenership. In fact, more listeners enable the operators to charge more for their advertising. By contrast, Internet radio operators must pay for a larger audience because of both the increased bandwidth necessary and an increase in royalty payments.

Satellite radio

Satellite radio is an analogue or digital radio signal that is transmitted via a geostationary satellite and has a much larger geographical footprint than terrestrial FM stations. In the USA, satellite radio entered the marketplace to resolve some of the limitations of traditional radio, including limited range and poor transmission.

For instance, travellers cannot listen to their favourite programming outside their local region. With satellite radio, travellers can listen to their favourite programming with clear transmissions wherever they are.

They can also listen to niche programming in a commercial-free environment. Services provided by companies such as *Sirius XM* offer this service in the USA and Canada. In South Africa, satellite radio is insignificant and therefore no financial information on it has been included in this publication. Digital decoders, primarily used for satellite television, also offer access to a large number of radio stations thereby increasing radio's reach.

Radio advertising revenues

Revenues for public stations include both advertising and public funding. From a purely advertising perspective, *94.7 Highveld Stereo* again attracted the most revenue in 2011 followed by *Jacaranda 94.2*.

Overall, there were six private radio stations and four public radio stations in the top ten.

Top 10 radio stations by advertising revenue (2011)
94.7 Highveld Stereo
Jacaranda 94.2
Metro FM*
KFM
East Coast Radio
Talk Radio 702
Ukhozi FM*
5FM*
Kaya FM
Lesedi FM*

*Public radio station
Sources: PricewaterhouseCoopers LLP, RAB Revenue Report

Radio advertising (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Radio advertising	2 422	2 650	2 664	3 019	3 243	3 460	3 715	3 990	4 290	4 565	
% change	*14.3*	*9.4*	*0.5*	*13.3*	*7.4*	*6.7*	*7.4*	*7.4*	*7.5*	*6.4*	*7.1*

Sources: Radio Advertising Bureau, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Advertising revenues increased 7.4% in 2011. This was lower than the 13.3% gain experienced in 2010, which was boosted by the FIFA World Cup.

Unlike the situation in many Western countries where radio is a mature medium, in South Africa the liberalisation of radio is a relatively recent phenomenon. As a result, the number of community stations reaching remote areas is still growing and new commercial stations are being licensed.

Radio advertising is expected to continue to exhibit above-average growth rates compared to other media due to the increase in the number of stations.

We expect that advertising revenues will increase from R3.2 billion in 2011 to R4.6 billion in 2016, a 7.1% increase compounded annually.

Public funding

Public broadcasting, which includes radio, is funded by advertising, Government grants and TV licence fees. Public funding, which excludes advertising revenues earned by public stations, is allocated between television and radio. In 2011, public radio received an estimated R445 million in licence fee revenue.

The continuous growth in the number of television households combined with modest fee increases every other year have increased the amount of funding for public broadcasting. The SABC has asked for an increase in the licence fee, which is reflected in the sudden jump in public funding in 2013. The increase, which must receive government approval, is part of the SABC's turnaround strategy following a near financial collapse in 2009. Following the rate increase, we expect the increases to return to historic levels of around 1% per annum.

The Public Service Broadcasting Bill, released in October 2009, proposes eliminating the existing licence fee and replacing it with a combination of sources to fund public broadcasting. These include a ring-fenced personal income tax of up to 1%, contributions from business, money appropriated by Parliament and contributions from the broadcasting services licensees. This new system is expected to be more efficient and less costly to operate than the current licence fee collection system.

It has been suggested that the money would go to a Public Service Broadcasting Fund and some of the money could also go to community stations. The current licence fee structure is still operating as the proposed Public Service Broadcasting Bill was recently recalled by the Minister of Communications.

We expect public funding to reach R480 million by 2016, growing at 1.5% on a compound annual basis from the R445 million registered in 2011.

Public funding (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Public funding	430	434	439	442	445	449	470	473	476	480	
% change	*1.2*	*0.9*	*1.2*	*0.7*	*0.7*	*0.9*	*4.7*	*0.6*	*0.6*	*0.8*	*1.5*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Challenges facing the industry

The National Association of Broadcasters (NAB) remains in dispute with the South African Music Performance Rights Association (SAMPRA) regarding needletime royalties payable for the broadcast of copyrighted sound recordings. It had been suggested by SAMPRA that radio stations, depending on their content played, be required to pay up to 10% of their net broadcasting revenue to songwriters based on a formula proposed by SAMPRA. A recent judgement by the Commissioner of Copyright at the Copyright Tribunal, established a rate of up to 7% as an equitable measure. The NAB lodged an application for leave to appeal the judgement.

Retention of key personnel, particularly DJs and music managers, but also support staff, continues to test the industry. Listeners associate with particular radio personalities and the loss or movement of personalities may result in quite significant swings between stations, which as a result impacts profit margins.

Radio

Critical legal issues for radio broadcasters

South Africa does not currently have a national media law. Journalists and the media are thus not subject to special regulations, but have to comply with general laws. The Electronic Communications Act (ECA) is the overarching legislation impacting the radio sector. The following are some of the critical legal issues facing radio broadcasters:

Licensing conditions

ICASA stipulates minimum requirements for community radio stations – programming should be relevant to defined communities and sourced within the target community. Stations are also required to broadcast news and local news. The ECA's new licensing regime consists of: individual licences – public and commercial for a maximum of 20 years and class licences – community, low-power stations and channels, for a maximum of 10 years. Radio broadcasters need to have a good understanding of the licence conditions and to ensure they comply with them. Adherence to licence conditions is required.

Frequency coordination

Holders of radio frequency spectrum licences are required by the ECA to coordinate their respective frequency usage with other such licensees to avoid harmful interference, ensure efficient use and allow for the provision of cost-efficient services.

Choice to self-regulate

Broadcasters have the option of either adhering to a code developed by ICASA or of abiding by their own code administered by the BCCSA (the Broadcasting Complaints Commission of South Africa). Self-regulation is being challenged by the ANC with its proposed Media Appeals Tribunal that would allow individuals to pursue an action against the press via a body accountable to Parliament as opposed to the Press Ombudsman. Self-regulation is, however, endorsed by the ECA.

Media diversity

Broadcasters are expected to redress inequities in media ownership. The Media Development and Diversity Act (MDDA) establishes an agency to create an enabling environment for media development and diversity. Ownership, control and access to the media by historically disadvantaged groups are the primary considerations under the Act. The Information and Communication Technology (ICT) Charter has also recently been approved by the Department of Trade and Industry (DTI) and aims to transform the industry much more aggressively than the existing generic charter.

Government expects commercial broadcasters to fulfil certain public service responsibilities, such as the airing of predominantly South African content, provision of news and commentary and increasing the diversity of programme content and ownership in broadcasting.

Ownership

The ECA provides that no foreign person or entity may own or control more than 20% of any broadcasting licence and no person or company may control more than two FM/AM commercial radio stations. Such stations should not have similar licence areas. The Act also limits cross-media control of broadcasting services ostensibly to prevent concentration and control in the media and to ensure plurality of journalistic opinion.

Competition considerations

The Competition Commission is reported to be interested in working with the MDDA in gathering information on ownership and control and industry pricing practices. Competition authorities regularly deal with requests to consider applications for mergers in the media industry.

Freedom of expression

Although freedom of expression is guaranteed by the South African Constitution and promoted by PAIA (The Promotion of Access to Information Act), there are currently laws on the statute books that impede the media. These include the Criminal Procedure Act, the National Key Points Act and the Protection of Information Act. The new Protection of State Information Act is controversial due to the severe restrictions it places on freedom of information and the penalties it imposes. Any information that is deemed to be of 'national interest' can be 'protected' under this bill, whether that information be a government document or files from a police investigation. The sentence for publishing 'protected' information is 25 years in prison. The Protection of Information Act was passed by Parliament in November 2011.

Defamation

Defamation is linked to the constitutional right to dignity. Journalists are required to weigh up the conflicting rights to unimpaired reputation and to freedom of expression. Permissible defences include public interest, privilege, fair comment and absence of intention to defame. South African law does not recognise journalistic privilege, the protection afforded to journalists from being compelled to testify about confidential information or sources.

Privacy

Guaranteed by the Constitution, and weighed up against public interest considerations, this right safeguards private information from being published without reason. Invasion of privacy can take two forms: disclosure of private information and intrusion into the private sphere of another. Courts have recognised that the public may take a greater interest in public officials than in other individuals. Salary disclosures and other activities that may impact upon their public role may have to be made available for public scrutiny.

Protection of sources, pre-publication gagging and access to courts

Section 205 of the Criminal Procedure Act empowers courts to imprison any person refusing to give information relating to a criminal investigation. Although the South African National Editors' Forum (SANEF) has signed an understanding with the Ministers of Justice and Safety and Security to investigate amending Section 205, no such amendments have occurred. The Act allows for hearings to be held behind closed doors and stipulates that no information may be published about such cases. It also contains a 'reveal your sources' provision.

To avoid interdicts to stop information from being published, broadcasters must take reasonable precautions to establish the accuracy of a report and whether such report is in the public interest to defend a defamation claim.

Broadcasters need to bear in mind the specific crime of scandalising the court. This would include attacks on the capacity or impartiality of a judge or magistrate or breach of the sub judice rule. Sub judice means that a particular case is being considered by a judge or magistrate, and therefore reporting on these matters can result in harm to the administration of justice.

Consumer rights considerations

Particular consideration must be given to the eight established consumer rights in relation to marketing, competitions and giveaways. The Consumer Protection Act provides redress mechanisms for consumers. Consumer rights include the right to disclosure, to equality and to reasonable terms and conditions.

Internal security limitations

The Defence Act empowers the State President to censor information when a state of national defence is declared and provides for classification of information. The Protection of Information Act denies access to prohibited areas and prohibits disclosure or receipt of official secrets. The National Key Points Act makes a transgression of reporting on activities at a key point. Journalists often only discover the transgression when authorities invoke the Act.

Equality

The Promotion of Equality and Prevention of Unfair Discrimination Act prohibits speech advocating hatred and constitutes incitement to cause harm.

Content rules

ICASA Regulations set quotas that require the airing of a higher proportion of local content. Music content – public and community stations must air at least 40% South African music; 25% for commercial stations. Commercial radio stations are required to broadcast at least 30 minutes of news each day.

Acknowledging copyright

Broadcasters are bound to respect the intellectual property rights of the owner of an original work. Copyright in a work vests in the author as soon as the work is created. A media organisation is the owner of copyright created by its employees. The exceptions to infringement of copyright include news reporting that is fair dealing and that mentions the source and author's name.

Copyright is not infringed in any other written work available to the public as long as fair dealing, extent of quotation is justified and the source and author are mentioned. It is lawful to reproduce for reporting on judicial proceedings and official texts and Parliamentary speeches can be freely used. Confidential sources must remain so.

Royalties have to be acknowledged. The National Association of Broadcasters is currently in dispute with the South African Music Performance Rights Association (SAMPRA) regarding the charging and distribution of needletime royalties.

Online challenges

Online broadcasting creates potential jurisdictional and ownership difficulties. Online purchasing of radio products (podcasts and subscriptions) places the broadcaster within the ambit of the Electronic Communications and Transactions Act.

Denise Fouché – Technology Legal Advisory Service, PwC

Global trends in the radio industry

Outlook

- Advertising represents around two-thirds of global radio industry revenues, the remainder being funded through public broadcast subscriptions and individual subscription fees.
- The radio market will increase by 3.5% compounded annually to $56.2 billion in 2016 from $47.3 billion in 2011.
- EMEA will increase at a 1.9% compound annual rate from $16.4 billion in 2011 to $18.0 billion in 2016.
- Global radio advertising will increase by 3.8% compounded annually to $38.7 billion in 2016 from $32 billion in 2011 as revenues recover from the effects of the economic downturn.
- Public radio licence fees will grow at a modest, 1.1% compound annual rate from $12.4 billion in 2011 to $13.1 billion in 2016.
- Satellite radio subscriptions will be the fastest-growing component, averaging 9.5% compounded annually to $4.5 billion from $2.8 billion in 2011.

Key drivers

- The radio industry rebounded in 2010 following the devastating global economic events of 2009. Continuing improvement in economic conditions led to an increase in advertising revenues in 2011, though at a slower rate.
- Terrestrial radio broadcasters are seeking additional revenue streams through the introduction of digital radio and online radio, which expand listeners' options. However, these technologies are not expected to add significant revenues in the near future.
- Satellite radio will boost spending in North America.
- Modest increases in public radio licence fees will help maintain the radio markets in EMEA and the Asia-Pacific region.

Global radio market by component (US$ millions)

	2007	2008	2009	2010	2011p	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Radio advertising	35 774	34 118	29 640	31 568	32 038	33 537	34 751	36 047	37 358	38 687	
% change	*0.6*	*-4.6*	*-13.1*	*6.5*	*1.5*	*4.7*	*3.6*	*3.7*	*3.6*	*3.6*	*3.8*
Public radio licence fees	11 754	11 939	12 192	12 357	12 383	12 467	12 703	12 801	12 933	13 086	
% change	*2.2*	*1.6*	*2.1*	*1.4*	*0.2*	*0.7*	*1.9*	*0.8*	*1.0*	*1.2*	*1.1*
Satellite radio subscriptions	2 016	2 440	2 479	2 617	2 834	3 597	3 830	4 063	4 267	4 471	
% change	*48.2*	*21.0*	*1.6*	*5.6*	*8.3*	*26.9*	*6.5*	*6.1*	*5.0*	*4.8*	*9.5*
Total	**49 544**	**48 497**	**44 311**	**46 542**	**47 255**	**49 601**	**51 284**	**52 911**	**54 558**	**56 244**	
% change	***2.3***	***-2.1***	***-8.6***	***5.0***	***1.5***	***5.0***	***3.4***	***3.2***	***3.1***	***3.1***	***3.5***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, Global entertainment and media outlook 2012-2016 (PwC, 2012)

Drill down through data across segments and components.

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Chapter 6

Music

Candace van Binsbergen

The music market consists of recorded music and live music. Recorded music comprises spending on physical formats – albums, single sound recordings and music videos. Digital distribution consists of music distributed to mobile devices and music downloaded from the Internet through licensed services or app stores.

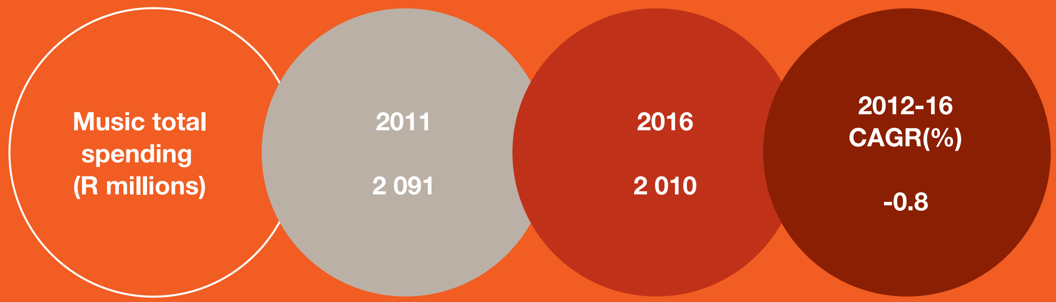
Live music consists in spending on concerts and music festivals, and comprises end-users' ticket spending at the events, spending on merchandise and food, and sponsorship support. Figures represent end-user spending, not revenues to music companies.

The recorded music market does not include advertising generated by Internet radio services, nor does it include revenues from music publishing.

Spending is measured at retail, which can be substantially higher than the wholesale or trade value revenues that are often reported.

Outlook

… at a glance



	2011	2016	2012-16 CAGR (%)
Recorded music	**1 377**	**1 007**	**-6.1**
Physical distribution	1 263	746	-10.0
Digital distribution	114	261	18.0
Live music	**714**	**1 003**	**7.0**
Total music	**2 091**	**2 010**	**-0.8**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Music

…in brief

- The shift from physical to digital spending is continuing due to increased broadband, smartphone and tablet penetration.
- South Africa has very few licensed digital services compared to other countries.
- Recorded music currently dominates the music market, but it is expected to share the market with live music equally by 2016.
- Artists are relying more on concerts, with 360 deals allowing them to jointly participate in concert and recorded music revenues.
- Social media is playing a growing role in marketing tours and concerts.
- Live Nation and the FIFA World Cup in 2010 have helped showcase South Africa as an attractive destination for major international artists.
- Total spending on music is expected to decrease at a forecast 0.8% compound annual rate to R2.0 billion in 2016.

Overview

In 2011, the trend of declining physical distribution revenues and increasing digital spending continued. The music industry and all its participants are continuing to fight over a rapidly shrinking pie. To put this shift into context, the recorded music industry in South Africa saw total spending continue to fall, with a 2.6% drop in 2011, following the 4.1% drop experienced in 2010. The decline of 8.0% in recorded music spending was buffered by the accelerated growth of 9.8% in the live music market.

Consumers are spending less on music, if they are spending at all. In the physical distribution market, spending declined by 10.2%, while digital distribution spending increased by 26.7% over the same period. In contrast, the live music market grew by 9.8%, with end-user spending increasing by 9.7% and a small sponsorship market growing by 13.3%.

As expected, the physical recorded music market in South Africa has held up better than in many other countries as relatively low broadband penetration continues to limit digital competition. With broadband now taking off, the physical market is no longer as protected and declines have become steeper. During the past two years physical spending has fallen at double-digit annual rates.

Growth in broadband penetration and rising smartphone penetration is driving a developing licensed digital distribution market. Digital spending in 2011 was nearly three times the level in 2007, with a 26.7% increase in 2011 alone.

With the broadband revolution in South Africa, we expect the ongoing shift in spending from physical to digital to continue. Digital distribution allows immediate access to music at prices that are generally less expensive than physical music. The average digital song costs less than half the cost of an average physical single.

Individual tracks, which are for the most part unavailable in physical formats, are spurring the market for digital distribution. Digital distribution has made it far easier for fans to cherry-pick the best tracks from an album, so rather than pay for a whole CD that contains weaker songs as well as their favourites, they are opting to only buy the latter.

With the physical market now declining, artists are relying more on concerts than in the past. Labels and artists are entering into 360 deals in which they jointly participate in concert and recorded music revenues. The deals help cross-promote the recorded music and live performance markets.

Consumers have almost unlimited choice and are willing to spend a significant amount of time searching for songs they like, very often using services such as YouTube. Social media features are becoming evident on many music websites. Social media is also playing a growing role in concerts and promoting new acts. Tours are marketed on Facebook and other sites and social media activity generates interest in tours. Social media is also playing a role in boosting the digital market – online commentary on acts and artists is stimulating interest and boosting downloads.

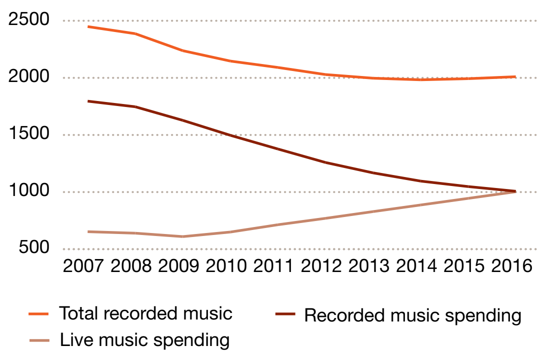
We expect physical spending to continue to fall at double-digit annual rates until 2014. We then project high single-digit declines in 2015-16. For the forecast period as a whole, physical spending is expected to decline at a 10.0% compound annual rate to R746 million in 2016 from R1.3 billion in 2011.

Digital spending is set to more than double from R114 million in 2011 to R261 million in 2016, averaging 18.0% growth on a compound annual basis.

We project overall recorded music spending to fall from R1.4 billion in 2011 to R1.0 billion in 2016, a 6.1% compound annual decline.

The live music market benefited from special concerts held in conjunction with the 2010 FIFA World Cup and from general exposure during the tournament. South Africa is expected to continue to attract more international tours, which boosted the market in 2011. Spending during the next five years is projected to increase at a 7.0% compound annual rate to R1.0 billion in 2016 from R714 million in 2011.

Figure 6.1: Music market (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

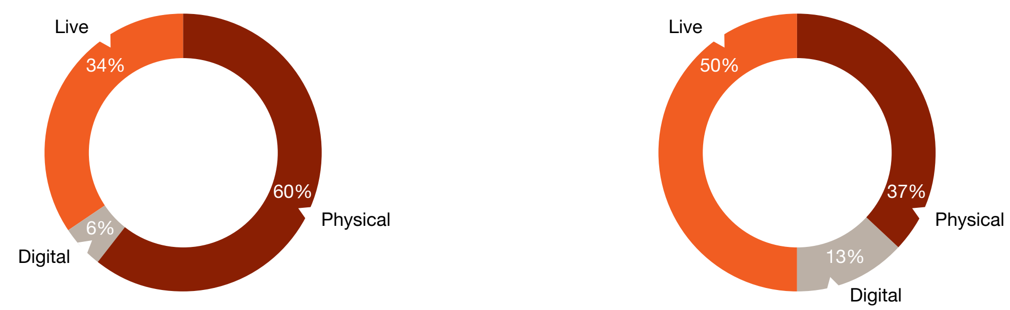
Music market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Recorded music											
Physical distribution	1 757	1 698	1 568	1 407	1 263	1 119	998	898	819	746	
% change	*2.5*	*-3.4*	*-7.7*	*-10.3*	*-10.2*	*-11.4*	*-10.8*	*-10.0*	*-8.8*	*-8.9*	*-10.0*
Digital distribution	39	49	60	90	114	140	170	198	229	261	
% change	*50.0*	*25.6*	*22.4*	*50.0*	*26.7*	*22.8*	*21.4*	*16.5*	*15.7*	*14.0*	*18.0*
Total recorded music	1 796	1 747	1 628	1 497	1 377	1 259	1 168	1 096	1 048	1 007	
% change	*3.2*	*-2.7*	*-6.8*	*-8.0*	*-8.0*	*-8.6*	*-7.2*	*-6.2*	*-4.4*	*-3.9*	*-6.1*
Live music											
Concerts/music festivals	653	640	610	650	714	770	829	887	945	1 003	
% change	*9.0*	*-2.0*	*-4.7*	*6.6*	*9.8*	*7.8*	*7.7*	*7.0*	*6.5*	*6.1*	*7.0*
Total music	**2 449**	**2 387**	**2 238**	**2 147**	**2 091**	**2 029**	**1 997**	**1 983**	**1 993**	**2 010**	
% change	*4.7*	*-2.5*	*-6.2*	*-4.1*	*-2.6*	*-3.0*	*-1.6*	*-0.7*	*0.5*	*0.9*	*-0.8*

Sources: International Federation of Phonographic Industry (IFPI), Recording Industry of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The overall music market has declined since 2007 and we expect it will continue to decline during the next three years. Then, beginning in 2015, growth in live music will offset moderating declines in recorded music and total spending will increase at low single-digit rates. The overall market will total an estimate R2.01 billion in 2016, a 0.8% decline compounded annually from R2.09 billion in 2011.

Figure 6.2: Share of music market



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Recorded music

Licensed digital distribution

Although growing rapidly in recent years, the digital market remains relatively small because of relatively low broadband penetration. Only 9% of households in South Africa had a fixed broadband connection in 2011, compared with 53% for all of the Europe, Middle East and Africa (EMEA) regions.

Since digital music in most countries is accessed online, low broadband penetration in South Africa limits digital spending. Digital music comprised only 8% of total recorded music spending in South Africa in 2011 compared with 23% for EMEA and 33% globally.

The disparity in broadband penetration is reflected in the relatively low number of licensed digital services in South Africa. In early 2012, there were only 12 licensed services, up from 10 a year earlier, but this is still well below that of most other countries, where it is not unusual to have 30 or more licensed digital music services.

Digital offerings globally fit into a few categories, many with common attributes. At present, the main distribution methods are:

- Downloads (e.g. iTunes)
- Streaming in which the consumer owns the music (e.g. Amazon Cloud Player)
- Streaming in which the consumer does not own the music and can choose the exact playlist (e.g. Spotify)
- Streaming in which the consumer does not own the music and can choose the genre (e.g. Jango)

Popular download services in other countries such as the iTunes Music Store are not currently available in South Africa. Likewise, popular streaming services such as Spotify are also not yet available locally. However, Simfy, South Africa's first fully-fledged music streaming service launched its services in August 2012 in partnership with Primedia-owned mobile content company eXactmobile.

The service offers access to more than 16 million tracks, two million albums and 650 000 artists for a subscription of R60/month. On joining, customers can enjoy an initial two-week free trial and can subscribe month-to-month thereafter.

Licensed digital music services in South Africa
DJs Only
Jamster
Just Music
Look & Listen
MTN Loaded
Music Station
Nokia Music
Omusic
Pick 'n Play
Rhythm Online
ThatGig
Vodafone Live

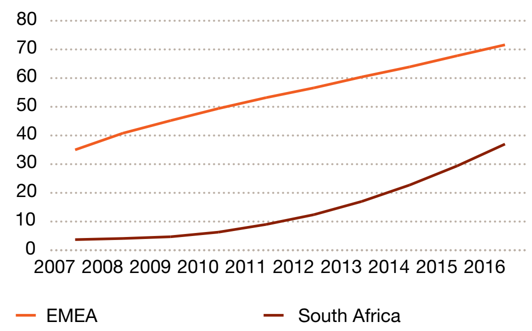
Source: IFPI

The service also has an offline mode specifically included for the South African market to ensure that users can listen to music offline without incurring additional bandwidth costs.

Simfy is currently available using mobile applications for Android, BlackBerry and iPhone, and is expected to launch an app for Nokia and the iPad in the fourth quarter of 2012.

Although broadband penetration in South Africa will not catch up with the rest of EMEA during the next five years, it is now growing faster than it had been previously. The number of broadband households has nearly doubled during the past two years and is expected to quadruple during the next five years. By 2016, an estimated 37% of households will have a fixed broadband connection.

Figure 6.3: Broadband household penetration (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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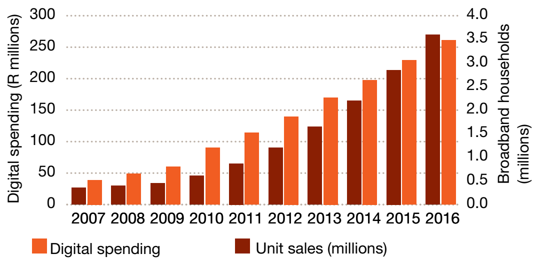
Growth in the number of broadband households contributed to growth in the digital music market during the past five years and we expect it will continue to do so during the next five years.

Figure 6.4: Broadband household vs digital spending (2007-2016)

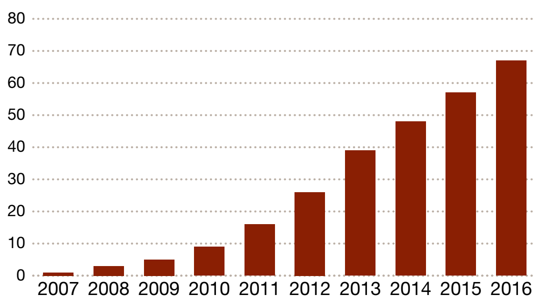


Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Smartphone penetration in South Africa is higher than in the past, at about 16%, although still well below that of many other countries, where 30% or more of the population have smartphones.

Nevertheless, smartphone penetration is growing and wireless networks are being upgraded. The analogue shutdown of television signals, now possibly delayed to June 2015, will free up spectrum for mobile broadband that should boost the market. We expect that two-thirds of the population will have a smartphone by 2016.

Figure 6.5: Smartphone penetration in South Africa (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Legislation in other countries

In the USA, the Stop Online Piracy Act (SOPA) and the Protect Intellectual Property Act (PIPA) are in the process of being approved by the House of Representatives and the Senate. The intention of this legislation will be to significantly expand the powers of American law enforcement in their effort to combat online trafficking in copyrighted and counterfeit goods. The proposed legislation intends to expand existing criminal laws to include the digital streaming of copyright material, with a maximum penalty of five years' jail.

In the UK, Internet users who illegally download music, movies and e-books will be sent warning letters in a crackdown that could lead to court action for copyright theft. The Digital Economy Act 2010 will tackle online piracy and in effect treat individuals as 'guilty until proven innocent'. The Act is expected to come into effect in early 2014.

Digital recorded music market

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Unit sales (millions)	5.0	6.1	7.3	10.6	13.0	15.6	18.4	20.8	23.4	25.6	
% change	*42.9*	*22.0*	*19.7*	*45.2*	*22.6*	*20.0*	*17.9*	*13.0*	*12.5*	*9.4*	*14.5*
Average price	7.80	8.03	8.22	8.49	8.77	9.00	9.25	9.50	9.80	10.20	
% change	*5.0*	*2.9*	*2.4*	*3.3*	*3.3*	*2.6*	*2.8*	*2.7*	*3.2*	*4.1*	*3.1*
Licensed digital spending (R millions)	39	49	60	90	114	140	170	198	229	261	
% change	*50.0*	*25.6*	*22.4*	*50.0*	*26.7*	*22.8*	*21.4*	*16.5*	*15.7*	*14.0*	*18.0*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Overall, mobile phone penetration exceeds 100% in South Africa. While most people still have feature phones rather than smartphones, the potential market for digital music is much higher through mobile devices than online. More than 80% of the digital music market in South Africa is accessed through mobile devices.

Wireless network upgrades, growth in smartphone penetration and the growing proliferation of tablets should make South Africa an attractive market for streaming services in the coming years.

We expect the combination of broadband and smartphone growth to expand the market for digital music. We project unit sales to increase at a 14.5% compound annual rate to 25.6 million in 2016 from 13 million in 2011.

More than 80% of the digital music market in South Africa is accessed through mobile devices.

The average price per unit will rise from R8.77 in 2011 to R10.20 in 2016, a 3.1% compound annual increase reflecting a growing share for digital albums and an emerging subscription market. Licensed digital revenues are expected to reach R261 million in 2016, an 18.0% compound annual increase from R114 million in 2011.

Top 10 downloaded songs for 2011

Rank	Title	Artist/Act
1	Lento	Professor
2	Loliwe	Zahara
3	Sizohlangana Ku Facebook	DJ Cleo
4	I Wanna Love You (featuring Nothende)	Lulo Cafe
5	Lengoma (featuring DJ Sbu)	Zahara
6	Waka Waka (This Time For Africa)	Shakira
7	Clap Your Hands (featuring Xolani Sithole)	Zakes Bantwini
8	What's My Name?	Rihanna
9	Alone (Dance Mix)	Liquideep
10	Someone Like You	Adele

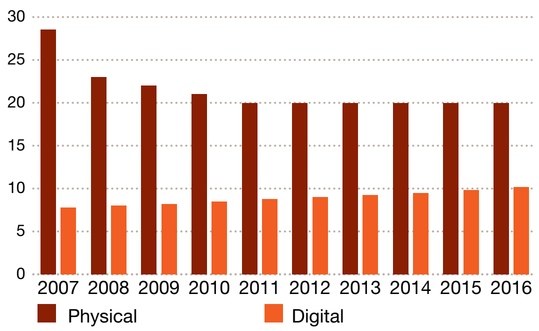
Source: Aquidneck Consulting

Physical distribution

Although now declining at double-digit rates, physical music is still the dominant component of recorded music in South Africa. CD sales remain the industry's main source of revenue and will continue to be so during the forecast period. Musica is the largest retail chain with approximately 150 stores. Look 'n Listen, Game, Makro, Shoprite, Checkers Hyper, CNA, Edgars and Pick 'n Pay are other mainstream South African music and entertainment retailers.

Stepped up growth in broadband and smartphone penetration is now fuelling a shift from physical to digital. For those with broadband or smartphone access, digital is an attractive alternative. People can buy individual songs, listen to music on portable devices, access music instantaneously and digital music is less expensive than physical music. The average digital track cost less than R9 in 2011, compared with R20 for an average physical single. For these reasons, the physical music market in South Africa is now declining at double-digit rates.

Figure 6.6: Average price per single (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Album unit sales fell 10.3% in 2011 to 15.7 million, music videos declined by 11.1% to 1.6 million and the singles market dropped by 50% to just 10 000.

South Africa is behind other countries in the erosion of its physical market and similar declines to those experienced in 2011 are expected to continue for the next few years.

In other countries, we are beginning to see evidence of a slowdown in the rate of decline in physical sales. There is a core market of people who will continue to purchase music in physical formats and who will not migrate to digital. As the physical market declines, a greater share of the remaining buyers will be that core market. While South Africa has not yet reached this point, we look for decreases to eventually moderate and project high single-digit declines in 2015-16.

We project album unit sales to fall at a 10.3% compound annual rate during the next five years, matching the decline in 2011. We expect faster decreases during the next three years and slower declines in 2015-16. Album unit sales will total an estimated 9.1 million in 2016.

The physical singles market has virtually disappeared, a key factor in driving digital sales. We expect unit sales of singles to remain at approximately 10 000 units during the forecast period.

We expect music video unit sales to fall to one million by 2016, a 9.0% compound annual decrease from 2011.

Total physical unit sales will decline to 10.1 million in 2016 from 17.3 million in 2011, a 10.2% compound annual decrease.

Physical recorded music unit sales (millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Albums	21.7	21.0	19.4	17.5	15.7	13.9	12.3	11.0	10.0	9.1	
% change	*1.4*	*-3.2*	*-7.6*	*-9.8*	*-10.3*	*-11.5*	*-11.5*	*-10.6*	*-9.1*	*-9.0*	*-10.3*
Singles	0.07	0.04	0.02	0.02	0.01	0.01	0.01	0.01	0.01	0.01	
% change	*0.0*	*-42.9*	*-50.0*	*0.0*	*-50.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Music videos	2.4	2.3	2.1	1.8	1.6	1.4	1.3	1.2	1.1	1.0	
% change	*14.3*	*-4.2*	*-8.7*	*-14.3*	*-11.1*	*-12.5*	*-7.1*	*-7.7*	*-8.3*	*-9.1*	*-9.0*
Total	**24.2**	**23.3**	**21.5**	**19.3**	**17.3**	**15.3**	**13.6**	**12.2**	**11.1**	**10.1**	
% change	*2.5*	*-3.4*	*-7.8*	*-10.2*	*-10.4*	*-11.6*	*-11.1*	*-10.3*	*-9.0*	*-9.0*	*-10.2*

Sources: Recording Industry of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Physical recorded music average prices (R)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Albums	68.89	69.00	69.25	69.50	69.75	70.00	70.25	70.50	70.75	71.00	
% change	*1.2*	*0.2*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*
Singles	28.57	23.00	22.00	21.00	20.00	20.00	20.00	20.00	20.00	20.00	
% change	*0.0*	*-19.5*	*-4.3*	*-4.5*	*-4.8*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Music videos	108.33	108.00	107.00	106.00	105.00	104.00	103.00	102.00	101.00	100.00	
% change	*-10.8*	*-0.3*	*-0.9*	*-0.9*	*-0.9*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*
Total	**72.69**	**72.75**	**72.86**	**72.83**	**72.96**	**73.09**	**73.33**	**73.55**	**73.72**	**73.79**	
% change	*0.0*	*0.1*	*0.2*	*0.0*	*0.2*	*0.2*	*0.3*	*0.3*	*0.2*	*0.1*	*0.2*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The average album cost R69.75 in 2011, up 0.4 % from 2010. We expect continued modest growth of 0.4 % annually during the next five years with the average album price rising to R71 in 2016.

The average singles price declined 4.8% in 2011 to R20.00. We look for the average price to remain at this level through to 2016.

The average music video cost R105 in 2011, down 0.9% from 2010. We expect continued declines in the average price at approximately the same rate, with the average music video costing R100 in 2016, a 1.0% compound annual decline from 2011.

The overall average price for all physical configurations will increase from R72.96 in 2011 to R73.79 in 2016, up 0.2% on a compound annual basis.

Spending on physical albums is expected to decline at a 10.0% compound annual rate to R646 million in 2016 from R1.1 billion in 2011. Music video sales will drop from R168 million in 2011 to approximately R100 million in 2016, a 9.9% decrease compounded annually. Spending on singles has been less than R500 000 since 2009 and is expected to remain below this level.

We project overall physical spending to decline at a 10.0% compound annual rate during the next five years, falling to an estimated R746 million in 2016 from R1.3 billion in 2011.

Physical recorded music market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Albums	1,495	1,449	1,343	1,216	1,095	973	864	776	708	646	
% change	*2.6*	*-3.1*	*-7.3*	*-9.5*	*-10.0*	*-11.1*	*-11.2*	*-10.2*	*-8.8*	*-8.8*	*-10.0*
Singles	2	1	†	†	†	†	†	†	†	†	
% change	*0.0*	*-50.0*	—	—	—	—	—	—	—	—	—
Music videos	260	248	225	191	168	146	134	122	111	100	
% change	*2.0*	*-4.6*	*-9.3*	*-15.1*	*-12.0*	*-13.1*	*-8.2*	*-9.0*	*-9.0*	*-9.9*	*-9.9*
Total	**1,757**	**1,698**	**1,568**	**1,407**	**1,263**	**1,119**	**998**	**898**	**819**	**746**	
% change	*2.5*	*-3.4*	*-7.7*	*-10.3*	*-10.2*	*-11.4*	*-10.8*	*-10.0*	*-8.8*	*-8.9*	*-10.0*

†Less than R500 000
Sources: IFPI, Recording Industry of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Top 10 physical music sales of 2011

Rank	Title (release date)	Artist/Act
1	21 (2010)	Adele
2	Loliwe (2011)	Zahara
3	Now 59 (2011)	Various Artists
4	Now 58 (2011)	Various Artists
5	Now 57 (2011)	Various Artists
6	Christmas Album (2011)	Michael Bublé
7	Rugby Is Groot (2011)	Various Artists
8	Crazy Normal (2011)	Trevor Noah
9	Wees Lig (2011)	Juanita du Plessis
10	Nothing But The Beat (2011)	David Guetta

Source: Aquidneck Consulting

Physical piracy

Physical piracy remains a significant problem in South Africa, estimated at up to 25% of legitimate sales. The recording industry is allocating more resources to anti-piracy initiatives, targeting not only illegal recordings being distributed domestically, but also bootlegged copies in neighbouring countries that are being sold in South Africa. Illegal copies, which are priced at approximately 65% below that of legal products, reduce legal sales.

Shwi, Lucky Dube, Yvonne Chaka Chaka, Steve Hofmeyr, Chicco, Arno Carstens, Rebecca Malope, Mandoza, Joyous Celebration and the late Brenda Fassie are some of the most pirated artists in South Africa. Music piracy is one of the main reasons why young and upcoming local artists struggle to become successful artists in South Africa.

The Recording Industry of South Africa (RiSA) is the body representing the South African recording industry. Their anti-piracy unit (RAPU) has successfully ensured that offending websites and streaming services have been taken down due to their copyright infringement.

Filter digital and nondigital spending data.

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Royalty arrangements – making sense of a complex world

Royalty agreements are a common feature in the media sector. PwC's *15th Annual Global CEO Survey* highlighted that CEOs in the E&M sector are particularly likely to be planning strategic alliances and to view collaboration as critical to success.

The licensing of intellectual property from one party to another is a key component of many media sectors as content is made available to consumers across multiple platforms and territories. Whether it be royalties for print, music, video games or other forms of content, the implications of these transactions are often complex and may vary depending on the substance of the arrangement.

Royalties are usage-based payments made by one party (the 'licensee') to another (the 'licensor') for the right to use long-term assets, including intellectual property. In many cases, media companies not only receive royalty revenues for their products but also pay royalty fees to authors, music artists, video game developers and other content producers. Depending on the industry in which the entity operates, royalties can take many different forms.

Royalty arrangements typically specify a percentage of gross or net revenues derived from the use of an asset, or a fixed price per unit sold of an item, but there are also other models of compensation.

The music industry has seen significant change over the last few years with the dramatic acceleration of the transition from physical (e.g. CDs) to digital (e.g. iTunes). This has negatively affected total spending on recorded music because digital prices are generally much lower than physical prices. This has led to considerable experimentation with business models as industry players seek new ways to monetise evolving consumer behaviours.

Who are the key players?

Royalties in the music industry are earned differently by recording artists, songwriters and publishers. This is based on copyright law in most jurisdictions.

Recording artists earn royalties from the sale of their musical works, for example through sale of CD or online purchases of music tracks, and not from 'public performances' (e.g. broadcasts) of their work. Songwriters and publishers, on the other hand, earn a greater portion of their royalties from performance royalties than from sales of CDs or digital downloads.

What are the types of royalties in the industry?

Music royalties are complex because there are two separate copyrights, the rights to the song and the rights to the sound recording. Royalties therefore vary based on use and distribution of the music or composition. A single composition can have various sound recordings owned by different record labels.

When a piece of music is composed, the composer immediately owns the rights associated with the intellectual property i.e. the composition. When the composition begins to be performed and recorded onto physical media, it is necessary to register the work with the correct music rights organisations, which helps protect and administer those rights and collect royalties for the composition. Where the song is recorded onto physical media by a recording artist, the recording artist will own the rights to the music recording.

Music

The term 'music royalties' encompasses:

- Print royalties;
- Mechanical royalties;
- Performance royalties; and
- Synchronisation (synch) royalties.

Print royalties arise from music that is distributed in print form or 'sheet music'. Revenues on these types of royalties are insignificant relative to other music royalties.

Mechanical royalties arise primarily from the sale of CDs, but encompass any audio composition that is recorded onto a physical medium such as DVD, CD, cassette tape or vinyl. An artist that wants to record a piece of music onto one of these physical formats must obtain permission from the person or organisation that owns or controls the mechanical rights for that piece of music.

Composers earn royalties from their work being copied onto DVDs, CDs, cassette tapes and vinyl to be distributed and sold by music retailers. They also earn royalties from their music being copied onto physical media, such as hard drives, to be broadcast on TV.

Performance rights arise from a musical composition being performed publicly and/or played on the air, including live music performed by a band in any public space and pre-recorded music being played in public spaces such as restaurants, bars and nightclubs.

Performance rights also encompass music aired by television and radio broadcasters. Individuals and entities must get the permission of the composer of a piece of music to play that music in public or on the air and the composer earns royalties each time their composition is performed or broadcast.

Synch royalties arise mainly from the use of music in audiovisual productions such as in DVDs, movies, and advertisements. These royalties are normally payable to the composer and/or publisher of the music.

Source: Making sense of a complex world – royalty arrangements: accounting for media companies (PwC, June 2012)

The South African music industry: on air, online, out there – but is it protected?

Copyright – the overarching right: It is the musical work that forms the basis of the creation of value in the music industry and it is the right and the payment for the right to exploit musical works that the Copyright Act protects. For musical works, these rights include the graphic right to print or publish the music, the reproduction right to record the music, and the performing right to perform the music in public, including the right to broadcast the music. The most lucrative is the performing right, which provides for a royalty fee payable to the artist for performances of his/her work in public.

Under the Copyright Act, no formal registration is required to secure copyright protection. As soon as the work is created in a tangible form it is protected. This includes written copy, recorded music, filmed movies and digitised data). Copyright extends for the lifetime of the composer and for 50 years after death. The South African Music Rights Organisation (SAMRO) the primary representative of music performing rights in South Africa, distributes royalties to heirs.

Performance right: A licence allowing the music to be performed live or broadcast. The royalty is paid to the songwriter and publisher when performed live or when broadcast.

Mechanical right: A licence for permission to mechanically reproduce music onto forms of media for public distribution. This royalty is paid to the songwriter and publisher, and is dependent on the number of recordings sold.

Needletime rights: The remuneration of music performers and producers for the public performance or use of their recorded performances. An organisation known as the South African Music Performance Rights Association (SAMPRA) has been accredited as a needletime tights society to administer needletime rights on behalf of record companies, while SAMRO has also been accredited as a needletime rights society to administer needletime rights on behalf of recording artists/musicians.

Legal matters to consider

Online activity: streaming, downloading, purchasing, sharing, searching, linking, blogging, peer-to-peer networking, storing: Safe-harbour provisions should be examined to assess whether this type of activity constitutes infringement.

Competition law and consumer issues: Ensuring fair prices to encourage legal downloads. The dominance of players like Apple attracts the attention of competition authorities.

Sampling: Incorporating a portion of a prior recording into a new recording constitutes copyright infringement of the sound recording (owned by the record company) and the song itself (owned by the songwriter or the songwriter's publishing company).

Synchronisation: A licence is required when songs are included in audiovisual works (movies, television shows, television adverts, video games)

Copying: Converting an original CD into a digital file (for example to a personal MP3 player) will be accepted as 'fair use' provided it is copied from a CD legitimately owned and is used for personal use and not distributed to others.

Streaming: Technology that delivers media without the need for download. Websites that engage in this practice require permission from the copyright holders.

So…

The myriad copyright challenges facing the music industry can be dealt with most effectively by watertight agreements between musicians, publishers, record labels and agents. Labels and publishers will increasingly need to ensure their contracts contain disclaimers and liability clauses to cover potential infringement by their clients.

Contracts should provide for the potential brand damage that can result from social media activity and commentary by their clients. Musicians, in turn, must ensure that the contracts they enter into cover all potential infringement activity. Not only should their rights be fully clarified, musicians should also understand the rights and limitations presented by formatting arrangements.

Denise Fouché – Technology Legal Advisory Services, PwC

Live music

Live music is very popular in South Africa and the music festival market is thriving. There are a wide variety of popular genres and festivals, which tend to provide a reliable array of acts for different genres at roughly the same time each year. Artists often go from festival to festival and venues rotate acts.

Artists are looking to live performances to augment their income given recent declines in recorded music spending. A hit recording today generates fewer sales than just a few years ago, which means that even successful artists are making less money from music sales. Consequently, artists have become more active in touring and in live performances.

Local labels, through the use of 360 deals, are taking a more proactive role in live performances. The 360 deal is a new kind of provision in a contract that enables the record company to receive a major cut in all of the artist's sources of income, including touring, merchandise and publishing. They help artists organise tours and share in the revenue. This reduces the risk and expense for artists. Labels also help in the sale of CDs at concerts as well as in merchandising.

Social media also plays a role in live entertainment. Events typically have a Facebook presence and tickets can be purchased through social media sites. Social media also stimulates interest in tours and generates excitement.

Music festivals

BIG Concerts organises several major festivals in South Africa, including the Cape Town International Jazz Festival, the Coca-Cola Zero Festival and the Woodstock Rock Festival. Joy of Jazz and Arts Alive, the Tribute Festival, Oppikoppie, Macufe, the National Arts Festival, Diamonds & Dorings and Aardklop are among the other larger festivals.

Niche festivals such as Splashy Fen, the Klein Karoo Nasionale Kunstefees, Rocking the Daisies, the Afrikaanse Music Festival, the Uplands Festival, Mapungubwe Arts & Culture Festival and the Cape Town Festival are also attracting sizeable audiences. Overall, there are more than 40 annual music festivals in South Africa.

In 2009, Live Nation, the major international concert promoter, partnered with BIG Concerts to promote international acts in South Africa with BIG Concerts becoming the exclusive promotion partner for Live Nation in South Africa. That partnership is assisting in attracting more international tours to South Africa.

In addition to this, concerts that accompanied the FIFA World Cup in 2010 helped showcase South Africa as a destination. In 2011 South Africa attracted a number of major international artists, including U2, Coldplay, Kings of Leon and Kylie Minogue. In 2012, Michael Bublé and The Eagles performed here and Lady Gaga will be touring South Africa later in the year.

A concert featuring the Parlotones was shown worldwide on Facebook in July 2011, further showcasing the use of social media in live entertainment in South Africa. In 2011, Skyroomlive.com, in collaboration with INTERMISSION, set up a stylish new intimate venue on the roof of the INTERMISSION venue, 19 storeys above the centre of Johannesburg's central business district. SkyRoom showcases live performances that are broadcast live onto social networks like Facebook and Twitter or simply on the SkyRoom website.

Fans from all over the world are given the opportunity to view artists perform live, in their very own comfort zones, from any device that allows live streaming such as smartphones, computers, and tablets. This attracted well-known local artists such as Jozi, The Parlotones and Die Heuwels Fantasties, who were all participants in the event.

It's a great concept that allows artists to play 'live' to a worldwide audience who get to see an artist in an environment they may never experience! It's art embracing technology and technology embracing art, allowing the audience a vicarious experience

– Kahn Morbee, lead singer of the Parlotones commenting on their Facebook show and live streaming of their performance with Skyroom.

Sponsorships

The concert and music festival market also attracts significant sponsorships. Sponsorships allow companies to have a more personal interaction with potential customers. Music fans have an emotional connection with their favourite artists and sponsorships can tap into that connection. Music festivals are popular sponsorship venues.

Music

Concerts/music festivals (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
End-user spending	625	610	585	620	680	730	785	840	895	950	
% change	*8.7*	*-2.4*	*-4.1*	*6.0*	*9.7*	*7.4*	*7.5*	*7.0*	*6.5*	*6.1*	*6.9*
Sponsorships	28	30	25	30	34	40	44	47	50	53	
% change	*16.7*	*7.1*	*-16.7*	*20.0*	*13.3*	*17.6*	*10.0*	*6.8*	*6.4*	*6.0*	*9.3*
Total concerts/music festivals	**653**	**640**	**610**	**650**	**714**	**770**	**829**	**887**	**945**	**1,003**	
% change	*9.0*	*-2.0*	*-4.7*	*6.6*	*9.8*	*7.8*	*7.7*	*7.0*	*6.5*	*6.1*	*7.0*

Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Financial services companies, mobile phone providers and liquor companies are major sponsors. Standard Bank sponsors The Cape Town International Jazz Festival and the Joy of Jazz Festival among others. Old Mutual sponsors *Old Mutual Music in the Gardens*, a festival held annually in Johannesburg.

The sponsorship market is affected by the state of the economy, as is advertising in general. Sponsorships fell in 2009, rebounded in 2010 and continued to expand in 2011, benefiting from a pickup in the concert and music festival market. Continued economic growth coupled with an expanding concert/music festival market is expected to boost sponsorship spending.

Live music – looking forward

The economy is an important driver in live music because of the relatively high cost of attending a live event. The recession led to declines in 2008 and 2009, but improving economic conditions boosted the market during the past two years. Growth rose to 9.8 % in 2011, benefiting from the major international acts that played in South Africa.

The market in 2011 was particularly strong. We do not expect growth to match 2011, but we do anticipate sustained increases as South Africa continues to attract international acts.

We project end-user spending to increase at a 6.9% compound annual rate during the next five years, reaching R950 million in 2016 from R680 million in 2011.

We project double-digit increases in sponsorship support during the next two years followed by mid-single-digit gains in 2014-16 as the market matures. Sponsorship spending will rise to a projected R53 million in 2016 from R34 million in 2011, a 9.3% compound annual increase.

Total end-user and sponsorship spending for concerts and music festivals is expected reach R1 billion in 2016 from R714 million in 2011, growing at a 7.0% compound annual rate.

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Theatre

The theatre scene in South Africa is growing with over 100 active spaces across the country offering a vast range of theatre experiences, ranging from indigenous drama, music, dance, cabaret and satire to West End and Broadway hits, classical opera and ballet.

The annual National Arts Festival in Grahamstown – which has showcased the cream of the country's creativity in the performing and graphic arts for over 30 years – has spawned a variety of smaller festivals all over the country, each with its own particular personality.

The Soweto theatre was opened in May 2012. This is the first theatre to be opened in any South African township, 18 years after the end of apartheid.

Conclusion

While the future of the industry remains uncertain, what is clear is that the way that music is discovered, distributed and consumed has changed irreversibly. Attitudes have shifted and the industry is embracing the digital medium rather than focusing on the threats it brings.

There are a number of business models being tested and the industry is drawing strength from collaboration, with a number of partnerships being formed. Failure to innovate is the largest threat to participants in the industry.

The Soweto Theatre – courtesy of Soweto Theatre

Global trends in the music industry

Outlook

- Global spending on music rose 1.3 % in 2011, the first increase in several years as growth in concerts/music festivals offset a modest decline in recorded music.
- Recorded music spending fell only 2.4 % in 2011, compared with decreases averaging more than 8% annually in prior years.
- Beginning in 2013, growth in digital spending will offset the ongoing decline in physical spending, leading to a rebound in overall spending on recorded music. However, even with recorded music increasing in 2013, spending on it will remain 38% lower than in 1999.
- Overall global spending on music, including concerts/music festivals, will increase at a 3.7% compound annual rate to $59.7 billion in 2016 from $49.9 billion in 2011.
- Digital distribution will increase from $7.7 billion in 2011 to $14 billion in 2016, a 12.6 % compound annual advance. In contrast, physical distribution will decline at a 6.7% compound annual rate to $11.3 billion in 2016 from $16 billion in 2011. Globally, digital distribution will surpass physical distribution in 2015.
- Overall spending on recorded music will begin to expand in 2013 and will rise to $25.3 billion in 2016 from $23.7 billion in 2011, a 1.3% increase compounded annually. Spending on concerts and music festivals will grow much faster, increasing from $26.2 billion in 2011 to $34.5 billion in 2016, a 5.6% compound annual advance.

Key drivers

- New streaming services will fuel growth in digital distribution, helped by broadband, smartphone and tablet penetration growth.
- The adoption of graduated response systems, which involve ISPs issuing warnings to file sharers that escalate in severity with the ultimate threat of disconnecting a person's Internet access, is proving to be effective in limiting peer-to-peer file sharing.
- The digital market will also benefit from social media activity that stimulates interest in acts, contributing to the growth in downloads.
- Physical distribution will continue to decline, but at moderating rates during the latter part of the forecast period, since the remaining physical market increasingly consists of people who prefer music in physical formats. In the Asia-Pacific region, piracy has decimated the physical market in a number of countries, which will limit future declines.
- The touring market rebounded in 2011, and local festivals contributed to the expansion. We expect a healthy festival market to drive growth during the next five years.
- Growth in 360 deals with labels will enhance the market, as labels will be actively promoting tours as they share in performance revenues.

Global music market by component (US$ millions)

	2007	2008	2009	2010	2011p	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Recorded music											
Physical distribution	27 151	22 954	19 974	17 163	15 969	14 610	13 506	12 603	11 873	11 308	
% change	*-13.6*	*-15.5*	*-13.0*	*-14.1*	*-7.0*	*-8.5*	*-7.6*	*-6.7*	*-5.8*	*-4.8*	*-6.7*
Digital distribution	5 173	6 204	6 799	7 114	7 731	8 864	10 063	11 326	12 631	13 966	
% change	*42.0*	*19.9*	*9.6*	*4.6*	*8.7*	*14.7*	*13.5*	*12.6*	*11.5*	*10.6*	*12.6*
Total recorded music	32 324	29 158	26 773	24 277	23 700	23 474	23 569	23 929	24 504	25 274	
% change	*-7.8*	*-9.8*	*-8.2*	*-9.3*	*-2.4*	*-1.0*	*0.4*	*1.5*	*2.4*	*3.1*	*1.3*
Concerts and music festivals	24 469	25 063	26 381	24 993	26 186	27 650	29 202	30 881	32 637	34 467	
% change	*4.5*	*2.4*	*5.3*	*-5.3*	*4.8*	*5.6*	*5.6*	*5.7*	*5.7*	*5.6*	*5.6*
Total	**56 793**	**54 221**	**53 154**	**49 270**	**49 886**	**51 124**	**52 771**	**54 810**	**57 141**	**59 741**	
% change	***-2.9***	***-4.5***	***-2.0***	***-7.3***	***1.3***	***2.5***	***3.2***	***3.9***	***4.3***	***4.6***	***3.7***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, Global entertainment and media outlook 2012-2016 (PwC, 2012)

Chapter 7

Consumer magazine publishing

Sharon Horsten
Associate Director, PwC Southern Africa

The consumer magazine publishing market consists of spending by advertisers in consumer print magazines and online magazines, on magazine online websites, on magazine mobile websites and in magazines distributed to tablets and other mobile devices. Consumer magazine publishing includes spending by readers to purchase magazines via subscriptions or at retail outlets as well as paid digital circulation principally through downloads to tablets and smartphones. Trade magazines are covered in the chapter on business-to-business publishing.

Outlook

… at a glance

Consumer magazine publishing total spending (R millions)	2011	2016	2012-16 CAGR(%)
	4 365	5 653	5.3

	2011	2016	2012-16 CAGR (%)
Print	2 400	3 400	7.2
Digital	12	56	36.1
Total advertising	2 412	3 456	7.5
Print	1 953	2 102	1.5
Digital	–	95	–
Total circulation	1 953	2 197	2.4
Total	**4 365**	**5 653**	**5.3**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer magazine publishing

…in brief

- Stronger than expected economic growth, the launch of a number of new titles, growth in readership and rising circulation have resulted in higher than expected growth in 2011.
- Growing penetration of tablets and the launch of paid mobile apps will cut into print circulation by 2015-16 and stimulate the digital market.
- Unlike print advertising, digital advertising is expected to grow at higher rates than the growth expectations for the economy in the forecast period.
- Magazines are increasing their online presence by interacting with readers on their websites, through blogs and through social media.

Overview

The consumer magazine market rose 7.8% in 2011, more than twice the 3.4% increase in 2010. This increase is significantly greater than the 1.6% we had anticipated in the last edition and is due to stronger than expected economic growth, the launch of a number of new titles, growth in readership and rising circulation.

The growth in the economy is expected to slow in 2012, which we believe will lead to slower growth in consumer magazine spending. We then expect an improving economy during 2013-14 followed by moderating growth in 2015-16, a pattern that will be reflected in the consumer magazine market.

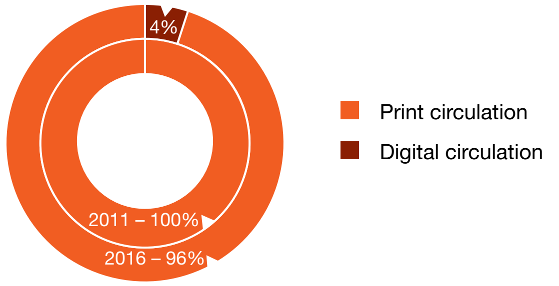
Digital editions are becoming popular and are beginning to attract advertising. As broadband and mobile Internet penetration increases, we expect the digital market to grow. Rising digital readership will lead to large percentage gains in digital advertising from a currently small base.

Publishers are developing mobile apps and a paid digital circulation spending market is emerging in 2012. Growing tablet penetration will expand the potential market for paid digital distribution. Digital circulation will become large enough to start to affect print circulation in 2015-16.

[The consumer magazine publishing scene] is a struggle for survival, with too many titles fighting for the number of existing readers and an ever-diminishing slice of the advertising pie.

Source: 'The magazine circus!', http://www.marketingmix.co.za/pebble.asp?relid=5743 (accessed 22 February 2012)

Figure 7.1: Percentage print vs digital circulation 2011 and 2016



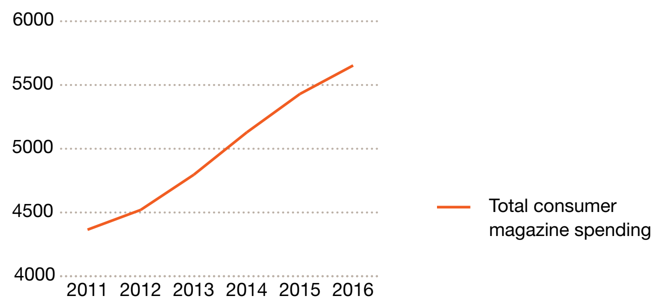
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Print circulation spending growth is expected to be moderate in 2012 and then pick up in 2013-14 as the economy accelerates. We then expect growth to slow in 2015 and spending to decline in 2016 as distribution to tablets begins to become significant enough to cut into the print market. Growth for the forecast period as a whole will average an estimated 1.5% compounded annually.

We expect digital circulation spending to total approximately R95 million in 2016, which will boost overall circulation spending growth to 2.4% on a compound annual basis.

We project total spending on consumer magazines to grow at a forecast 5.3% compound annual rate, rising to R5.7 billion in 2016 from R4.4 billion in 2011.

Figure 7.2: Total consumer magazine spending (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Print advertising is projected to increase at a 7.2% compound annual rate and a developing digital advertising market will boost overall advertising growth to a projected 7.5% compounded annually.

Consumer magazine publishing market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Advertising										
Print	2 176	2 265	2 085	2 150	2 400	2 500	2 700	2 950	3 200	3 400
Digital	3	6	6	8	12	18	24	32	43	56
Total advertising	2 179	2 271	2 091	2 158	2 412	2 518	2 724	2 982	3 243	3 456
Circulation										
Print	1 750	1 880	1 825	1 890	1 953	1 988	2 052	2 116	2 124	2 102
Digital	—	—	—	—	—	14	20	31	63	95
Total circulation	1 750	1 880	1 825	1 890	1 953	2 002	2 072	2 147	2 187	2 197
Total	**3 929**	**4 151**	**3 916**	**4 048**	**4 365**	**4 520**	**4 796**	**5 129**	**5 430**	**5 653**

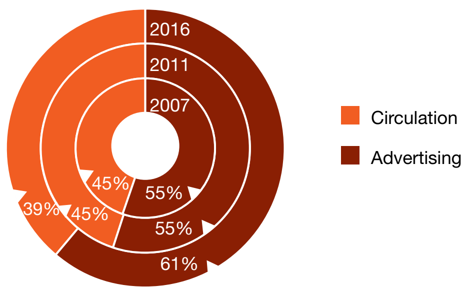
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer magazine publishing market growth (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR
Advertising											
Print	9.6	4.1	-7.9	3.1	11.6	4.2	8.0	9.3	8.5	6.3	7.2
Digital	50.0	100.0	0.0	33.3	50.0	50.0	33.3	33.3	34.4	30.2	36.1
Total advertising	9.7	4.2	-7.9	3.2	11.8	4.4	8.2	9.5	8.8	6.6	7.5
Circulation											
Print	8.0	7.4	-2.9	3.6	3.3	1.8	3.2	3.1	0.4	-1.0	1.5
Digital	—	—	—	—	—	—	42.9	55.0	103.2	50.8	—
Total circulation	8.0	7.4	-2.9	3.6	3.3	2.5	3.5	3.6	1.9	0.5	2.4
Total	**8.9**	**5.7**	**-5.7**	**3.4**	**7.8**	**3.6**	**6.1**	**6.9**	**5.9**	**4.1**	**5.3**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 7.3: Advertising vs circulation spending: 2007 vs 2011 vs 2016



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Advertising

Print

Print advertising jumped by 11.6% in 2011 due to an accelerating economy, an increase in readership and the introduction of a number of high-profile international titles. *Playboy*, *Good Housekeeping*, *Rolling Stone South Africa*, *Top Gear*, *Forbes Africa* and *Quest* were among the successful international publications that launched local versions in South Africa in 2011.

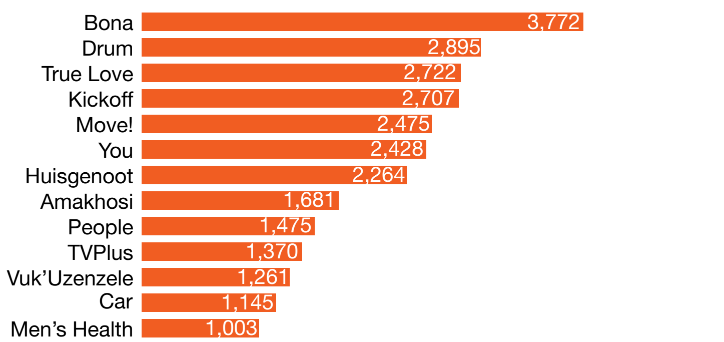
Custom magazines – titles offered free to selected audiences as an advertising vehicle for the publisher – also flourished in 2011. Among the successful titles were *W* and *Taste* from Woolworths, *Dish* from MultiChoice, *Mercedes* from Mercedes Benz and *Spaces* from Plascon.

Overall readership rose 4.6% to 23 million in 2011 from 22 million in 2010. South Africa is one of the few countries in which the print consumer magazine readership base is growing. The combination of increased readership and an expanding economy contributed to the double-digit increase in print advertising in 2011.

Readership growth appears to be continuing in 2012. There were 13 titles that averaged more than one million readers per issue in 2011, led by *Bona* at more than three million and *Drum*, *True Love, Kickoff*, *Move!*, *You* and *Huisgenoot* at more than two million each. This is compared to 10 titles that averaged more than 1 million readers per issue in 2010.

New titles continued to be introduced in 2012, including *Grazia* and *Live SA*. Free titles are also contributing to readership growth. *On Route* and *Beer* are two new free titles which were launched in 2012.

Figure 7.4: Average issue readership 2011 (millions)



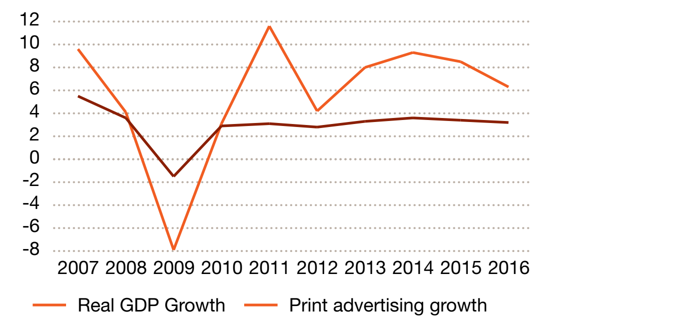
Source: All Media and Products Study

Consumer magazines are one of the more cyclically sensitive advertising media because the readership base tends to be more upscale than other media. High-quality glossy paper, rich colours and targeted content make magazines attractive environments to display high-quality products to a greater degree than other media. As one publishing blogger put it: 'The real issue for us: What does the customer want (and what is she willing to pay for)?[1]'

Upscale products generally benefit more than staples do when the economy is expanding, but suffer more than staples when the economy is falling. The large swings in print advertising growth rates reflect this pattern. Print advertising rose 9.6% in 2007, fell 7.9% in 2009 and increased by 11.6% in 2011.

The plunge in real GDP between 2007 and 2009 accounted for the decline in print advertising and the rebound in real GDP growth between 2009 and 2011 contributed to the rebound in consumer magazine print advertising.

Figure 7.5: Real GDP growth vs print advertising growth %



Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

With the economic growth expected to be moderate in 2012, we anticipate much slower growth in print advertising. We then anticipate real GDP growth to accelerate during the subsequent two years and then decelerate, but still expand at healthy rates, between 2014 and 2016.

[1] *Printed Magazines or Digital Magazines: Do We Have to Choose?*, http://deadtreeedition.blogspot.com/2012/03/printed-magazines-or-digital-magazines.html (accessed 5 June 2012)

Print consumer magazine advertising (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Print advertising	2 176	2 265	2 085	2 150	2 400	2 500	2 700	2 950	3 200	3 400	
% change	*9.6*	*4.1*	*-7.9*	*3.1*	*11.6*	*4.2*	*8.0*	*9.3*	*8.5*	*6.3*	*7.2*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We expect a similar pattern for consumer magazine print advertising. Growth will slow to 4.2% in 2012 and then accelerate during the subsequent two years, to reach a 9.3% increase in 2014. We then look for growth to moderate to 8.5% in 2015 and to 6.3% in 2016.

For the forecast period as a whole, print advertising will increase at a projected 7.2% compound annual rate to R3.4 billion in 2016 from R2.4 billion in 2011.

Digital

The digital market has been hampered by low broadband penetration, which has limited magazine website traffic and digital magazine advertising. This is changing as wired broadband penetration increases and mobile broadband access expands.

Most magazines now have websites and they are using these sites to stimulate interest. Blogs, discussions, reader polls and original content are common features that are attracting visitors without simply providing a digital version of the print edition. So far, growth in website traffic has not cannibalised print readership.

Digital readership is becoming appealing to advertisers, although this market is still very small in South Africa. Digital readers tend to be younger than print readers, and digital editions provide advertisers with tools not available in print. For example, readers can gain access to the advertisers website directly from an ad placed in the magazine. The advertiser can therefore generate an impulse sale and shortens the distance between the consumer and the sale.

Magazines are also using social networks to expand their reach. *Huisgenoot* has a Facebook presence with approximately 190 000 members. *Cosmopolitan,* as with many other magazines now uses Twitter to keep in touch with readers and has more than 27 000 followers.

Social networks help magazines sustain interest between editions and support ongoing readership. They also encourage visits to magazine websites. Magazine publishers are continuously seeking to create a brand and an identity for a magazine in order to stimulate interaction with their readers. This is done through creating new magazines as part of the same brand. Examples include the National Geographic brand launching various titles such as *National Geographic, National Geographic Kids* and *National Geographic Traveller*.

Sarie, a popular women's magazine, and owner of the titles *Sarie Kos, Sarie Woon, Sarie Bruid* and *Sarie Gesond,* launched an online store in April 2012, where visitors can buy anything from the newest fashion to kitchen equipment. Magazines traditionally have a stockist index at the end of the magazine, but now consumers can simply log on to the online store, purchase a product and have it delivered to them within a few days. Since its launch, the number of unique visitors to the website has doubled monthly. This is just another innovative way of using the magazine's brand to further monetise the magazines customer base.

Digital consumer magazine advertising (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Digital advertising	3	6	6	8	12	18	24	32	43	56	
% change	*50.0*	*100.0*	*0.0*	*33.3*	*50.0*	*50.0*	*33.3*	*33.3*	*34.4*	*30.2*	*36.1*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

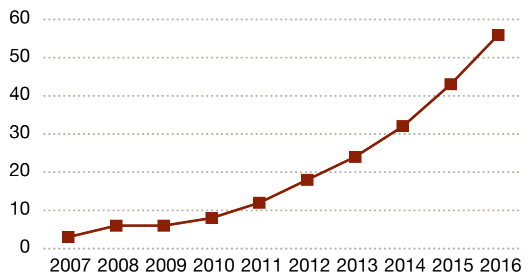
Online offers advertisers greater opportunities to target audiences and specific niche markets, similar to niche magazines, but with the added appeal of data. The attraction for advertisers is that the platform can encourage interaction with video and via e-mail, and extend the longevity of print campaigns if, for example, readers purchase back issues. A digital magazine can provide monetisable knowledge of the customer as targeted advertising can be planned using rich data that emerges from digital tracking.

The combination of broadband penetration growth and interesting website content facilitated through increased smartphone and tablet use will drive traffic to magazine websites. Growth in traffic will in turn attract advertising.

With respect to advertising rates, digital readers are still less valuable to advertisers than print readers are. Consequently, digital reach does not generate advertising comparable to that of print. Nevertheless, a growing digital readership base is attracting more advertising.

From a small base, we project digital magazine advertising to more than quadruple during the next five years, rising to R56 million in 2016 from R12 million in 2011, a 36.1% compound annual increase.

Figure 7.6: Digital consumer magazine advertising (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The way we promote all of the formats in which our content is distributed is just as important as what content we put on them.

Noelle Skodzinski, editor of Publishing Executive

Total consumer magazine advertising

Total consumer magazine advertising, including digital consumer magazine advertising, will increase at a projected 7.5% compound annual rate during the next five years from R2.4 billion in 2011 to R3.5 billion in 2016.

Digital advertising will comprise 1.6% of total consumer magazine advertising in 2016 compared to only 0.5% in 2011.

Circulation spending

Print

South Africa is one of the few countries in which print unit circulation has been expanding. Between 2007 and 2011, print unit circulation rose by 11%. Because of its relatively low broadband penetration, South Africans rely less on the Internet for information than they do in other countries, and rely more on print media, including magazines.

South Africa also has a growing middle class, which is the target market for most consumer magazines. Growth in this economic segment has expanded the market for consumer magazines.

Approximately two-thirds of unit circulation in 2011 consisted of single-copy sales. The reliance on single-copy sales gives the current state of the economy greater influence over purchasing decisions than if the majority of sales were on a subscription basis. Discretionary income plays a major role for the single-copy buyer. The high percentage of single-copy sales also makes the market more vulnerable to a recession. In 2009, unit circulation fell 3%.

In general, South Africa's economy has grown faster than in many other countries, which has contributed to the long-term increase in unit circulation. During the past two years, unit circulation has increased by 6%.

The market is slowly evolving. The 66% share of single-copy sales in 2011 was down from 77% in 2007. This pattern reflects a growing middle class that is making a greater commitment to magazines than in the past.

In 2011, subscriptions increased by 9% while single-copy sales fell by 4%. If this pattern continues, and we expect it will, subscriptions will account for the majority of unit circulation in the next few years. This will make consumer magazines somewhat less sensitive to the state of the economy and provide a more stable rate base for advertisers.

Print circulation has faced relatively little competition from digital alternatives, again in large part because of South Africa's low broadband penetration. We expect this to change during the next five years as increased broadband and tablet penetration will make the digital option available to more people.

In order to support their print business, some publishers are bundling print and tablet circulation. We believe that many readers will continue to buy print versions because they prefer them, as do advertisers in such segments as luxury women's fashion, where digital cannot reproduce the impact or colour accuracy of print.

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In an effort to better engage with their consumers and advertisers, many South African magazines are launching more trade and consumer events. An example of this is the *Your Family Crafts and Arts Expo,* which has become an annual event, offering an opportunity to interact with a strong and loyal following.

The ongoing trend towards the lifestyle-focused and enthusiast reader also helps encourage a more stable readership and circulation of titles focused on special interests such as golf, travel and running.

Unit circulation rose 3.0% in 2011. We expect a more modest 1.4% increase in 2012 as economic growth slows, followed by somewhat faster increases in 2013-14 as the economy picks up.

Beginning in 2015, a combination of moderating economic growth and increased digital competition will affect the print market. We project unit circulation to be flat in 2015 and to decline by 1.4% in 2016. For the forecast period as a whole, unit circulation will increase at a 1.1% compound annual rate from 6.9 million in 2011 to 7.3 million in 2016.

We expect somewhat faster growth in circulation spending, reflecting modest growth in average prices. Print circulation spending will expand by 1.5% compounded annually from R2 billion in 2011 to R2.1 billion in 2016.

Consumer magazine print circulation market

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Per-issue print unit circulation (millions)	6.2	6.7	6.5	6.7	6.9	7.0	7.2	7.4	7.4	7.3	
% change	*6.9*	*8.1*	*-3.0*	*3.1*	*3.0*	*1.4*	*2.9*	*2.8*	*0.0*	*-1.4*	*1.1*
Circulation spending (R millions)	1 750	1 880	1 825	1 890	1 953	1 988	2 052	2 116	2 124	2 102	
% change	*8.0*	*7.4*	*-2.9*	*3.6*	*3.3*	*1.8*	*3.2*	*3.1*	*0.4*	*-1.0*	*1.5*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Digital

While publishers have generally not been able to generate payments from online readers, they have begun to develop a paid circulation market through mobile platforms.

Publishers are increasingly developing tablet applications to capitalise on the growing penetration of tablets in South Africa. Tablets offer video content, full colour, the convenience of a mobile device and often better picture quality than a computer, allowing for content that is not available in print versions.

Tablets are very popular and declining prices will expand penetration and the potential market for paid digital circulation. While people are getting used to accessing free online content, they are more accustomed to paying for mobile content.

Approximately two-thirds of circulation spending consists of single-copy sales. Single-copy sales tend to be impulse buys where people view the cover and are induced to buy the magazine. Digital e-reader and tablet users are not faced with a cover unless they choose to access it. Device users, however, tend to be heavy readers. A subscription model in which subscribers would automatically receive downloads of the next issue and would automatically be billed through their account, would likely generate a much larger take-up rate and could result in a significant portion of the digital circulation market consisting of subscriptions, in contrast to the trend seen in the print circulation market.

In the music and e-book markets, business models evolved over time until a workable solution was reached that led to significant expansion of the market. We expect a similar evolution with digital magazines and expect that a subscription model will ultimately become the norm. Contrary to the music and e-book market, digital copies of magazines are not cheaper than the print alternatives.

Media24 has launched tablet apps for *Go! Travel* and for *Landbou Weekblad* and has set up a special unit, Touchlab, to develop tablet applications. Tablet versions of consumer magazines are now available and we expect they will become more popular in the next few years.

In South Africa, there is currently an insignificant market for paid content online but, we believe people will be willing to pay for the convenience of having a magazine appear on their tablet. This will, however, take time – a survey conducted by US-based online research company Knowledge Networks shows that only 14% of current users would be willing to pay to get a special iPad edition of a magazine they already receive in print. What's more, 86% of iPad owners indicated that they would be prepared to 'watch' ads to gain free access to content[1].

Paid digital circulation is developing and becoming more established in other countries and we expect it will develop in South Africa as well.

We estimate that paid digital unit circulation will total 50 000 in 2012 and rise to 330 000 by 2016.

We project digital circulation spending to generate R14 million in 2012 and to rise to R95 million by 2016.

1 'iPad users prefer advertising to pay model for content', http://adage.com/print/148247 (accessed 6 June 2012)

Consumer magazine digital circulation market

	2012	2013	2014	2015	2016
Per-issue paid digital unit circulation (millions)	0.05	0.07	0.11	0.22	0.33
% change		*40.0*	*57.1*	*100.0*	*50.0*
Circulation spending (R millions)	14	20	31	63	95
% change		*42.9*	*55.0*	*103.2*	*50.8*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total circulation

Total unit circulation will reach an estimated 7.63 million in 2016, a 2.0% compound annual increase from 2011.

Total circulation spending will expand at a 2.4% compound annual rate to R2.2 billion in 2016.

Paid digital circulation will account for approximately 39% of total circulation spending growth during the next five years. By 2016, digital will account for 4.3% of total circulation spending.

Magazines inform, entertain and remain an enjoyable outlet for the reader. The digital and online world presents unique challenges to traditional print magazines, but they will continue to be an important part of the South African landscape over the next five years.

Consumer magazine publishing

Consumer magazine publishing –the legal landscape

The consumer magazine industry faces similar legal challenges to publishers across the sector. As with most publishing outputs, consumers are increasingly accessing magazines online or downloading magazine content onto mobile devices. Magazine publishers will need to take note of the provisions of consumer law, company law, competition law, intellectual property law and the tenets of data protection and privacy law.

Access to information

The Promotion of Access to Information Act (PAIA) gives third parties the right to approach private and public bodies to request information held by them, which is needed in the exercise or protection of any rights.

Advertising

The Advertising Standards Authority (ASA) Advertising Code expects advertisers (online or otherwise) to comply with the following principles:

- Adverts should be legal, decent, honest and truthful;
- Adverts should be prepared with a sense of responsibility to the consumer;
- Adverts should conform to the principles of fair competition in business; and
- No advertisement should bring advertising into disrepute or reduce confidence in advertising as a service to industry and to the public.

Competition considerations

Strategic alliances are being formed across the industry to allow for greater synergy between traditional publishing and other forms of media. This is attracting the attention of the Competition Commission. The law of unfair competition provides that anyone who intentionally or negligently causes loss or damage to a business rival (i.e. a competitor) through wrongful conduct will be liable for damages.

As an exclusionary right, the protection provided by intellectual property rights can lead to significant market power when no substitutes exist in a market.

Consumer rights

The implementation of technological protection measures (TPMs) can conflict with the consumer's freedom to access and interact with a purchased product. The Consumer Protection Act grants consumers the right to redress for faulty purchases, while Section 43 of the Electronic Communications and Transactions Act stipulates that online publishers must publish specific information about the company and that a sufficiently secure payment system must be used.

Contractual challenges

Publishers need to obtain all the rights in a publication in order to trade legally with the final product. Cross-media ownership and the growth of online publishing require careful management of all relevant rights. The publishing agreement must provide for all the necessary rights in the publication. These rights could include: the rights to reprints, translations, film rights, format provision, distribution and warehousing agreements; syndication agreements; e-book agreements; digital rights management; trademark registration; confidential information and international publishing sale and distribution rights. Publishers are only allowed to mandate collective rights organisations to license the use of their publications if they are the owner of the work. Blanket licenses are ordinarily granted to educational institutions.

Copyright challenges

The distribution of content to the public requires the consent of the copyright holder. The Copyright Act regulates the production and distribution of literary and artistic works. Publishers have to understand, exploit and avoid infringing copyright. Publishers must protect the copyright they control and take care when granting copyright licences to third parties. Piracy of digital books is a constant threat to the industry.

The Copyright Act allows for 'fair dealing' as an exception to copyright infringement. The copying of parts of a protected work is allowed for private study or personal use of a work.

Magazines copyright each issue as a collection. Copyright in individual articles, photographs and artworks is a separate copyright.

Magazine publishers must register a trademark in their titles (usually the masthead). A trademark can combine a word as well as the way it is written.

Copyright notices

Publishers should include copyright notices or warnings on the published work. If consumers are expected to agree to web-wrap contracts, end-user licences or any other form of licence, they need to be made aware of this fact in advance. Appropriate technological protection measures should be considered: Will the content be locked or will it grant only authorised persons the rights to access, reproduce or forward copies of the work?

The ECT Act places a liability on Internet service providers to notify subscribers of infringement reports from copyright owners and to comply with take-down notices regarding infringement of protected content.

Defamation

Publishers can be sued for publishing false and defamatory statements. Defamation law protects a person's right to their reputation.

Digital rights management

The move from print to online presents publishers with access control and copyright challenges. Digital rights management (DRM) is used by publishers and hardware manufacturers to limit the use of digital content after sale. But DRM is increasingly regarded as a challenge to the industry, less so than piracy. Consumers are increasingly expecting multi-format capacity on purchased products. Most DRM systems use technological protection measures to protect the product. The ECT Act provides for a broad restriction on circumvention of any technological protection measures and does not have any limitations or exceptions for legitimate use. This can be regarded as an infringement of consumers' fair dealing rights since DRM makes no distinction between infringing and legitimate use of a product. The challenges presented by DRM are that monopolies can be created over devices that handle the media and works are rendered inaccessible after copyright has expired, creating permanent lock-up in a product.

Privacy rights can be affected by DRMs in the following ways: login and registration facilities, biometric identification, spyware that sends information about the user without the end user's knowledge or approval, surveillance functionalities that gather information about users' reading, viewing and listening habits.

Publishers are increasingly becoming aware that while DRMs can be used not to enforce legal rights, they can displace them too. The constraint on information presents a challenge rather than an opportunity to publishers – thriving in an increasingly globalised, converged market requires a new approach.

In managing their digital rights, publishers must now consider file sharing options and cross-border licensing of on-demand availability rights

Electronic marketing

Section 45(1) of the ECT Act stipulates that where an online publisher sends unsolicited commercial communications to a consumer, the online publisher must on request from the consumer (i) remove the consumer from the mailing list and (ii) provide the consumer with the source of the consumer's personal information.

Freedom of speech and expression

Although both rights are protected by the Constitution, expression that amounts to hate speech is prohibited. This right is limited by the rights of others to, among others, dignity, non-discrimination and privacy.

Internet and electronic uses

Publishers cannot assume their rights to publish include publication on the Internet, as an e-book or in a multimedia format. Publishers must ensure they have the rights to publish online or electronic versions of a work.

Privacy

Guaranteed by the Constitution, and weighed up against public interest considerations, this right safeguards private information from being published without reason. Invasion of privacy can take two forms: disclosure of private information and intrusion into the private sphere of another.

Privacy rights are infringed when information is published and/or distributed without the provider's consent. Publicity rights prevent the commercial exploitation of the value of an individual's name and/or likeness and applies to anyone whose name and likeness is used without their permission.

Online payment

Increasingly, online publishers are introducing pay walls for specialised content; this activity places publishers within the ambit of the provisions of the ECT Act.

Online publishing issues

Terms and conditions of use are a prerequisite and should cover data protection and privacy practices. Click-wrap and shrink-wrap end user licences must be clearly defined. Click-on payment facilities must be managed in line with the requirements of the Consumer Protection Act and the ECT Act.

Linkages (hyperlinks and metatags) in multimedia online content can expose publishers to copyright infringement of content owned by third parties.

Special content

Certain content creates legal risks. Such content includes user-generated content, offensive content and content that is licensed and disseminated under alternative licensing models. Third parties may claim ownership in user-generated content or take offence at allegedly offensive content.

Social media

Legal risks presented by the use of social media include unauthorised disclosure by employees of confidential information, unauthorised transfer of intellectual property, reputational risk and the loss and dilution of brand value.

Denise Fouché – Technology Legal Advisory Services, PwC

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Global trends in the consumer magazine industry

Outlook

- Overall global spending on consumer magazines fell by 0.8% in 2011, the result of a downturn in print advertising following a brief rebound in 2010 and ongoing decreases in print circulation spending. We project that spending will begin growing again in 2012, and will average 1.3% growth on a compound annual basis to reach $80.2 billion in 2016 from $75.2 billion in 2011.
- Global print advertising in consumer magazines fell by 0.9% in 2011.We expect the market to turn around in 2012 and to expand at modest rates averaging 1.5% compounded annually to $30.9 billion in 2016 from $28.7 billion in 2011.
- Digital advertising totalled an estimated $2.1 billion in 2011. We project that this will rise to $5.5 billion in 2016, a 20.8% compound annual increase.
- As a result, digital advertising will account for 15.1 % of total consumer magazine advertising in 2016, compared with 7.0% in 2011.
- Total consumer magazine advertising will increase from $30.9 billion in 2011 to $36.4 billion in 2016, a 3.4% compound annual advance.
- Print circulation spending fell by 2.0% in 2011. We expect decreases averaging 1.5% compounded annually during the next five years to $40.9 billion from $44.2 billion in 2011.
- A digital circulation spending market is developing that will total an estimated $2.9 billion in 2016.
- Gains in digital circulation spending will begin to offset declines in print in 2015. However, total circulation spending will still be lower in 2016 than in 2011, registering a 0.3% compound annual decline to $43.7 billion in 2016.

Key drivers

- Improving economic conditions will lead to modest growth in print advertising during the next five years.
- However, gains will be dampened by declining print unit circulation as well as loss in advertising share to the Internet and television. As a result, growth will not keep pace with nominal GDP, nor will it expand as fast as inflation.
- In real terms, print advertising will decline. However, growing digital readership will fuel digital advertising.
- The lure of free online access and the emergence of mobile access on tablets will lead to continued decreases in print unit circulation and declining print circulation spending.
- Growing penetration by tablets and the willingness to pay for mobile content will drive an emerging digital circulation spending market.

Global consumer magazine publishing market by component (US$ millions)

	2007	2008	2009	2010	2011p	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Print advertising	37 027	35 597	28 447	28 970	28 707	28 891	29 205	29 697	30 285	30 956	
% change	*3.1*	*-3.9*	*-20.1*	*1.8*	*-0.9*	*0.6*	*1.1*	*1.7*	*2.0*	*2.2*	*1.5*
Digital advertising	809	1 478	1 479	1 781	2 149	2 641	3 189	3 810	4 576	5 518	
% change	*71.8*	*82.7*	*0.1*	*20.4*	*20.7*	*22.9*	*20.7*	*19.5*	*20.1*	*20.6*	*20.8*
Total advertising	**37 836**	**37 075**	**29 926**	**30 751**	**30 856**	**31 532**	**32 394**	**33 507**	**34 861**	**36 474**	
% change	*4.0*	*-2.0*	*-19.3*	*2.8*	*0.3*	*2.2*	*2.7*	*3.4*	*4.0*	*4.6*	*3.4*
Print circulation	49 258	48 475	46 022	45 087	44 196	43 509	42 775	42 078	41 436	40 873	
% change	*1.0*	*-1.6*	*-5.1*	*-2.0*	*-2.0*	*-1.6*	*-1.7*	*-1.6*	*-1.5*	*-1.4*	*-1.6*
Digital circulation	—	—	—	17	169	300	529	1 081	1 934	2 860	
% change	—	—	—	—	*894.1*	*77.5*	*76.3*	*104.3*	*78.9*	*47.9*	*76.1*
Total circulation	**49 258**	**48 475**	**46 022**	**45 104**	**44 365**	**43 809**	**43 304**	**43 159**	**43 370**	**43 733**	
% change	*1.0*	*-1.6*	*-5.1*	*-2.0*	*-1.6*	*-1.3*	*-1.2*	*-0.3*	*0.5*	*0.8*	*-0.3*
Total	**87 094**	**85 550**	**75 948**	**75 855**	**75 221**	**75 341**	**75 698**	**76 666**	**78 231**	**80 207**	
% change	***2.2***	***-1.8***	***-11.2***	***-0.1***	***-0.8***	***0.2***	***0.5***	***1.3***	***2.0***	***2.5***	***1.3***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, Global entertainment and media outlook 2012-2016 (PwC, 2012)

Chapter 8

Newspaper publishing

Bronwyn Plantinga
Associate Director, PwC Southern Africa

The newspaper publishing market consists of spending on daily print newspapers by advertisers and readers and of advertising on newspaper websites, tablet apps and mobile phone apps. Spending by readers includes newsstand purchases and subscriptions as well as payments for newspapers delivered to mobile devices and fees to access online content.

Circulation represents the number of copies sold. This data is sourced from Audit Bureau of Circulations South Africa (ABC) circulation figures.

Readership reflects the estimated number of people who read the newspaper. This data is sourced by South African Advertising Research Foundation and All Media and Products Study (AMPS).

Outlook

… at a glance

Newspaper publishing total spending (R millions)	2011	2016	2012-16 CAGR(%)
	11 360	14 590	5.1

	2011	2016	2012-16 CAGR (%)
Print	8 225	11 800	7.5
Digital	148	472	26.1
Total advertising	8 373	12 272	7.9
Print	2 986	2 266	-5.4
Digital	1	52	120.4
Total circulation	2 987	2 318	-4.9
Total	**11 360**	**14 590**	**5.1**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

…in brief

- South Africa is experiencing an increasing print readership and a developing digital market, in contrast to the trend in more developed countries, which are experiencing erosion in print unit circulation as readers shift from print to online for information.
- As broadband penetration increases, consumers tend to migrate to lower-priced and free digital alternatives, which are expected to depress the newspaper advertising market.
- The Protection of State Information Bill (POSIB) is still pending approval in spite of significant public objection. The impact of the proposed legislation on media remains to be seen.
- Local and foreign newspapers are moving content behind paywalls, mostly pursuing a 'freemium' model.
- Publishers face the challenge of determining the optimal revenue model, as consumers have historically viewed digital content as an inferior or free product.
- The total newspaper market is projected to grow at a compound annual rate of 5.1%, reaching R14.6 billion by 2016.

Overview

The total newspaper market in South Africa rose by 5.7% in 2011 to R11.4 billion, a significant increase from the 1.9% growth recorded in 2010. This increase is mainly due to strong growth in advertising spending (10.8%) offsetting a 6.4% decline in circulation spending.

Although there was an increase in overall newspaper readership of approximately 7.7% in 2011, this was mainly as a result of more people reading the same copy, rather than increased paid-unit circulation. There was a net drop in paid unit circulation of 6.7%, with a consequent decline in overall circulation spending.

Total newspaper advertising is expected to increase from R8.4 billion in 2011 to R12.3 billion in 2016, a 7.9% compound annual increase.

Slower economic growth in 2012 compared with 2011 is expected to lead to weaker growth in print advertising. We expect that a pickup in economic growth early in 2013 will lead to faster growth in print advertising and gains in excess of 8% annually for 2014-16. These increases will be less than the double-digit gains recorded in 2007-8 and in 2011, reflecting growing competition from the Internet as well as from an emerging digital newspaper market.

Several newspapers have launched digital editions that can be accessed on mobile devices on a paid basis. Growing penetration of smartphones, tablets and e-readers will expand the potential market for paid digital circulation to mobile devices.

Continued development of the digital newspaper market will contribute to overall newspaper advertising growth during the latter part of the forecast period. As broadband penetration in South Africa increases, we expect digital readership of newspapers to increase, which will in turn drive digital advertising.

Digital newspaper advertising rose 32.1% in 2011 off a relatively low base. It is projected to expand at annual rates in excess of 22% during the next five years to R472 million in 2016 from R148 million in 2011, up 26.1% on a compound annual basis.

In contrast, we are expecting to see a sharp decline in print circulation spending in 2012 compared to 2011, followed by more moderate decreases in subsequent years. The depressed economic situation together with growth in readership for online and mobile editions will cut into print-unit circulation.

We project print circulation spending will decline from R3 billion in 2011 to R2.3 billion in 2016, a 5.4% compound annual decrease.

Total circulation spending is expected to decline at a 4.9% compound annual rate to R2.3 billion in 2016.

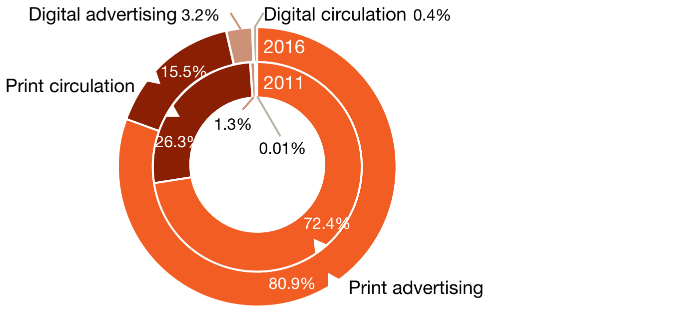
As a whole, the decline in total circulation spending will be compensated for by strong growth in digital advertising, resulting in the newspaper publishing market expanding at an overall 5.1% compound annual rate to R14.6 billion in 2016.

Newspaper publishing market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Advertising										
Print	7 050	7 900	7 025	7 445	8 225	8 640	9 250	10 030	10 890	11 800
Digital	63	87	91	112	148	181	231	301	381	472
Total advertising	7 113	7 987	7 116	7 557	8 373	8 821	9 481	10 331	11 271	12 272
Circulation										
Print	3 540	3 519	3 427	3 190	2 986	2 787	2 635	2 496	2 378	2 266
Digital	—	—	—	—	1	4	10	19	36	52
Total circulation	3 540	3 519	3 427	3 190	2 987	2 791	2 645	2 515	2 414	2 318
Total	**10 653**	**11 506**	**10 543**	**10 747**	**11 360**	**11 612**	**12 126**	**12 846**	**13 685**	**14 590**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 8.1: **Distribution of newspaper publishing market 2011vs 2016**



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Newspaper publishing market growth (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Advertising											
Print	15.3	12.1	-11.1	6.0	10.5	5.0	7.1	8.4	8.6	8.4	7.5
Digital	46.5	38.1	4.6	23.1	32.1	22.3	27.6	30.3	26.6	23.9	26.1
Total advertising	15.5	12.3	-10.9	6.2	10.8	5.4	7.5	9.0	9.1	8.9	7.9
Circulation											
Print	4.0	-0.6	-2.6	-6.9	-6.4	-6.7	-5.5	-5.3	-4.7	-4.7	-5.4
Digital	—	—	—	—	—	300.0	150.0	90.0	89.5	44.4	120.4
Total circulation	4.0	-0.6	-2.6	-6.9	-6.4	-6.6	-5.2	-4.9	-4.0	-4.0	-4.9
Total	**11.4**	**8.0**	**-8.4**	**1.9**	**5.7**	**2.2**	**4.4**	**5.9**	**6.5**	**6.6**	**5.1**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Industry players

South Africa has a circulation of approximately 45 million newspapers a year. This includes local, small commercial and community newspapers. Four major groups dominate the South African newspaper industry in terms of both the number of titles they own as well as the readership of these newspapers: Naspers, Independent News & Media, Caxton & CTP Publishers & Printers and Avusa.

Caxton & CTP Publishers and Printers Ltd, with 120 titles, holds the most newspaper titles (either company-owned or co-owned through a major partnership) (15) including *The Citizen* as its most prominent publication. At present 14 publications are distributed in African countries other than South Africa, to countries such as Namibia, Swaziland, Botswana, Mozambique, Zambia and Lesotho.

Naspers publishes approximately 72 newspaper titles through its print media subsidiary, Media24. These include the *Daily Sun,* which draws the biggest readership per day in South Africa. It also publishes *Die Burger, Beeld, Volksblad* and *The Witness,* as well as the following Sunday papers: *Rapport, City Press, Sunday Sun*, *Sondag Son and Son*.

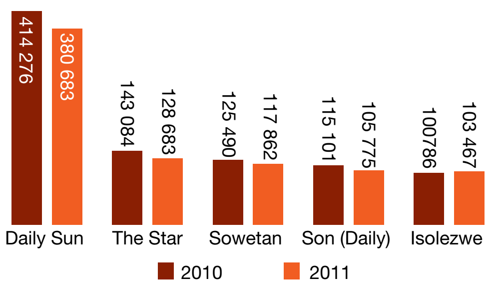
The Independent News & Media Group is a foreign-owned company with daily, weekly, and weekend titles such as *The Star* (their largest title), *Isolezwe, Saturday Star* and Sunday paper titles including the *Weekend Argus, Sunday Tribune, Independent on Sunday* and *Isolezwe NgeSonto*.

Avusa Media Ltd operates as a newspaper, magazine and digital publisher, as well as a distributor. It comprises more than 20 national, regional and community newspapers, the largest title being *The Sunday Times*. Its stable includes *Sunday World, The Times, The Sowetan, Business Day, The Herald* and *Daily Dispatch*.

The *New Age* newspaper is a South African national daily newspaper owned and operated by TNA Media. TNA Media was established in June 2010 and the first edition of *The New Age* was published in December 2010.

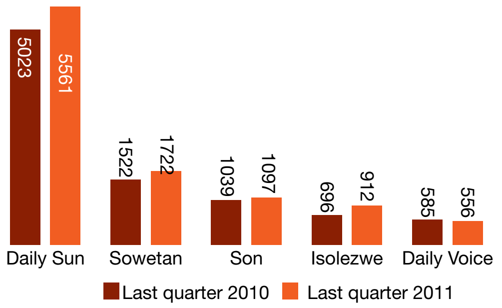
The newspaper arena is set for a shake up with the ownership of both Independent News & Media and Avusa looking to change hands. A bid by The Times Group was accepted in August for Avusa. The Times Group is a unit of the Mvelaphanda Group. Various bidders have shown interest in Independent News & Media, but at the time of writing a successful bidder had not yet been announced.

Figure 8.2: Top five daily newspapers by circulation (number of copies)



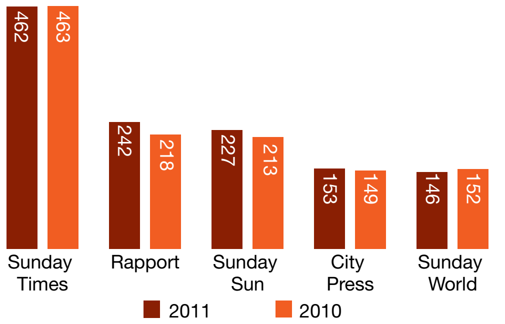
Source: ABC Quarter 4 - 2011, released 23 Feb 2012

Figure 8.3: Top five daily newspapers readership (thousands)



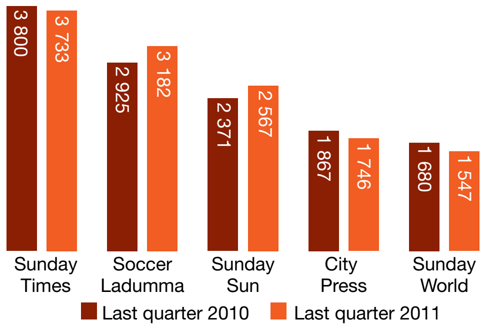
Source: South African Advertising Research Foundation and AMPS

Figure 8.4: Top 5 Sunday newspaper circulation (thousands)



Source: ABC Quarter 4 - 2011, released 23 Feb 2012

Figure 8.5: Top five Sunday newspapers by readership (thousands)



Source: South African Advertising Research Foundation and AMPS

The impact of the Internet

Historically, newspapers interacted with their readers through a subscription service or through intermediaries such as newsagents. Over the past few years, the manner and means by which readers consume news has changed dramatically with the emergence of competing online platforms.

Newspapers have always contained more than just news, offering classifieds, puzzles and weather to engage readers. All this content is now available online and across a number of specialist sites. In one sense, many publishers have made the shift online successfully: newspapers are amongst the most popular websites in South Africa with howzit.msn ranking in the country's 10 most-visited sites. But publishers are giving away content free online and have struggled to make up for lost sales.

Migrating content online presents unique challenges to the newspaper industry. Search engines give readers easy access to information from other sources, which has fragmented the traditional offering of newspapers. A US study found that in 2006, physical newspapers occupied readers for an average of 29 minutes per day, but in 2010 online readers spent on average just 1.2 minutes reading online titles.

These findings highlight consumers' growing reliance on other forms of media. For this and other reasons, average revenue for online readers is significantly lower than for readers of printed titles.

Clearly the industry cannot rely on advertising alone for revenue and is therefore in the process of changing the online business model from an exclusively ad-supported model to one that draws revenues from consumers, a trend seen right across the media industry.

Newspaper publishing

Advertising

Print advertising

Print newspaper advertising (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Print advertising	7 050	7 900	7 025	7 445	8 225	8 640	9 250	10 030	10 890	11 800	
% change	*15.3*	*12.1*	*-11.1*	*6.0*	*10.5*	*5.0*	*7.1*	*8.4*	*8.6*	*8.4*	*7.5*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

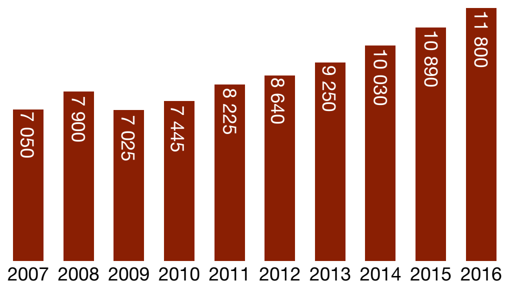
The economy has seen some improvement over the past two years with real GDP posting its largest increase since 2008. Over this period the average issue readership of daily newspapers rose by 16%, even as unit circulation fell 12.6%.

This anomaly arises from newspapers being shared by more readers. The overall incidence of newspaper readership increased from 29.4% at the end of 2010 to 30.8% at the end of 2011.

Readership trends are more important than unit circulation trends, as advertisers are interested in reaching consumers. The combination of the improved economy and growth in readership has led to a slight recovery in print newspaper advertising. After falling by 11.1% in 2009, print advertising rose by 6.0% in 2010 and 10.5% in 2011.

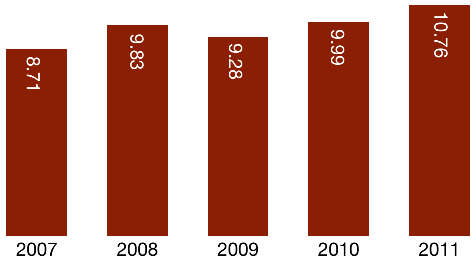
Readership growth is concentrated mainly among the top papers. *The Daily Sun* registered a 538 000 increase, while *Isolezwe* and *Sowetan* achieved gains of 200 000 or more, and the *The Citizen* was up 138 000. At the same time, many of the smaller papers experienced readership declines in 2011, while circulation for *The Daily Sun* and *Pretoria News* decreased significantly year on year.

Figure 8.6: Print newspaper advertising (R millions)



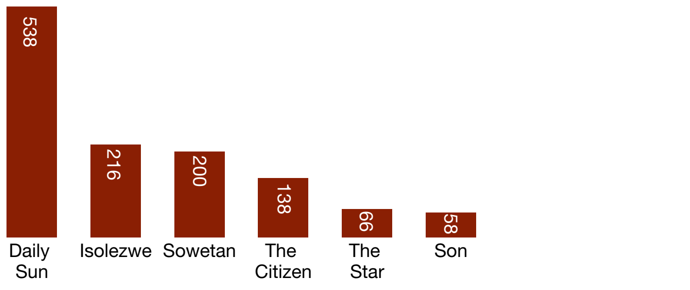
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 8.7: Average daily readership (millions)



Sources: AMPS, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 8.8: Readership growth in 2011 (thousands)



Sources: AMPS, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The concentration of readership growth among the larger papers generates a greater advertising boost than if readership growth were more evenly divided. Titles that can deliver a larger audience tend to get proportionally more advertising than smaller titles because the ability to reach a large number of people in a single buy is worth more to the advertiser than reaching the same audience through multiple buys.

Consequently, readership changes among the larger papers have a greater impact on overall advertising than if the same changes were distributed among smaller papers. In 2011, readership growth among the larger papers contributed to the double-digit increase in print advertising.

The improving advertising market for newspapers is leading to new launches. The *isiZulu Sunday Times* was launched in late 2010 and *Snoop!*, a new tabloid from Media24 was launched *in* 2011, along with a weekend edition of *Isolezwe* in Gauteng and KwaZulu-Natal. In April 2012, *Metro*, a free fortnightly tabloid was also introduced.

New launches run counter to the trend in many other countries where print papers are closing. The launch of new editions provides additional outlets for advertisers and contributes to overall growth in advertising.

It remains to be seen if the growing readership trend for print newspapers will continue as online editions are attracting more readers. Rising broadband penetration will expand the potential digital market. We expect print readership growth to slow and ultimately decline as digital readership expands. Slow or declining print readership will dampen print advertising growth.

With economic growth expected to moderate in 2012, we project that print advertising growth will drop to 5.0%. As economic growth picks up between 2013 and 2016, real GDP is projected to average 3.4% and we anticipate faster growth in print newspaper advertising.

However, we are not projecting a return to the double-digit increases that occurred in 2011 and which characterised the market prior to the recession. In part, as the economy in South Africa matures, we expect more moderate gains in real GDP. We also expect growing competition from the Internet will ultimately lead to readership declines that will dampen print advertising growth. At the same time, the launch of new print editions will have a positive impact on print advertising.

On balance, we project print advertising growth to improve to 7.1% in 2013 and to average 8.5% compounded annually during 2014-16.

For the five-year forecast period as a whole, print advertising will grow at a 7.5% compound annual rate from R8.2 billion in 2011 to R11.8 billion in 2016.

Newspaper publishing

Newspapers, – the changing legal landscape....

The media industry is in the business of delivering content to audiences. Technology advances (television and the Internet) have presented audiences with greater choices in accessing such content, creating a demand for new services.

Media houses are quickly discovering that traditional delivery channels are no longer sufficient to reach audiences. While the Internet has presented some media with greater reach opportunities in parallel with traditional channels, for the newspaper industry, online publishing appears to be the key to survival.

Online activity introduces a fresh set of legal implications that, coupled with traditional media law issues, demand even greater vigilance from newspaper owners. One such area is the protection of personal information. Data protection and privacy laws provide greater protection against the threat to individual privacy and require greater awareness of the publication of potentially prohibited content.

The past couple of years have seen a raft of new legislation being released. This includes the Regulation of Interception of Communications and Provision of Communication-related Information Act of 2002 (RICA), which prohibits the unlawful monitoring of communication, and the Electronic Transactions Act, which prohibits unsolicited commercial communications. These will soon be followed by protection of personal information legislation which will impose prohibitions on the handling and use of personal information as well as regulating data protection and privacy.

The media industry has thrived thanks to the free availability of personal information on the Internet. Data protection laws and increased regulation of interception and monitoring regulations have been introduced in response to threats to privacy. The industry will need to increasingly evaluate its practices against the requirements of privacy regulations to ensure it remains within the boundaries of the law.

Privacy policies, internally and on the websites of companies, may be used to manage and communicate the company's position on privacy. Specifically for the media industry, procedures will need to be tightened to ensure that publication of content that may include prohibited information is avoided and investigative approaches for content production will need to be reviewed.

Denise Fouché – Technology Legal Advisory Services, PwC

Digital advertising

Digital newspaper advertising (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Digital advertising	63	87	91	112	148	181	231	301	381	472	
% change	*46.5*	*38.1*	*4.6*	*23.1*	*32.1*	*22.3*	*27.6*	*30.3*	*26.6*	*23.9*	*26.1*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Broadband penetration is surging in South Africa, and in the process expanding the potential market for digital content and digital advertising. The number of broadband households rose by 43% in 2011, overall wired Internet advertising increased by 25.6% and online advertising on newspaper sites, which are among the most-visited sites, rose 32.1%, compared to a rise of 24.2% in 2010. The major newspaper titles in South Africa have online editions that are attracting a small, but growing advertising stream. As predicted last year, digital newspaper advertising is expected to expand at annual rates in excess of 20% during the next five years, reaching approximately R472 million in 2016.

With the growing penetration of mobile devices such as smartphones, tablets and e-readers, several papers have launched digital editions. This will expand the potential market for paid digital circulation and digital advertising.

We project digital newspaper circulation spending in 2016 to total an estimated R52 million, up from only R1 million in 2011.

We expect the number of broadband households to more than quadruple during the next five years. Paired with the growing penetration of smartphones, tablets and e-readers and the launch of various digital editions that can be accessed on these devices, the potential audience for online newspapers is expected to increase significantly, which in turn will attract more advertising.

Online newspaper readers are younger and more affluent than their print counterparts, offering advertisers a more attractive demographic profile than print.

Newspapers are seeing an ongoing shift in classified advertising from print to the Internet. Classified advertising on the Internet is more easily searchable than in print, rates are lower and ads can be inserted anytime, can be changed easily and are typically not as limited with respect to word count. For these reasons, we expect classified advertising to continue migrating from print to the Internet.

Globally, publishers are introducing video content in their online editions. *The Wall Street Journal* has four hours of live programming per day; *The New York Times* offers *TimesCast*, a taped show, and introduced a business news programme in early 2012. *The Washington Post* also plans to launch a live programme in 2012.

We project digital advertising to more than triple to R472 million in 2016 from R148 million in 2011, a 26.1% compound annual increase.

Media24 Newspapers is one of the first newspaper groups in South Africa to experiment with augmented reality (AR) advertisements. Augmented reality enables people to experience a new reality enhanced by computer-generated sensory information such as sound, video, graphics and GPS data.

By allowing the viewer to experience a product or service in a digital world, AR gives advertisers a new tool in their quest to convert prospects into customers. Augmented reality can also give readers the ability to find and buy products from the ad itself by logging on to a featured website or loading a QR Code from their smartphones.

AR advertisements require readers to change the way they engage with newspapers and magazines. Readers must first be enticed with the printed advertisement before choosing to load the augmented reality advertisement on a smartphone or PC and, as a result, there may be a slow uptake before these advertisements become mainstream in the South African market.

The emergence of the smartphone has put a barcode reader into the hands of millions. This has made the Quick Response (QR) Code an important and versatile new tool for marketers, by providing easy access to product websites and other digital information. Current applications range from couponing and product labelling to loyalty marketing, ticketing and tracking.

Figure 8.9: Digital newspaper advertising (R millions)

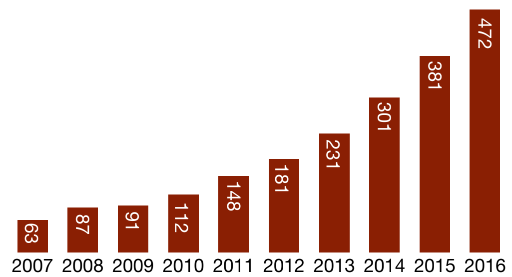
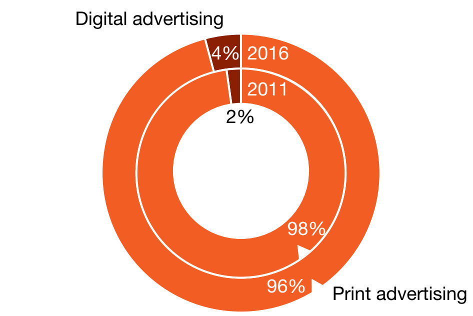


Figure 8.10: Total newspaper advertising market 2011 vs 2016



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total newspaper advertising

When digital advertising is included, total newspaper advertising will grow by an estimated 7.9% on a compound annual basis during the next five years, rising to R12.3 billion in 2016 from R8.4 billion in 2011.

Digital advertising will comprise approximately 3.8% of total newspaper advertising in 2016, more than twice its 1.8% share in 2011.

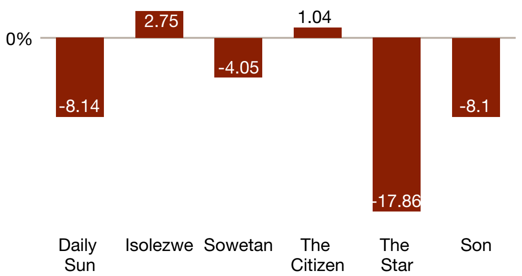
Circulation spending

Print circulation

Although newspaper readership rose during the past two years, paid unit circulation fell, declining by 6.3% in 2010 and a further 6.7% in 2011. Between 2007 and 2009, the cumulative decline for the two year period was 5.7%, less than half the decrease of the past two years.

Of the top papers that recorded readership growth, *Isolezwe* and *The Citizen* were the only top papers to sell more copies in 2011 than in 2010. *Isolezwe,* which is only ten years old, posted a 2.8% increase and is one of the fastest growing papers in South Africa. Paid unit circulation for most papers, however, declined. Copy sales for the *Daily Sun* and the *Son* each fell by more than 8% in 2011 and *The Star* was down nearly 18%.

Figure 8.11: Percentage change in copy sales, 2011



Source: ABC (Audit Bureau of Circulation, South Africa)

Build personalised data sets by segment and component.

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Figure 8.12: Top six readership 2011

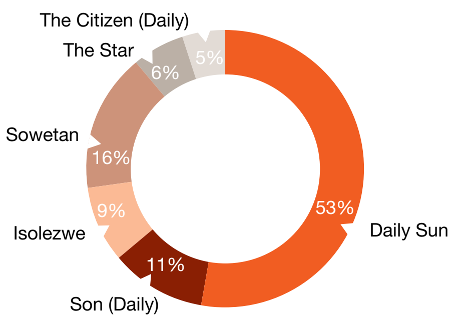
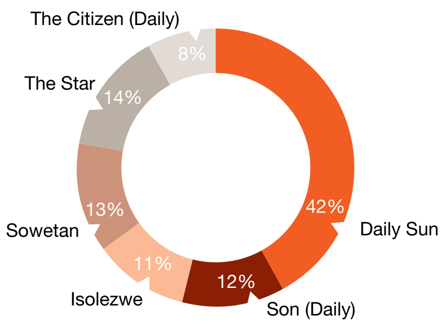


Figure 8.13: Top-six circulation 2011



Sources: AMPS, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The accelerating decline in unit circulation during the past two years coincides with the accelerated growth in broadband penetration, suggesting that growing competition from the Internet is finally cutting into paid newspaper circulation in South Africa.

Countries with developed broadband infrastructures have shown a decline in newspaper circulation for a number of years and it appears that South Africa has now reached a similar point. The Internet gives people access to much of the information contained in newspapers, reducing the desire among consumers to buy newspapers.

As in other countries, we expect paid unit circulation to continue to decline in South Africa as broadband penetration grows. Because South Africa is still well behind other countries in broadband penetration, it will experience rapid broadband growth in the coming years. Consequently, we expect steeper declines in newspaper unit circulation compared with most other countries.

We expect decreases in excess of 6% annually to continue during the next two years. Then, as economic conditions improve, we expect declines to even out to 5.6% annually during 2015-16, which will still be sharper than in most other countries.

In addition, unit circulation gains for some papers, particularly non-English-language papers, will help limit overall unit circulation declines. For the forecast period as a whole, paid unit circulation will fall at a projected 6.0% compound annual rate to 1.4 million in 2016 from 1.9 million in 2011.

Average annual spending per unit is expected to edge up by 0.3% in 2011. We expect faster increases during the next five years as economic conditions improve and as publishers look to shore up revenues. By 2016, average annual spending per unit will be an estimated R1 590, up 0.7% compounded annually from 2011.

We project aggregate circulation spending to decrease at a 5.4% compound annual rate to R2.3 billion in 2016 from R3 billion in 2011.

Newspaper print circulation market

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Paid unit circulation (thousands)	2 360	2 315	2 225	2 085	1 945	1 810	1 700	1 600	1 510	1 425	
% change	*2.6*	*-1.9*	*-3.9*	*-6.3*	*-6.7*	*-6.9*	*-6.1*	*-5.9*	*-5.6*	*-5.6*	*-6.0*
Average annual spending per unit (Rand)	1 500	1 520	1 540	1 530	1 535	1 540	1 550	1 560	1 575	1 590	
% change	*1.4*	*1.3*	*1.3*	*-0.6*	*0.3*	*0.3*	*0.6*	*0.6*	*1.0*	*1.0*	*0.7*
Print circulation spending (R millions)	3 540	3 519	3 427	3 190	2 986	2 787	2 635	2 496	2 378	2 266	
% change	*4.0*	*-0.6*	*-2.6*	*-6.9*	*-6.4*	*-6.7*	*-5.5*	*-5.3*	*-4.7*	*-4.7*	*-5.4*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Print circulation facts

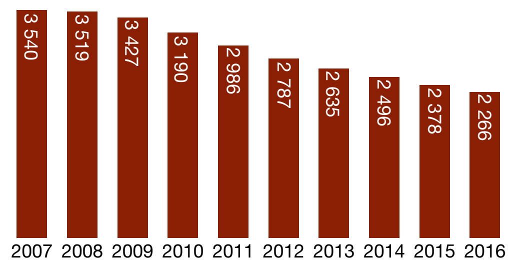
- Newspaper circulation increased by 114 000 in the last quarter of 2011.
- Daily newspaper circulation decreased by 97 000 (-6.7%) in the quarter ending Dec 2011 compared to the same quarter last year.
- Daily newspaper circulation was only 13 000 less copies than the prior quarter.
- English daily newspaper titles decreased by 6.7%; Afrikaans titles decreased by 9.3% and vernacular titles showed an increase of 2.7% compared to the prior year
- Weekly newspaper circulation declined by 17 000 copies (3%) and weekend newspaper circulation declined by 108 000 (4.9%) compared to the prior year.
- Of the seven largest weekend titles, only *Sunday Times* and *Isolezwe* increased their circulation.
- Weekend newspapers overall continued to decline. Afrikaans titles are declining 2.8 times faster than their English equivalents.
- *Sunday Times* grew single-copy sales by 6%.
- The community and free press continue to grow due to new entrants, but without affecting existing titles.
- Total circulation of free magazines was significantly impacted by the conversion of *Vuk'uzenzele* to a free Government newspaper.

Source: Audit Bureau of Circulation South Africa (ABC) 4th Quarter (Feb 23, 2012)

Digital circulation

While readers do not appear to be willing to pay for online newspapers, they do appear to be willing to pay for the convenience of having a newspaper downloaded to a mobile device. Media24 launched tablet apps for several of its papers in 2011 and *Mail & Guardian* introduced a Kindle and iPad edition in South Africa in 2011. The *Sunday Times* and *The Times* introduced a paywall for online editions with only a short summary of articles available free on their website. They also launched an e-edition digital format of the newspapers and also the Editor's Choice iPad app in mid 2012. The e-edition offers a digital replica of the printed newspaper, but with enhanced features including audio and social network integration. The e-edition subscription is available at a reduced rate with savings of about 15% compared to the printed subscription tariffs. The e-edition is readable on various devices including BlackBerry, iPhone, iPad PC and various other e-readers. The iPad app costs about R8 per week ($0.99) and includes the editor's pick of *Sunday Times'* best stories.

Figure 8.14: Print circulation spending (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

A paid digital circulation market is developing in a number of countries as the convenience of having a newspaper on a mobile device increases. As the cost of accessing the Internet decreases and more people get connected, fewer people will turn to print newspapers, especially to those that they have to pay for their information. This is may be regarded as a negative trend but does point to an opportunity in the digital news sphere.

Tablets are proving to be popular in South Africa and as prices come down, we expect penetration to expand. As penetration of tablets and the quality of available news applications increases, the potential market for paid digital circulation will expand. We project that by 2016, paid digital unit circulation will total 86 000 from only 2 000 in 2011.

In general, people still view digital products as inferior to products in their traditional physical formats and have only been willing to buy digital products at a discount. We expect this behaviour to characterise digital newspaper use. We project average annual spending to be less than half that of print papers and to decline from R610 in 2011 to R600 by 2016.

Aggregate spending will total an estimated R52 million in 2016, up from only R1 million in 2011.

Newspaper digital circulation market

	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Paid unit circulation (thousands)	2	7	17	32	60	86	
% change		*250.0*	*142.9*	*88.2*	*87.5*	*43.3*	*112.2*
Average annual spending per unit (Rand)	610	608	606	604	602	600	
% change		*-0.3*	*-0.3*	*-0.3*	*-0.3*	*-0.3*	*-0.3*
Digital circulation spending (R millions)	1	4	10	19	36	52	
% change		*300.0*	*150.0*	*90.0*	*89.5*	*44.4*	*120.4*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Faced with declines in advertising and print circulation spending, publishers are stepping up their efforts to generate revenue through digital distribution. Publishers are shifting content behind 'walls' and asking readers to pay. *The Wall Street Journal*, which pioneered paid online subscriptions, posted a 20% increase in online subscriptions in 2011. *The New York Times* introduced a paywall in 2011 that allows free access to 20 articles per month, but requires digital users to pay for digital access beyond the first 20 articles. By the end of 2011, *The New York Times* had more than 300 000 digital subscribers.

Another approach is Digital First Mondays, offered by Paxton's papers in California. They offer a free online edition on Mondays but no print edition. Print editions are published the rest of the week and online content has a paywall.These models represent an attempt to generate incremental digital revenue without sacrificing digital traffic and digital advertising. So far, these approaches are attracting digital subscribers while still experiencing rising traffic on their websites.

Another model gaining momentum is paid distribution to tablets. Consumers are accustomed to paying for content on mobile devices and benefit from the convenience of a daily download. Navigating through a paper on a tablet is quicker than online because the paper is already downloaded onto the tablet. The tablet also provides a better platform for digital content than an online edition.

Partnerships and acquisitions will be vital, allowing penetration into new markets and diversifying revenue streams.

Total circulation

Total circulation spending will decrease at a 4.9% compound annual rate to R2.3 billion in 2016 from R3 billion in 2011. Digital circulation will comprise 2.2% of total circulation

Conclusion

Traditional print sales will continue to decline for the foreseeable future. Emerging technologies create new opportunities for the newspaper industry to increase online distribution and to reach larger audiences. The industry will be watching with interest as foreign mastheads attempt to monetise online delivery and successful paywalls will be replicated locally to improve financial returns.

Partnerships and acquisitions will be vital, allowing penetration into new markets and diversifying revenue streams. Tablets and mobile devices will provide access to a more youthful demographic and will help newspapers evolve their offering to appeal to younger readers.

Global trends in newspaper publishing

Outlook

- The global newspaper market fell by 0.7% in 2011, as declines in North America and EMEA offset gains in Asia-Pacific and Latin America.
- Beginning in 2012, we expect gains in Asia-Pacific and Latin America to offset declines in North America and EMEA; and by the latter part of the forecast period each region will expand. As a result, global spending will rise to $181.2 billion in 2016 from $168 billion in 2011, a 1.5% compound annual increase.
- Print advertising is the largest component of the newspaper market, at $83.9 billion in 2011. Global print advertising fell by 2.0% in 2011 and will continue to decline in 2012. Spending on print advertising will begin to expand in 2013, rising to $87.2 billion in 2016, a 0.8% compound annual increase from 2011.
- Digital advertising on newspaper websites will increase at a 10.0% compound annual rate to $11.5 billion in 2016 from $7.2 billion in 2011, increasing its share of total newspaper advertising to 11.7% from 7.9% in 2011.
- Total newspaper advertising will rise from $91.1 billion in 2011 to $98.8 billion in 2016, a 1.6% compound annual increase.
- Global print circulation spending will increase to $79.6 billion in 2016 from $76.6 billion in 2011, a 0.8% compound annual increase. The digital circulation spending market will rise from $233 million in 2011 to $2.8 billion in 2016, a 64.7% compound annual increase from a tiny base.
- Total circulation spending will reach $82.5 billion in 2016 from $76.9 billion in 2011, a 1.4% compound annual increase.

Key drivers

- In countries where a majority of households have broadband connections, newspapers face erosion in print unit circulation as readers shift from print to online for information. This shift will cut into both circulation spending and print advertising.
- Conversely, in countries where broadband penetration is low, there is less competition from the Internet and unit circulation is rising, benefiting both circulation spending and print advertising.
- Economic conditions are affecting both advertising and circulation spending, providing a lift in countries where conditions are improving, while dampening spending in countries whose economies are weak.
- Newspapers have popular websites and rising traffic on these sites will boost digital advertising
- Distribution of newspapers to tablets on a paid basis will generate a paid digital circulation market as consumers appear to be willing to pay for content delivered to tablets.

Global newspaper publishing market by component (US$ millions)

	2007	2008	2009	2010	2011p	2012	2013	2014	2015	2016	2012–16 CAGR (%)
Print advertising	114 349	104 659	85 923	85 690	83 934	83 089	83 377	84 054	85 397	87 248	
% change	*–1.9*	*–8.5*	*–17.9*	*–0.3*	*–2.0*	*–1.0*	*0.3*	*0.8*	*1.6*	*2.2*	*0.8*
Digital advertising	5 407	5 903	5 730	6 521	7 164	7 923	8 731	9 604	10 530	11 517	
% change	*30.4*	*9.2*	*–2.9*	*13.8*	*9.9*	*10.6*	*10.2*	*10.0*	*9.6*	*9.4*	*10.0*
Total advertising	119 756	110 562	91 653	92 211	91 098	91 012	92 108	93 658	95 927	98 765	
% change	*–0.8*	*–7.7*	*–17.1*	*0.6*	*–1.2*	*–0.1*	*1.2*	*1.7*	*2.4*	*3.0*	*1.6*
Print circulation	76 140	77 402	76 632	76 770	76 637	77 128	77 706	78 291	78 925	79 638	
% change	*3.4*	*1.7*	*–1.0*	*0.2*	*–0.2*	*0.6*	*0.7*	*0.8*	*0.8*	*0.9*	*0.8*
Digital circulation	21	34	43	110	233	413	739	1 315	2 054	2 821	
% change	*10.5*	*61.9*	*26.5*	*155.8*	*111.8*	*77.3*	*78.9*	*77.9*	*56.2*	*37.3*	*64.7*
Total circulation	76 161	77 436	76 675	76 880	76 870	77 541	78 445	79 606	80 979	82 459	
% change	*3.5*	*1.7*	*–1.0*	*0.3*	*0.0*	*0.9*	*1.2*	*1.5*	*1.7*	*1.8*	*1.4*
Total	**195 917**	**187 998**	**168 328**	**169 091**	**167 968**	**168 553**	**170 553**	**173 264**	**176 906**	**181 224**	
% change	***0.8***	***–4.0***	***–10.5***	***0.5***	***–0.7***	***0.3***	***1.2***	***1.6***	***2.1***	***2.4***	***1.5***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, Global entertainment and media outlook 2012 – 2016 (PwC, 2012)

Chapter 9

Consumer and educational book publishing

Rilien Nienaber
Senior Manager, PwC Southern Africa

The consumer and educational book publishing market consists of retail spending by consumers on consumer books; spending by schools, government agencies and students on elementary, high school and college textbooks, including postgraduate textbooks and academic textbooks; and spending on books in electronic formats, also known as electronic books or e-books. Spending includes library and institutional subscriptions to electronic book databases.

Print sales include audio books, books on CDs and books on DVDs.

In prior years, books on CDs and DVDs were combined with electronic books and included in the electronic book category. In the past year, the Publishers' Association of South Africa (PASA) generated new data that separates books on CDs and DVDs from electronic books and we have accordingly revised the print/audio and electronic book figures to reflect this – these figures are currently included in print book figures.

Educational books do not include supplemental educational spending, administrative software, or testing materials.

Professional books are covered in the business-to-business publishing chapter.

Outlook

… at a glance

Consumer and educational book publishing total spending (R millions)

2011
3 804

2016
4 099

2012-16 CAGR(%)
1.5

Consumer and educational book publishing (R millions)

	2011	2016	2012-16 CAGR (%)
Print			
Consumer books	1 475	1 695	2.8
Educational books	2 320	2 345	0.2
Total print	3 795	4 040	1.3
Electronic			
Consumer books	2	19	56.9
Educational books	7	40	41.7
Total electronic	9	59	45.7
Total consumer	1 477	1 714	3.0
Total educational	2 327	2 385	0.5
Total	**3 804**	**4 099**	**1.5**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

…in brief

- New electronic readers and tablets are proving to be very popular and will drive spending on electronic books, cutting into print sales.
- The shift from higher-priced printed books to lower-priced electronic books will have an adverse impact on overall spending.
- Despite the availability of e-readers, the market has been slow to take off in South Africa due to high prices and bandwidth constraints.
- The consumer book market is limited in South Africa because of relatively high illiteracy, low incomes, and few books published in African languages.
- Growth in the number of people in the key demographic segment for consumer books and continued economic expansion will sustain the consumer book market.
- Total spending on consumer and educational book publishing is expected to grow at a 1.5% compound annual rate from R3.8 billion in 2011 to R4.1 billion in 2016.

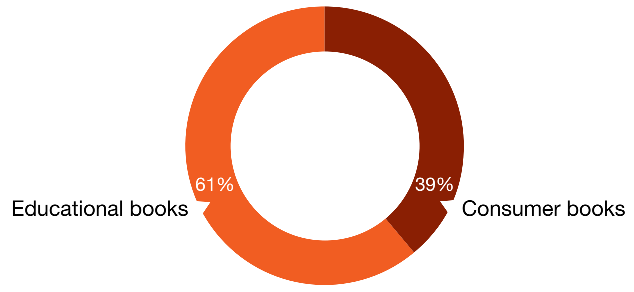
Overview

Spending on consumer and educational books rose 0.9% in 2011, the first increase since 2008. A small growth in consumer books offset a moderate decline in education books.

Total spending on consumer and educational books amounted to R3.8 billion in 2011, consisting of R2.3 billion spent on educational books and R1.5 billion spent on consumer books.

There are approximately 120 publishers in South Africa, of which nearly 90 are represented by educational publishers. This is due to the large school-going population, which requires textbooks and for which the Government is the principle provider in South Africa. Educational books consequently dominate the overall market, accounting for 61% of total spending in this sector in 2011.

Figure 9.1: Total spending 2011



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The consumer book market in South Africa continues to face a number of limitations. While there are 11 official languages in South Africa, most books are only published in English and Afrikaans, which effectively excludes large segments of the population from reading. Due to relatively small print runs and the 14% VAT levied in South Africa, which is higher than in many other countries, prices are relatively high and unaffordable for many, which further constrains the market.

Illiteracy continues to be relatively high in South Africa – the Government is taking steps to address this as part of its Industrial Policy Action Plan, with the goal of eliminating illiteracy by the end of the decade.

However, growth in the number of people in the key demographic segment for consumer books – people 45 and older – and continued economic expansion will sustain the consumer book market. We project spending on print consumer books to expand at a 2.8% compound annual rate over the forecast period, matching the gain that was recorded in 2011. Spending on printed consumer books is expected to reach R1.7 billion in 2016 from R1.5 billion in 2011.

The electronic consumer book market is still relatively new to South Africa and this market is forecast to grow to R19 million in 2016 from just R2 million in 2011, which is an increase of 56.9% at a compound annual rate.

We expect total spending on consumer books to increase at a 3.0% compound annual rate, rising from R1.5 billion in 2011 to R1.7 billion in 2016.

The educational book market is likely to benefit from a curriculum revision in the next two years as well as the expanding economy as a whole, but this growth is expected to be offset by the declines in the school-age population. This is likely to lead to a reduction in the number of textbooks that will need to be purchased and will ultimately limit the growth of the educational book market.

We expect that the overall educational market will total R2.4 billion in 2016, a 0.5% compound annual increase from 2011. Of this, print educational books are expected to increase at a 0.2% compound annual rate, to reach R2.3 billion, while electronic educational books will rise to an estimated R40 million in 2016 from R7 million in 2011, a 41.7% compound annual increase.

We project the consumer and educational book publishing market as a whole to expand at a 1.5% compound annual rate to R4.1 billion in 2016 from R3.8 billion in 2011. This will be generated largely by print sales, which are expected to increase by 1.3% compounded annually to reach R4 billion in 2016 and the small, relatively new electronic book market, which will rise from R9 million in 2011 to R59 million in 2016.

Although the electronic book market accounted for just 0.2% of the market in 2011, electronic books will generate 17% of the projected growth during the next five years.

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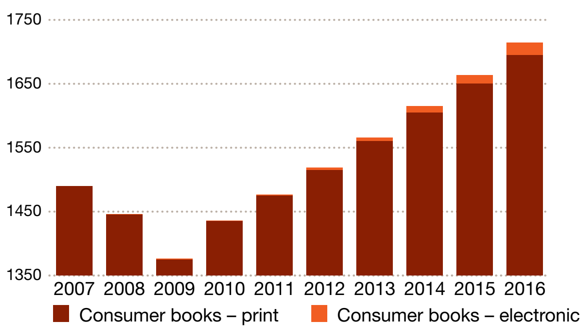
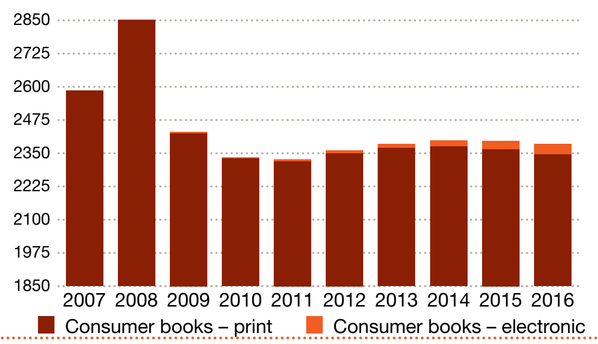
Figure 9.2: Consumer publishing market (R millions)



Educational publishing market (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer and educational publishing market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Print[1]										
Consumer books	1 490	1 445	1 375	1 435	1 475	1 515	1 560	1 605	1 650	1 695
Educational books	2 585	2 850	2 425	2 330	2 320	2 350	2 370	2 375	2 365	2 345
Total print	*4 075*	*4 295*	*3 800*	*3 765*	*3 795*	*3 865*	*3 930*	*3 980*	*4 015*	*4 040*
Electronic books										
Consumer books	†	1	1	1	2	4	6	10	14	19
Educational books	1	3	4	5	7	11	15	23	31	40
Total electronic	*1*	*4*	*5*	*6*	*9*	*15*	*21*	*33*	*45*	*59*
Total consumer	1 490	1 446	1 376	1 436	1 477	1 519	1 566	1 615	1 664	1 714
Total educational	2 586	2 853	2 429	2 335	2 327	2 361	2 385	2 398	2 396	2 385
Total	**4 076**	**4 299**	**3 805**	**3 771**	**3 804**	**3 880**	**3 951**	**4 013**	**4 060**	**4 099**

[1] Includes books on CDs and DVDs.
† Less than R500 000
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

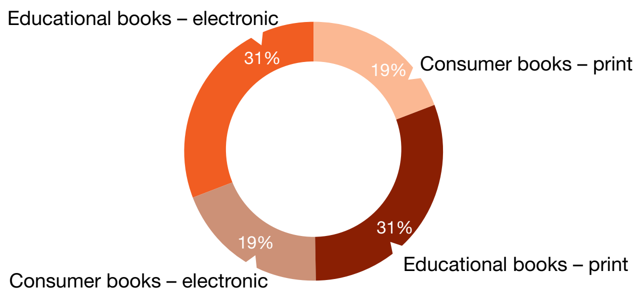
Consumer and educational book publishing market growth (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR
Print											
Consumer books	5.9	-3.0	-4.8	4.4	2.8	2.7	3.0	2.9	2.8	2.7	2.8
Educational books	4.0	10.3	-14.9	-3.9	-0.4	1.3	0.9	0.2	-0.4	-0.8	0.2
Total print	*4.7*	*5.4*	*-11.5*	*-0.9*	*0.8*	*1.8*	*1.7*	*1.3*	*0.9*	*0.6*	*1.3*
Electronic books											
Consumer books	–	–	0.0	0.0	100.0	100.0	50.0	66.7	40.0	35.7	56.9
Educational books	0.0	200.0	33.3	25.0	40.0	57.1	36.4	53.3	34.8	29.0	41.7
Total electronic	*-91.7*	*300.0*	*25.0*	*20.0*	*50.0*	*66.7*	*40.0*	*57.1*	*36.4*	*31.1*	*45.7*
Total consumer	5.1	-3.0	-4.8	4.4	2.9	2.8	3.1	3.1	3.0	3.0	3.0
Total educational	4.0	10.3	-14.9	-3.9	-0.3	1.5	1.0	0.5	-0.1	-0.5	0.5
Total	**4.4**	**5.5**	**-11.5**	**-0.9**	**0.9**	**2.0**	**1.8**	**1.6**	**1.2**	**1.0**	**1.5**

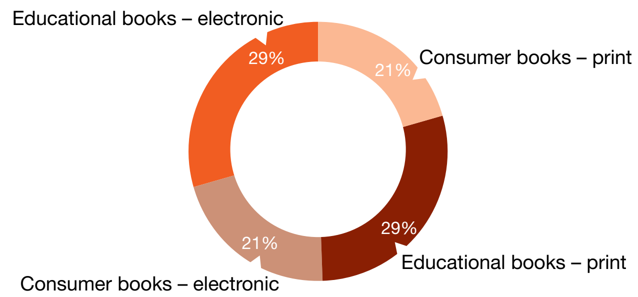
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 9.3: Consumer and educational publishing market:

2011

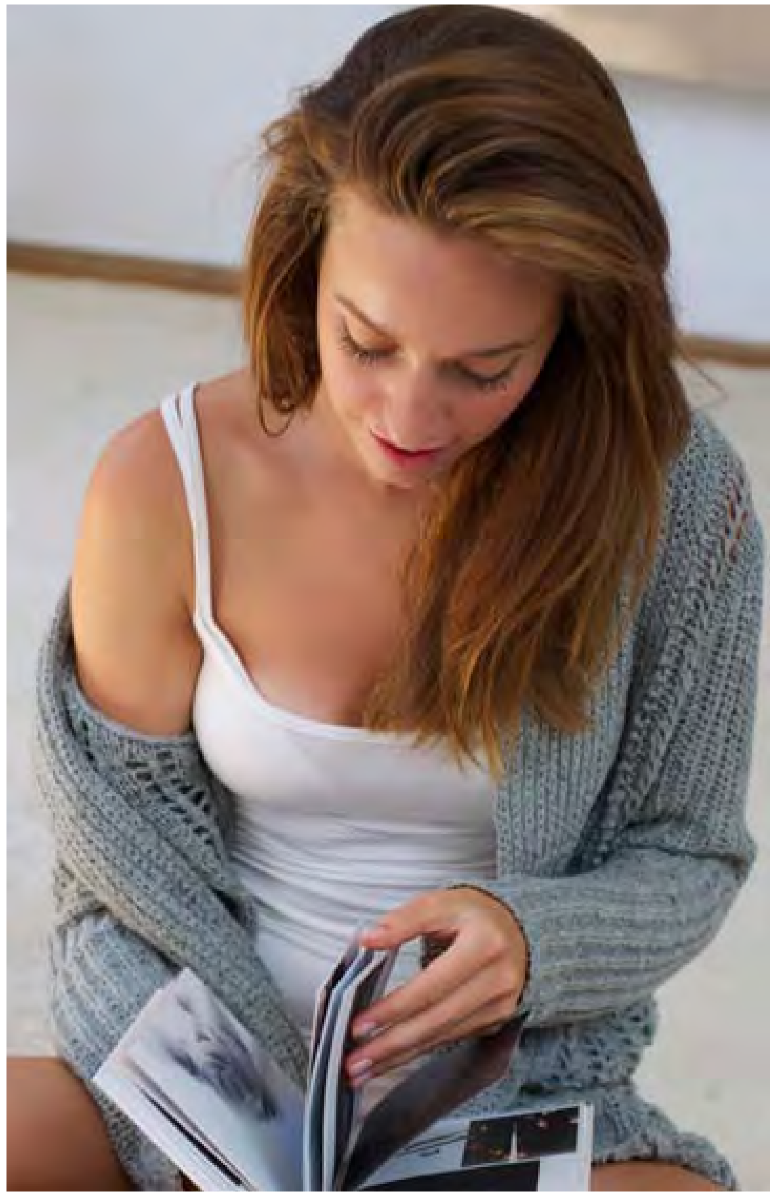


2016



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer and educational book publishing



Consumer books

Print/audio

The print consumer book market rose 2.8% in 2011, down from the 4.4% increase in 2010, but the second consecutive gain following declines between 2007 and 2009, which reflected the impact of the recession. The consumer book retail print market is influenced by online sellers such as Amazon and Kalahari.com and the emerging e-book market, where we are starting to see fewer people buying books from retail bookstores.

The consumer book market is limited in South Africa because of a relatively high rate of illiteracy (approximately 12%), low income, and few books published in African languages. It is estimated that approximately 51% of South African households do not have a single book in their homes, with only 1% of the population buying books and only 14% of the population reading books. Consequently, the consumer book market is smaller than the educational book market.

It is estimated that approximately 51% of South African households do not have a single book in their homes, with only 1% of the population buying books and only 14% of the population reading books. Consequently, the consumer book market is smaller than the educational book market.

The Government has determined that the creative industries are key contributors to economic growth and job creation. Consequently, in its Industrial Policy Action Plan 2 (IPAP 2), the Government included the creative industries and in April 2011 allocated R14.8 billion over five years to promote tourism and the creative industries. IPAP 2 specifically targets reading and established a Ministerial Task Team to develop a growth strategy for book publishing.

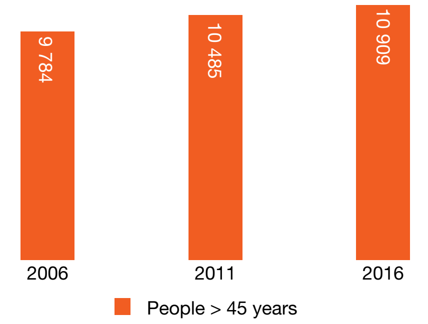
There are only about 400 bookstores in South Africa serving a population of 49 million. For most people, access to books is limited, which contributes to the small market for consumer books. CNA, with more than 180 stores and Exclusive Books with 48 stores dominate the retail bookstore market, together accounting for more than half of the book outlets in South Africa.

On a positive note, the economy is expanding, which should help make books affordable to more people. The illiteracy rate has dropped about 1% in recent years, which, while not dramatic, should still expand the potential market for books. Demographic trends are also favourable, although less so than in the past five years. The key book reading segment of the population — people 45 and older — rose by 7.2% between 2006 and 2011 and is expected to expand by 4.0% during the next five years, rising to 10.9 million in 2016. This continued growth is expected to benefit the consumer book market.

While the improved economic conditions and the ageing population will have a positive impact on print sales over the next five years, we expect that the loss of avid readers to e-books, especially avid readers of mass-market paperbacks and the growing penetration by e-reading devices will continue to cut into print sales.

Bookstores are also facing a growing trend of customers' browsing in their stores and subsequently buying e-books. This 'show-rooming' trend is estimated to have contributed to the decline in print book sales. In response, publishers have begun to release paperback editions sooner than in the past, so as to offer a more price-competitive print alternative to e-books.

Figure 9.4: **Number of people aged 45 and older (thousands)**



Sources: U.S. Census Bureau International Database, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Taking into account improved literacy, the ageing population and the penetration of e-readers, on balance, we project the print market to expand at rates comparable to the increase registered in 2011. We project that spending will rise from R1.5 billion in 2011 to a projected R1.7 billion in 2016, a 2.8% compound annual increase.

Electronic

Electronic consumer book sales doubled since 2010 to R2 million in 2011. The lower reported spending compared to the previous year's outlook is due to books on CDs and DVDs, which were combined with electronic books in the past, but which are now included in the print/audit category. This resulted from the Publishers' Association of South Africa defining new categories that separate books on CDs and DVDs from electronic books.

An electronic consumer book market is beginning to develop in South Africa. The Amazon Kindle, which represents a substantial portion of the global e-reader market, offers portability, a long battery life and a reading experience enhanced by multimedia and web connectivity. In October 2010, Amazon's top 10 titles sold twice as many copies in Kindle format than in print.

Print/audio consumer book market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Print/audio consumer books	1 490	1 445	1 375	1 435	1 475	1 515	1 560	1 605	1 650	1 695	
% change	*5.9*	*-3.0*	*-4.8*	*4.4*	*2.8*	*2.7*	*3.0*	*2.9*	*2.8*	*2.7*	*2.8*

Note: Includes books on CDs and DVDs
Sources: Publishers Association of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

However, e-book and e-reader penetration is lower in South Africa than the USA, while prices are higher. The Amazon Kindle was introduced in South Africa in October 2009. The Kindle became available in consumer electronic stores as well as recognised online stores in 2010, making it more easily available to South African users who no longer needed to buy the device online. Local support services, which were not previously available, are now provided. Other e-readers, including the Sony eReader, the iRiver e-reader, Bookeen, the Kobo eReader and the Bebook Mini eReader are also available in South Africa.

In March 2011, Amazon opened its Android App store as an alternative to the dominant Apple platform. Amazon's App store sells open source third-party Android software and allows purchases directly through a user's Amazon.com account.

The Apple iPad, introduced in 2010, is hugely popular globally and in South Africa. It opens up multimedia opportunities where enhanced books that incorporate video content can be developed. The Apple iPhone and other smartphones can also be used to download and read e-books. Although Apple's online bookstore, iBooks is available in South Africa, users are only able to download free books and do not currently have the option to purchase from the libraries available to users in other territories.

Despite the popularity of the Apple iPad, the Samsung Galaxy tab and other tablets, the electronic book market continues to be dominated by dedicated e-readers, which simulate the effect of reading a book in paper format. These e-readers are also much less expensive than tablets.

Most electronic books can also be read on a home computer, making books accessible to those who do not yet own an e-reader. The consumption patterns are that 60% of e-books are consumed on a home computer, but this is not leisure reading. An e-reader is preferred for leisure reading.

In general, the appeal of e-books lies in their lower prices compared with print and their ease of access, because a book can be purchased and downloaded at any time, thereby stimulating impulse buying. The e-book market appeals to avid readers who are willing to purchase portable e-readers. Consumers also have the option of reading a sample of a book, usually one or two chapters, before they buy a book.

Electronic books can be sold through both the wholesale model and the agency model. Under the wholesale model, the seller sets the wholesale price of the e-book in much the same way as physical books are sold. Under the agency model, the publisher sets the retail price, and the seller – such as Amazon or Apple – keeps a portion of the retail price. In the USA, the agency model that has been adopted by the major publishers is being challenged by the Department of Justice on antitrust grounds. At the time of writing, the department is alleging that Apple and some publishers are colluding to raise prices.

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Electronic books have opened up the world for new or existing authors as their books can now be loaded onto self-publishing platforms. Their books are available for users to download within seconds and the author receives royalties on their books sold. Apple has also launched the iBooks Author app allowing anyone to create multi-touch textbooks, and just about any kind of book for an iPad. This is one of various apps that make it easier for users to create books and publish them online. Without a publisher, however, distribution channels are significantly reduced and authors have no marketing support. Self-publishing might be well suited to niche markets, but it is unlikely to threaten the role of the traditional publisher in the medium term.

On-demand printing has also become more viable with digital technology. Print-on-demand technology gives booksellers and consumers quick access to specialist titles that may otherwise be out of print, difficult to source or expensive to ship. Commonly used by self-publishing authors, this service is less popular with traditional publishing companies, as margins are lower due to the higher cost per copy of small print runs.

Despite the availability of e-readers, the market has been slow to take off in South Africa. The relatively high prices of e-readers limit market penetration, while bandwidth constraints make downloading books wirelessly difficult in some areas. A further constraint is the different devices and formats in which e-books are available and the limitations in sharing e-books among devices. This could result in a user who owns more than one device having to repurchase a book in order for it to be accessible on a different device.

Further challenges lie ahead in the vast complexity and cost of using digital rights management (DRM) to protect against e-book piracy, which threatens to increase as digitisation becomes easier. Internationally, the removal of DRM is being investigated and some large publishers have abandoned it already. Whether the South Africa e-book market opts to keep the DRM model or not will largely depend on what other international sellers do.

Overall, the electronic market also faces the same constraints as the print market – relatively few people buy or read books in South Africa.

Electronic consumer book market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Electronic books	†	1	1	1	2	4	6	10	14	19	
% change	–	–	–	–	–	*100.0*	*50.0*	*66.7*	*40.0*	*35.7*	*56.9*

†Less than R500 000

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer book market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Print	1 490	1 445	1 375	1 435	1 475	1 515	1 560	1 605	1 650	1 695	
% change	*5.9*	*-3.0*	*-4.8*	*4.4*	*2.8*	*2.7*	*3.0*	*2.9*	*2.8*	*2.7*	*2.8*
Electronic	†	1	1	1	2	4	6	10	14	19	
% change	–	–	*0.0*	*0.0*	*100.0*	*100.0*	*50.0*	*66.7*	*40.0*	*35.7*	*56.9*
Total	**1 490**	**1 445**	**1 375**	**1 435**	**1 477**	**1 519**	**1 566**	**1 615**	**1 664**	**1 714**	
% change	***5.9***	***-3.0***	***-4.8***	***4.4***	***2.9***	***2.8***	***3.1***	***3.1***	***3.0***	***3.0***	***3.0***

†Less than R500 000

Sources: Publishers Association of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

On the other hand, improving economic conditions and the declining prices of e-readers should expand the potential market for electronic books. For the few people who read a lot and who have significant disposable income, electronic books are an attractive option and people who invest in e-readers buy more books than the average print reader buyer.

People who invest in e-readers buy more books than the average print reader buyer

Electronic book sales are growing rapidly in other countries and we expect they will take off in South Africa too. Nevertheless, we are not projecting a significant market during the forecast period. We project electronic consumer book sales to rise to R19 million in 2016 from only R2 million in 2011. Growth will average 56.9% compounded annually from a small base.

Total consumer books

The shift from print to electronic books has had a dampening effect on total spending because electronic books have lower prices than printed ones. The overall consumer book market is projected to total an estimated R1.7 billion in 2016, growing at a 3.0% compound annual rate from R1.5 billion in 2011. Electronic books will comprise 1.1% of spending in 2016, up from 0.1% in 2011.

Educational books

Print

The educational book market consists of elementary, high school, and university/college textbooks. The educational book market in South Africa is decentralised with the Government providing educational books for state-owned primary and secondary schools. In some schools, teachers choose books that the school orders and buys. In other schools, the province's department of education provides a catalogue of approved titles from which a school makes its selections. These books are purchased by the province and each province acts independently, which means that purchases are not coordinated and consequently print runs tend to be relatively small resulting in increased costs.

Approximately two-thirds of schools in South Africa are designated as no-fee schools, which means that all funding for these schools is provided by provincial governments.

The current approval process for school books is in the process of changing. Instead of books being approved by the respective provinces, it is expected that there will be a national catalogue developed by the Department of Basic Education, which will provide a choice of eight textbooks for each subject and grade.

The shift from provincial catalogues to a national catalogue will reduce the number of titles available for selection. Fewer titles will likely lead to fewer publishers of educational books. The large publishers will be better positioned to survive and their share of the market will increase, which will improve their financial positions.

Under both systems, spending on elementary and high school textbooks is affected by provincial departments of education budgets, which are allocated based on the tax collections at national government level and the state of the economy.

School books are intended to last for four years before new books are ordered. When books are lost or not returned, however, new books must be purchased. Consequently, even when new books are not scheduled to be purchased, the market is supported by replacement sales.

Periodically, the Department of Basic Education undertakes a curriculum review that can lead to the selection of new titles. A curriculum review is taking place during 2012 and the new Curriculum and Assessment Needs Policy statements are being implemented in stages. This will result in demand for new titles to be purchased. The new curriculum has been implemented for the foundation phases (Grades 1-3) as well as Grade 10 during 2012. The intermediate, senior phase and Grade 11 curriculums will be introduced in 2013 and Grade 12 in 2014.

At the university and college level, by contrast, textbooks are purchased by the students themselves. Consequently, university/college enrolment and the state of the economy are the main drivers of university/college textbook spending. In more difficult times, students might buy more secondhand books or access books from the library without buying them at all.

Key education demographics (thousands)

Age group	2011	2016	% change
6-19	13 422	12 821	-4.5
20-25	6 529	5 831	-10.7
Total	**19 951**	**18 652**	**-6.5**

Sources: U.S. Census Bureau International Database, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The recession in 2009 led to a 14.9% decline in educational print sales, and the print market has continued to decline, although at moderating rates as the underlying economy has improved. Spending on educational printed books fell 3.9% in 2010 and by an additional 0.4% in 2011. The curriculum review and a growing economy should lead to a rebound in print sales during the next few years.

As previously noted, the educational book market is also affected by enrolment at schools, universities and colleges. The more students enrolled at institutions, the more books that need to be purchased, and the greater the spending required to purchase them. At the school level, the key demographic group is aged 6-19 years. During the next five years, this segment of the population is projected to decline by 4.5%, from 13.4 million in 2011 to 12.8 million in 2016. Falling enrolment will result in decreased spending.

At the university and college level, the principal group affecting enrolment is aged 20-25 years. This segment is projected to decrease by 10.7% during the next five years to 5.8 million in 2016 from 6.5 million in 2011. This decline will result in reduced spending due to decreasing university and college enrolment.

The overall number of people in the key demographic segment for educational books will decrease from 20 million in 2011 to 18.7 million in 2016, a 6.5% decline. Falling enrolment at schools, universities and colleges will cut into demand for educational books.

Print educational book market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Print educational books	2 585	2 850	2 425	2 330	2 320	2 350	2 370	2 375	2 365	2 345	
% change	*4.0*	*10.3*	*-14.9*	*-3.9*	*-0.4*	*1.3*	*0.9*	*0.2*	*-0.4*	*-0.8*	*0.2*

Note: Includes books on CDs and DVDs.
Sources: Publishers Association of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

As in the consumer book market, electronic books are becoming a significant competitor to the print market, particularly at the university/college level as a result of the increased popularity of e-readers and tablet computers. University/college students are shifting to electronic books, which are less expensive and easier to carry and which have interactive features and can be updated more regularly.

Growth in electronic book sales will come in large part at the expense of print educational books. At the same time, increased use of e-books will limit the availability of used print books, which will also compete for sales with new print books.

While we expect an improving economy and the revised curriculums to support the market, growth will be limited by competition from e-books and adverse demographic trends. Piracy is also an issue with the common practice of photocopying textbooks reducing legitimate sales.

On balance, we expect the market to expand at modest rates during the next three years and then decline in 2015-16. For the forecast period as a whole, we project educational book print sales to increase at a 0.2% compound annual rate from R2.32 billion in 2011 to R2.35 billion in 2016.

Electronic

Electronic educational books, sold principally at the university/college level, are more than digital versions of print books. They include interactive learning tools and companion websites that provide enhanced value. Many publishers are selling electronic books as an add-on to traditional print educational books.

Apple is offering interactive textbooks to iPad owners through its iTunes U app. University/college textbook publishers are widening their focus on electronic books and multimedia electronic content.

Growth in tablet penetration and e-readers among university/college students will expand the electronic market.

There is an emerging market for electronic books on the part of university/college students. Electronic books are easy to use, easy to carry around and less expensive than print books providing an opportunity for college students to save money. The tablet is a good platform for college textbooks because of its full-colour and multimedia capabilities, which facilitate the presentation of charts and graphs. These features are not significant for most consumer books.

Electronic books at the university/college level have the advantage of eliminating books being transferred or sold again, which limits the supply of used books that become available.

Consumer and educational book publishing

The increasing demands of the information age

The publishing industry has experienced a host of recent technological changes: online publishing; online book stores; e-books; print on demand; accessible publishing; open publishing models; the digitisation of books; media convergence and the narrowcasting of information products. The movement of online distributors (such as Amazon) into the publishing arena set a range of legal challenges the publishing sector has yet to fully face up to.

A lack of policy clarity about digital copyright is seen to be hampering growth. South African legislation will need to be brought in line with the World Intellectual Property Organisation's Copyright Treaty (WCT) to ensure protection of investments in digital media.

The South African legal landscape

Competition considerations

Strategic alliances are being formed across the industry to allow for greater synergy between traditional publishing and other forms of media. This is attracting the attention of the Copyright Commission. The law of unfair competition provides that anyone who intentionally or negligently causes loss or damage to a business rival (i.e. a competitor) through wrongful conduct will be liable for damages.

Contractual challenges

Publishers must obtain all the rights in a publication in order to trade legally with the final product. Cross-media ownership and the growth of online publishing require careful management of all relevant rights. The publishing agreement must provide for all the necessary rights in the publication. These rights could include: the rights to reprints; translations; film rights; format provision; distribution and warehousing agreements; syndication agreements; e-book agreements; digital rights management; trademark registration; confidential information; and international publishing sale and distribution rights. Publishers are only allowed to mandate collective rights organisations to license the use of their publications if they are the owner of the work. Blanket licenses are ordinarily granted to educational institutions.

The Dramatic, Artistic, Literary Rights Organisation (DALRO) is the only collective rights organisation in South Africa that receives mandates from authors and publishers to license the use of their works.

Copyright challenges

The distribution of content to the public requires the consent of the copyright holder. The Copyright Act regulates the production and distribution of literary and artistic works. Publishers should understand, exploit and avoid infringing copyright. Publishers should protect the copyright they control and take care when granting copyright licences to third parties. Piracy of digital books is a constant threat to the industry.

The Copyright Act allows for 'fair dealing' as an exception to copyright infringement. The copying of parts of a protected work is allowed for private study or personal use of a work.

Defamation

Publishers should take responsibility for the content they provide. Even if written by another person, defamation charges may arise vicariously due to the production and distribution of the offensive material. In the pre-publication stage, publishers must be on the lookout for defamation and contempt issues.

Digital Rights Management (DRM)

Used by publishers and hardware manufacturers to limit the use of digital content after sale, DRM is increasingly regarded as a challenge to the industry, not to pirates. Consumers are increasingly expecting multiformat capacity on bought products. Most DRM systems use technological protection measures (TPMs) to protect the product. The Electronic Communications and Transactions Act (ECT Act) provides for a broad restriction on circumvention of any technological protection measures and does not provide any limitations or exceptions for legitimate use. This is regarded as an infringement of consumers' fair dealing rights since DRM makes no distinction between infringing and legitimate use of a product.

The challenges presented by DRM are that monopolies can be created over devices that handle the media and works are rendered inaccessible after copyright has expired, creating permanent lock-up in a product.

Privacy rights can be affected by DRMs in the following ways: login and registration facilities, biometric identification, spyware that sends information about the user without the end user's knowledge or approval, surveillance functionalities that gather information about users' reading, viewing and listening habits.

Publishers are becoming increasingly aware that while DRMs can enforce legal rights, they can displace them too. The constraint on information presents a challenge rather than an opportunity to publishers – thriving in an increasingly globalised, converged market requires a new approach.

Internet and electronic uses

Publishers cannot assume their rights to publish include publication on the Internet, as an e-book or in a multimedia format.

The recent Google Book Search Settlement Agreement is a response to a class action lawsuit brought against Google in the USA. Google started digitising books in libraries. Google Book Search allowed users to search its database of books, view snippets of protected works and download and view full copies of public domain books. The ruling is regarded as controversial and publishers are advised to seek legal advice in this regard.

Privacy

Guaranteed by the Constitution, and weighed up against public interest considerations, this right safeguards private information from being published without reason. Invasion of privacy can take two forms: disclosure of private information and intrusion into the private sphere of another. Privacy rights are infringed when information is published and/or distributed without the provider's consent.

Online publishing issues

Terms and conditions of use are a prerequisite and should cover data protection and privacy practices. 'Click-wrap' and 'shrink-wrap' licences must be clearly defined. Click-on payment facilities must be managed in line with the requirements of the Consumer Protection Act and the ECT Act.

Denise Fouché, Technology Legal Advisory Services, PwC

Electronic educational book market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Electronic books	1	3	4	5	7	11	15	23	31	40	
% change	*0.0*	*200.0*	*33.3*	*25.0*	*40.0*	*57.1*	*36.4*	*53.3*	*34.8*	*29.0*	*41.7*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Electronic books are also beginning to be present at the school level. There is growing interest in digital learning and digital curriculums both to save money and to promote learning. Online textbooks are being introduced in some schools. The constraint at the school level is that not all students have access to computers or tablets. Some schools are investing in laptops and tablets, which will expand the market for electronic books, but budget constraints and spending restrictions are making this a slow process.

A key opportunity for publishers lies in the development of digital learning platforms for the classroom.

A key opportunity for publishers lies in the development of digital learning platforms for the classroom. Publishers will need to develop more advanced digital products such as interactive whiteboard software, in-class assessment tools and data differentiated instruction.

The increase in the number of titles available and the rising penetration of electronic reading devices has resulted in spending on electronic educational books rising by 40% in 2011 to R7 million and we project spending to rise to R40 million by 2016, a 41.7% compound annual increase.

Total educational books

The overall educational book market is expected to expand at a 0.5% compound annual rate to R2.39 billion in 2016 from R2.33 billion in 2011. Electronic books will account for an estimate 1.7% of total spending on educational books in 2016, compared with 0.3% in 2011.

Printed books will continue to dominate the consumer and educational publishing market for some years, but e-books and other digital products present a new way to market. This has created opportunities for growth but will force authors, publishers, distributors and retailers to revise their strategies.

Educational book market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Print	2 585	2 850	2 425	2 330	2 320	2 350	2 370	2 375	2 365	2 345	
% change	*4.0*	*10.3*	*-14.9*	*-3.9*	*-0.4*	*1.3*	*0.9*	*0.2*	*-0.4*	*-0.8*	*0.2*
Electronic	1	3	4	5	7	11	15	23	31	40	
% change	*0.0*	*200.0*	*33.3*	*25.0*	*40.0*	*57.1*	*36.4*	*53.3*	*34.8*	*29.0*	*41.7*
Total	**2 586**	**2 853**	**2 429**	**2 335**	**2 327**	**2 361**	**2 385**	**2 398**	**2 396**	**2 385**	
% change	***4.0***	***10.3***	***-14.9***	***-3.9***	***-0.3***	***1.5***	***1.0***	***0.5***	***-0.1***	***-0.5***	***0.5***

Sources: Publishers Association of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Global trends in the consumer and educational book publishing industry

Outlook

- We project that global spending on consumer and educational book publishing will increase by 0.6 % compounded annually to $115.7 billion in 2016 from $112.1 billion in 2011.
- Print/audio consumer and educational books will continue to decline throughout the forecast period. Print consumer books, the largest component of the market at $66.6 billion in 2011, will fall to $57.5 billion in 2016, a 2.9 % compound annual decline. Print educational books will decrease at a 1.3 % compound annual rate from $40 billion to $37.4 billion.
- As a result, the overall print market will drop to $95 billion in 2016 from $106.5 billion in 2011, 2.3 % decline compounded annually.
- Electronic books totalled $5.5 billion in 2011, accounting for 4.9 % of total spending on consumer and educational books. Spending on electronic books will rise to $20.8 billion in 2016, a 30.3 % compound annual increase. As a result, electronic books will comprise 17.9 % of total sales by 2016.
- Spending on electronic consumer books will rise to $15.9 billion in 2016 from $4.1 billion in 2011, up 30.8 % compounded annually. Electronic consumer books will account for 21.6 % of total consumer book spending in 2016.
- Electronic educational books will generate $4.9 billion in 2016, a 28.5 % compound annual increase from $1.4 billion in 2011. Electronic educational books will comprise 11.6 % of the overall educational book market in 2016.
- Consumer book sales as a whole, including print and electronic, will increase from $70.7 billion in 2011 to $73.4 billion in 2016, a 0.7 % compound annual gain.
- The educational book market will grow at a 0.5 % compound annual rate to $42.3 billion from $41.4 billion in 2011.

Key drivers

- New electronic readers and tablets are proving to be very popular and will drive spending on electronic books, cutting into print sales in every region except Latin America.
- The shift from higher-priced print books to lower-priced electronic books will have an adverse impact on spending and will dampen overall spending growth in each region except Latin America, where electronic books are not yet a significant factor.
- However, publishers' margins on sales of electronic books are generally higher than on print books, benefiting the industry.
- Higher VAT rates on electronic books in EMEA compared with print, will limit the market for e-books in that region.

Global consumer and educational book publishing market by component (US$ millions)

	2007	2008	2009	2010	2011p	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Print/audio consumer books	72 334	71 605	70 630	69 175	66 573	64 570	62 730	60 961	59 200	57 513	
% change	*6.1*	*-1.0*	*-1.4*	*-2.1*	*-3.8*	*-3.0*	*-2.8*	*-2.8*	*-2.9*	*-2.8*	*-2.9*
Print educational books	41 038	41 917	40 827	40 996	39 954	39 378	38 793	38 334	37 884	37 441	
% change	*3.0*	*2.1*	*-2.6*	*0.4*	*-2.5*	*-1.4*	*-1.5*	*-1.2*	*-1.2*	*-1.2*	*-1.3*
Total print/audio	**113 372**	**113 522**	**111 457**	**110 171**	**106 527**	**103 948**	**101 523**	**99 295**	**97 084**	**94 954**	
% change	*5.0*	*0.1*	*-1.8*	*-1.2*	*-3.3*	*-2.4*	*-2.3*	*-2.2*	*-2.2*	*-2.2*	*-2.3*
Electronic consumer books	631	932	1 420	2 348	4 142	6 242	8 531	10 924	13 408	15 870	
% change	*82.4*	*47.7*	*52.4*	*65.4*	*76.4*	*50.7*	*36.7*	*28.1*	*22.7*	*18.4*	*30.8*
Electronic educational books	326	490	722	1 011	1 397	1 983	2 652	3 404	4 142	4 895	
% change	*39.9*	*50.3*	*47.3*	*40.0*	*38.2*	*41.9*	*33.7*	*28.4*	*21.7*	*18.2*	*28.5*
Total electronic	**957**	**1 422**	**2 142**	**3 359**	**5 539**	**8 225**	**11 183**	**14 328**	**17 550**	**20 765**	
% change	*65.3*	*48.6*	*50.6*	*56.8*	*64.9*	*48.5*	*36.0*	*28.1*	*22.5*	*18.3*	*30.3*
Total consumer	72 965	72 537	72 050	71 523	70 715	70 812	71 261	71 885	72 608	73 383	
% change	*6.5*	*-0.6*	*-0.7*	*-0.7*	*-1.1*	*0.1*	*0.6*	*0.9*	*1.0*	*1.1*	*0.7*
Total educational	41 364	42 407	41 549	42 007	41 351	41 361	41 445	41 738	42 026	42 336	
% change	*3.2*	*2.5*	*-2.0*	*1.1*	*-1.6*	*0.0*	*0.2*	*0.7*	*0.7*	*0.7*	*0.5*
Total	**114 329**	**114 944**	**113 599**	**113 530**	**112 066**	**112 173**	**112 706**	**113 623**	**114 634**	**115 719**	
% change	***5.3***	***0.5***	***-1.2***	***-0.1***	***-1.3***	***0.1***	***0.5***	***0.8***	***0.9***	***0.9***	***0.6***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, Global entertainment and media outlook 2012-2016 (PwC, 2012)

Drill down through data across segments and components.

Visit Outlook online at www.pwc.co.za/outlook

Consumer and educational book publishing

Chapter 10

Business-to-business publishing

Nico Oosthuizen
Associate Director, PwC Southern Africa

The business-to-business market consists of spending on business information, print and online directory advertising, print advertising in trade magazines, digital advertising on trade magazine online and mobile websites, and trade magazine circulation spending, which includes spending on print editions as well as spending for online content and on mobile distribution to tablets and other mobile devices.

For the first time, spending by companies on exhibition space at trade shows is included. The market also includes spending on print and electronic professional books.

Print sales include books on CD and books on DVD. In prior years, books on CD and DVD were combined with electronic books and included in the electronic book category. In the past year, the Publishers' Association of South Africa (PASA) developed new data categories that separate books on CD and DVD from electronic books and we have revised our print and electronic book figures accordingly.

Outlook

… at a glance

Business-to-business total spending (R millions)	2011	2016	2012-16 CAGR(%)
	4 622	5 730	4.4

Business-to-business market (R millions)

	2011	2016	2011-2016 CAGR (%)
Business information	1 215	1 620	5.9
Total directory advertising	621	585	-1.2
Total trade magazines	625	863	6.7
Trade shows	1 920	2 400	4.6
Total professional books	241	262	1.7
Total advertising	1 099	1 255	2.7
Total end user	3 523	4 475	4.9
Total	4 622	5 730	4.4

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Business-to-business publishing

…in brief

- Improved economic conditions will stimulate the business-to-business publishing market.
- There is a major shift in the market from physical platforms to digital platforms, accompanied by shifts in spending from physical to digital.
- Smartphones and tablets drive the potentially permanent migration from physical to digital for formats such as print directories and magazines.
- Within the digital market, mobile usage is the main driver of spending as smartphones provide features not available in the printed formats.
- The total spending on business-to-business publishing is projected to grow at a 4.4% compound annual growth rate from R4.6 billion in 2011 to R5.7 billion in 2016.

Overview

The economic cycle plays an important role in business-to-business (B2B) spending because each segment of the market is sensitive to the economy. During the next five years, an expanding economy globally and in South Africa is expected to have a positive impact on spending.

In line with the global trend, print directories are declining as the market becomes more digital. Online and mobile directories are gaining usage and advertising because they provide convenient, up-to-date information and features not available in print. In trade magazines, economic growth is revitalising the print advertising market, although migration to digital will limit print gains while fuelling digital growth.

Rising employment will boost trade magazine print circulation, while a digital circulation market is emerging. Publishers are starting to introduce pay walls for specialised online content such as archived articles or databases, while tablets are providing a new outlet for trade magazines in the mobile environment. Growing professional employment will also boost spending on professional books. Tablets with colour and graphic capabilities will support growth in spending on electronic books.

In 2011, business-to-business spending in South Africa increased by 2.1%, which is comparable to the 2.2% increase seen in 2010.

Every component of the market remains sensitive to changes in the economy, as was the case in 2010. Companies remain cautious, which is reflected in the slow rate of growth in 2011, resulting in slight increases in all sectors except print directory advertising.

We expect slower growth or declines in 2012 in each sector, except trade shows, as a moderating economy cuts into spending. The projected rebound in trade shows, however, will lead to slightly faster growth for the market as a whole with a 2.8% projected increase in 2012. Then, as economic conditions improve, we look for spending to rise by 3.9% in 2013 followed by gains of 5% or more during 2014-16.

Business-to-business publishing

Advertising rose 1.8% following a flat 2010, while end-user spending increased 2.2%, down from the 3.0% rise in 2010.

Business information was the strongest sector in 2011 with a 6.6% increase. We project a 4.9% percent increase in 2012 and gains averaging in excess of 6% annually during 2013-16. Growth for the entire forecast period is expected to average 5.9% compounded annually.

Print directory advertising fell 4.2% in 2011, compared to a 3.2% decrease in 2010. Print directory advertising is expected to continue to decline in each of the next five years as a result of the continued shift by advertisers to online directories, with a 4.8% compound annual rate decline expected for the period to 2016.

Digital advertising in directories will benefit from the shift from print to digital and is projected to grow by a 24.0% compound annual rate during the next five years. This high growth will begin to offset declines in print advertising in 2016, but overall directory advertising is projected to decline at a 1.2% compound annual rate over the forecast period.

Print advertising in trade magazines rose by 5.7% in 2011, its strongest showing since 2007. Following a slowdown in 2012, we expect this category to grow faster as the economy expands. Growth for the overall forecast period will average 6.0% compounded annually.

Trade magazine digital advertising grew by 100% in 2012, although this is from a low base and is projected to rise at a 25.0% compound annual over the forecast period. Total trade magazine advertising is projected to expand at a 7.0% compound annual rate.

Print circulation spending in trade magazines rose 2.1% in 2011 following four years of decline. We expect this market to continue to expand and project growth to average 2.7% compounded annually for the next five years.

A digital trade magazine circulation spending market will emerge in 2012 with a total estimated spend of R25 million by 2016. When digital circulation is included, overall trade magazine circulation spending is expected to rise at a 5.6% compound annual rate.

The total trade magazine market is expected to increase by 6.7% compounded annually over the next five years, with spending in 2014 reaching levels last seen in 2008.

The trade show market dipped in 2011, following a boost in 2010 related to the higher spend during the FIFA World Cup. We expect the trade show market to turn around in 2012 and to grow at a 4.6% compound annual rate with spending reaching R2.4 billion in 2016.

The print professional book market rose by 1.7%, the third consecutive gain. The print professional market will remain static over the forecast period with growth averaging 1.4% compounded annually.

Electronic professional book sales are an emerging sector due to the increased use of tablets and other mobile devices. We expect that spending will total R5 million by 2016.

The overall professional book market is expected to increase at a 1.7% compound annual rate.

Total business-to-business advertising is projected to grow at a 2.7% compound annual rate to R1.3 billion in 2016 from R1.1 billion in 2011. Total end-user spending on business information, trade magazine circulation, trade shows and professional books is expected to increase by 4.9% compounded annually to R4.5 billion in 2016, from R3.5 billion in 2011.

We project the overall business-to-business market in South Africa will increase from R4.6 billion in 2011 to R5.7 billion in 2016, rising by 4.4% on a compound annual basis.

Business-to-business market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Business information	1 180	1 200	1 090	1 140	1 215	1 275	1 350	1 440	1 530	1 620
Directory advertising										
Print	620	650	620	600	575	550	525	500	475	450
Digital	12	20	28	36	46	55	68	85	109	135
Total directory advertising	632	670	648	636	621	605	593	585	584	585
Trade magazines										
Print advertising	560	589	425	435	460	480	510	545	580	615
Digital advertising	4	9	7	9	18	24	31	38	46	55
Total advertising	564	598	432	444	478	504	541	583	626	670
Print circulation	151	150	147	144	147	149	153	159	164	168
Digital circulation	–	–	–	–	†	1	3	8	16	25
Total circulation	151	150	147	144	147	150	156	167	180	193
Total trade magazines	715	748	579	588	625	654	697	750	806	863
Trade shows	1 900	1 950	1 875	1 925	1 920	1 975	2 050	2 160	2 280	2 400
Professional books										
Print	236	219	235	236	240	242	245	250	254	257
Electronic	†	†	†	1	1	1	2	3	4	5
Total professional books	236	219	235	237	241	243	247	253	258	262
Total advertising	1 196	1 268	1 080	1 080	1 099	1 109	1 134	1 168	1 210	1 255
Total end user	3 467	3 519	3 347	3 446	3 523	3 643	3 803	4 020	4 248	4 475
Total	**4 663**	**4 787**	**4 427**	**4 526**	**4 622**	**4 752**	**4 937**	**5 188**	**5 458**	**5 730**

†Less than R500 000
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

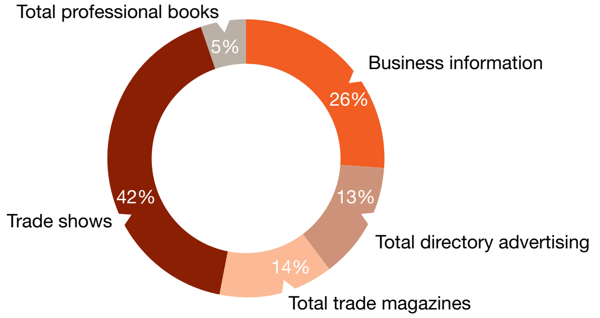
Business-to-business market growth (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR
Business information	6.3	1.7	-9.2	4.6	6.6	4.9	5.9	6.7	6.3	5.9	5.9
Directory advertising											
Print	7.8	4.8	-4.6	-3.2	-4.2	-4.3	-4.5	-4.8	-5.0	-5.3	-4.8
Digital	100.0	66.7	40.0	28.6	27.8	19.6	23.6	25.0	28.2	23.9	24.0
Total directory advertising	8.8	6.0	-3.3	-1.9	-2.4	-2.6	-2.0	-1.3	-0.2	0.2	-1.2
Trade magazines											
Print advertising	8.7	5.2	-27.8	2.4	5.7	4.3	6.3	6.9	6.4	6.0	6.0
Digital advertising	33.3	125.0	-22.2	28.6	100.0	33.3	29.2	22.6	21.1	19.6	25.0
Total advertising	8.9	6.0	-27.8	2.8	7.7	5.4	7.3	7.8	7.4	7.0	7.0
Print circulation	-1.9	-0.7	-2.0	-2.0	2.1	1.4	2.7	3.9	3.1	2.4	2.7
Digital circulation	–	–	–	–	–	–	200.0	166.7	100.0	56.3	–
Total circulation	-1.9	-0.7	-2.0	-2.0	2.1	2.0	4.0	7.1	7.8	7.2	5.6
Total trade magazines	6.4	4.6	-22.6	1.6	6.3	4.6	6.6	7.6	7.5	7.1	6.7
Trade shows	9.8	2.6	-3.8	2.7	-0.3	2.9	3.8	5.4	5.6	5.3	4.6
Professional books											
Print	-9.6	-7.2	7.3	0.4	1.7	0.8	1.2	2.0	1.6	1.2	1.4
Electronic	–	–	–	–	0.0	0.0	100.0	50.0	33.3	25.0	38.0
Total professional books	-9.6	-7.2	7.3	0.4	1.7	0.8	1.6	2.4	2.0	1.6	1.7
Total advertising	8.8	6.0	-14.8	0.0	1.8	0.9	2.3	3.0	3.6	3.7	2.7
Total end user	6.5	1.5	-4.9	3.0	2.2	3.4	4.4	5.7	5.7	5.3	4.9
Total	**7.1**	**2.7**	**-7.5**	**2.2**	**2.1**	**2.8**	**3.9**	**5.1**	**5.2**	**5.0**	**4.4**

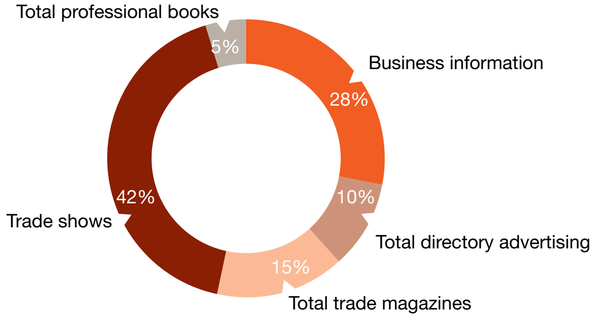
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 10.1: Business-to-business market:

2011



2016



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Business information

We classify business information into four principal categories, namely financial, marketing, industry and professional information:

- Financial information relates to securities, economic, and credit data;
- Marketing information is used for selling products or services and for monitoring sales and includes survey research, mailing lists and demographic databases;
- Industry information includes data and content such as market share information or competitive intelligence focused on specific industry categories such as technology, telecommunications, energy, manufacturing and real estate;
- Professional information includes information targeted to professionals such as law, accounting, and healthcare.

The ability to gather huge amounts of information from people's use of the Internet and social networking sites and from the digitisation of the economy in general, is generating a so-called 'big data' market. Vendors are offering access to big data through cloud-based services and are developing sophisticated tools to analyse that data. This trend is driving the marketing and industry information sectors. Digitisation is expanding the volume of information that can be collected and organised. Cloud services that enable customers to access massive data centres are expected to drive future spending. Analytical tools are being developed that help customers recognise new trends on a virtually real-time basis.

The ability to gather huge amounts of information is generating a so-called 'big data' market.

Marketing strategies are moving beyond survey research to the analysis of social networking activity and the engagement of consumers via brands. Growth in the availability of data will allow for more-personalised marketing approaches that should improve return on investment. Over the long run these services will boost spending on business information.

In the short run, however, the economy will still have the most influence. A depressed housing market will continue to hold down both lending and the demand for financial information in the near term, although modest employment growth will ultimately lead to a pickup in housing during the latter part of the forecast period.

Rising employment also will lead to larger increases in consumer spending, which in turn will drive corporate investment.

On the downside, some factors are dampening growth even as the economy improves. In particular, business information in the electronic area is experiencing intense price competition. More and more information is being made available and is often easy to find by using search engines. In many cases, businesses are not willing to pay for information they can get free.

A pickup in the economy led to a 6.6% increase in business information spending in 2011, the largest gain over the past five years. Slower economic growth in 2012 is expected to lead to a more moderate 4.9% gain.

We expect economic conditions to improve in subsequent years, which will boost demand for business information. Increased consumer spending will spur investment and boost lending activity, which will stimulate the market for financial information.

Growth in consumer spending will also lead to increases in spending on marketing information, while an expanding economy during the latter part of the forecast period will stimulate interest in investing in South Africa, which will have a positive impact on industry information.

We project overall spending on business information to increase at a 5.9% compound annual rate during the next five years to R1.6 billion in 2016 from R1.2 billion in 2011.

Business information market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Business information	1 180	1 200	1 090	1 140	1 215	1 275	1 350	1 440	1 530	1 620	
% change	*6.3*	*1.7*	*-9.2*	*4.6*	*6.6*	*4.9*	*5.9*	*6.7*	*6.3*	*5.9*	*5.9*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 10.2: Business information market (R millions)

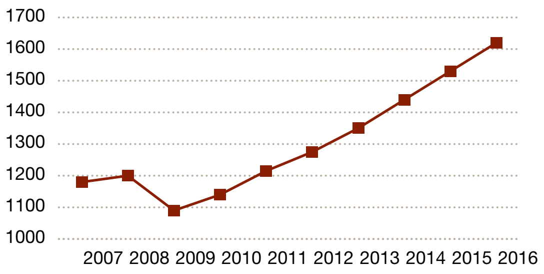
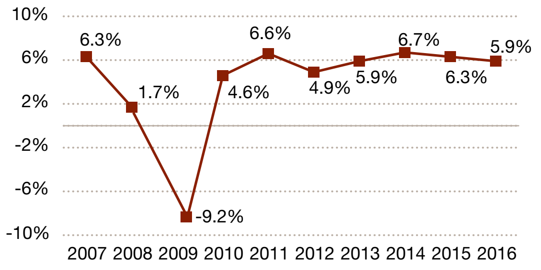


Figure 10.3: Business information market growth (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Directory advertising

Print directory advertising fell 4.2% in 2011, the third consecutive decrease and we expect this trend to continue over the forecast period.

The market was hurt by the weak economy in 2009 and more recently by the shift of directories to the Internet and to mobile devices. Print directories are at a disadvantage compared to their digital counterparts because they cannot be readily updated or searched, cannot provide video content and are expensive to produce and distribute.

Digital directories provide quick and easy access to video content, photographs, customised maps and directions for mobile users with GPS. They can also support direct electronic transactions, a function not available to print directories. Because digital directories can be updated easily and on a more regular basis, they provide flexibility, up-to-date information and are less expensive to produce.

Meanwhile, consumers are rapidly adopting digital technologies such as smartphones and tablets that facilitate mobile Internet access, aided by the rollout of fourth-generation wireless technologies. With tablet and smartphone penetration growing rapidly, mobile directories will become major components of the market, as people become more accustomed to accessing information online.

For these reasons, we expect print directory advertising to continue to decline, falling from R575 million in 2011 to a projected R450 million by 2016, a 4.8% decrease compounded annually.

Online directory advertising is a small but rapidly growing component of the market. Spending rose 27.8% in 2011, but totalled only R46 million. Low broadband penetration has limited online directory advertising in the past. We expect faster increases in subsequent years as broadband penetration is increasing and as mobile access and smartphone penetration expands.

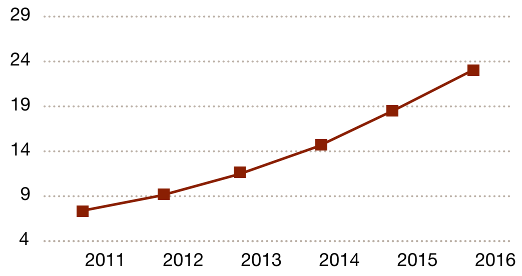
We expect digital directory advertising to nearly triple to R135 million in 2016, a 24.0% compound annual increase from 2011.

Despite large increases in digital directory advertising, overall directory advertising spending is projected to continue to decline during the next four years. Because of lower digital ad rates compared with print ad rates, the shift from print to digital will lead to a decline in total spending.

Beginning in 2016, however, the digital market will become large enough to offset declines in print. We expect overall directory advertising to increase by 0.2% in 2016. Total spending in 2016 will be an estimated R585 million, down 1.2% compounded annually from R621 million in 2011.

Digital advertising will comprise approximately 23.1% of total directory advertising in 2016, compared with 7.4% in 2011.

Figure 10.4: Digital as a percentage of the total directory advertising market



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Directory advertising market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Print	620	650	620	600	575	550	525	500	475	450	
% change	*7.8*	*4.8*	*-4.6*	*-3.2*	*-4.2*	*-4.3*	*-4.5*	*-4.8*	*-5.0*	*-5.3*	*-4.8*
Digital	12	20	28	36	46	55	68	85	109	135	
% change	*100.0*	*66.7*	*40.0*	*28.6*	*27.8*	*19.6*	*23.6*	*25.0*	*28.2*	*23.9*	*24.0*
Total	**632**	**670**	**648**	**636**	**621**	**605**	**593**	**585**	**584**	**585**	
% change	*8.8*	*6.0*	*-3.3*	*-1.9*	*-2.4*	*-2.6*	*-2.0*	*-1.3*	*-0.2*	*0.2*	*-1.2*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Trade magazines

Advertising

Print advertising

Trade magazine print advertising is one of the most cyclically sensitive advertising media because investment and supply chain spending fluctuates more sharply with changes in the economy than consumer spending.

The 2009 recession had a major impact on trade magazine print advertising, with spending plunging 27.8%. Although economic conditions have improved during the past two years, the rebound in print advertising has not been large enough to offset the 2009 decline. Print advertising rose 2.4% in 2010 and posted a 5.7% increase in 2011, which still left it 22% lower than in 2008.

With economic growth expected to moderate in 2012, we look for a more moderate 4.3% advance in print advertising.

We then expect healthier economic growth that will translate into print advertising gains of 6% or more during 2013-16. As the economy expands, business spending on supplies and services will increase. This will encourage suppliers to advertise in trade magazines that serve their markets to get a share of that growth.

For the forecast period as a whole, we project trade magazine print advertising to grow at an estimated 6.0% compound annual rate, with spending rising from R460 million in 2011 to R615 million in 2016. Nevertheless, it will not be until 2016 that print advertising will surpass the level it reached in 2008.

Digital advertising

Trade magazines are launching digital versions on their websites that are attracting advertising. This revenue stream is benefiting from growth in broadband penetration and increased use of tablets and smartphones resulting in an overall expansion in online advertising. As digital versions reach more readers, they will attract more advertising.

Digital advertising in trade magazines did not escape the recession in 2009 with a 22.2% decrease in spending. However, digital advertising recovered in 2010 and spending doubled in 2011. We expect it will triple during the next five years, rising from R18 million in 2011 to R55 million in 2016, a 25.0% compound annual increase.

Overall trade magazine advertising will total an estimated R670 million in 2016, up from R478 million in 2011, a 7.0% increase compounded annually. Digital advertising will account for approximately 8.2% of total trade magazine advertising in 2016, up from 3.8% in 2011.

Circulation

Total circulation spending, including digital, will rise to an estimated R193 million by 2016, a 5.6% compound annual increase from 2011.

Print circulation

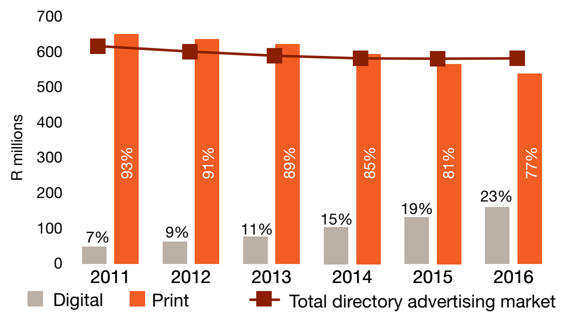
South Africa has more than 600 trade magazines, most of which are highly targeted to readers in specialised professions. Because trade magazines are so targeted, unit circulation is generally small. *BigNews, Landbouweekblad, Accountancy SA, Entrepreneur, Finweek* and the *Financial Mail* are the leading titles with respect to unit circulation per issue.

Trade magazines are often distributed free on a controlled basis to identified readers in the served market that advertisers want to target. Consequently, as a portion of the market does not pay for magazines, paid circulation comprises a smaller component of total spending for trade magazines than it does for consumer magazines. Circulation spending comprised 23.5% of total trade magazine spending in 2011, compared with 44.7% for consumer magazines.

Print circulation spending rose 2.1% in 2011, the first increase during the past five years. The pickup in the economy led to a rise in employment and an increase in the number of potential readers of trade magazines. A portion of the growth in trade magazine distribution was on a paid basis, which accounted for the increase.

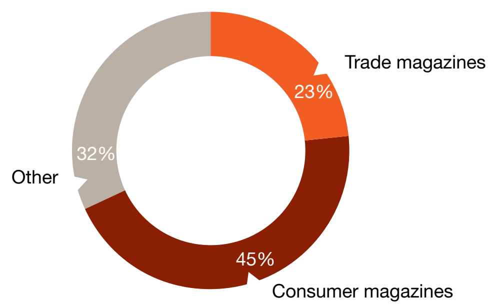
Slower economic growth in 2012 will, however, lead to a smaller increase in print circulation spending compared to 2011, followed by larger gains in subsequent years, reflecting a stronger economy. Print circulation spending will reach an estimated R168 million in 2016 from R147 million in 2011, a 2.7% compound annual increase.

Figure 10.5: Movement from print to digital



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 10.6: Circulation spending: 2011



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Digital circulation

A paid digital circulation market is emerging for trade magazines. Titles are being distributed to tablets for a fee as publishers are beginning to generate a digital revenue stream from readers.

Trade magazine publishers also have accumulated data that has value to readers beyond the content covered in each issue. Publishers are beginning to charge for access to that data separately from access to the magazine.

The general shift from physical to digital platforms and the trend of bundling print and digital subscriptions are aiding in the transition to digital spending on trade magazines.

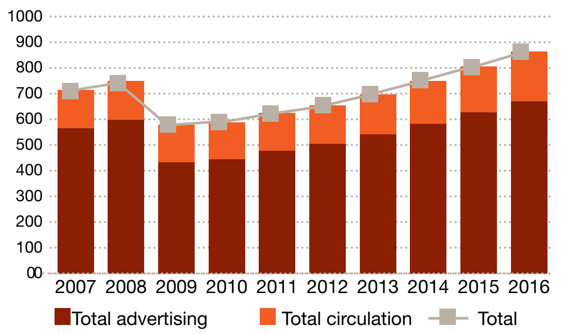
Mobile access is another source of potential revenue. Tablets are becoming widespread and are a good platform for magazines. Readers have shown willingness to pay for the convenience of instantaneous downloads to mobile devices and we expect mobile access to be a growing source of digital revenue.

We expect a digital circulation revenue stream to emerge in 2012 and to total an estimated R25 million by 2016. Digital circulation will account for 13% of total circulation spending in 2016.

Total trade magazine market

The trade magazine market as a whole will total a projected R863 million in 2016, up from R625 million in 2011, a 6.7% compound annual increase.

Figure 10.7: Trade magazine publishing market (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Trade magazine publishing market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Advertising										
Print	560	589	425	435	460	480	510	545	580	615
Digital	4	9	7	9	18	24	31	38	46	55
Total advertising	564	598	432	444	478	504	541	583	626	670
Circulation										
Print	151	150	147	144	147	149	153	159	164	168
Digital	–	–	–	–	†	1	3	8	16	25
Total circulation	151	150	147	144	147	150	156	167	180	193
Total	**715**	**748**	**579**	**588**	**625**	**654**	**697**	**750**	**806**	**863**

†Less than R500 000
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Trade magazine publishing market growth (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR
Advertising											
Print	8.7	5.2	-27.8	2.4	5.7	4.3	6.3	6.9	6.4	6.0	6.0
Digital	33.3	125.0	-22.2	28.6	100.0	33.3	29.2	22.6	21.1	19.6	25.0
Total advertising	8.9	6.0	-27.8	2.8	7.7	5.4	7.3	7.8	7.4	7.0	7.0
Circulation											
Print	-1.9	-0.7	-2.0	-2.0	2.1	1.4	2.7	3.9	3.1	2.4	2.7
Digital	–	–	–	–	–	–	200.0	166.7	100.0	56.3	–
Total circulation	-1.9	-0.7	-2.0	-2.0	2.1	2.0	4.0	7.1	7.8	7.2	5.6
Total	**6.4**	**4.6**	**-22.6**	**1.6**	**6.3**	**4.6**	**6.6**	**7.6**	**7.5**	**7.1**	**6.7**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Business-to-business publishing

Trade shows

The market consists of trade shows where suppliers exhibit their products and services for potential buyers. In some cases, trade shows also attract consumers. Revenues consist of spending on exhibition space.

South Africa has an active trade show market, attracting hundreds of shows each year. At R1.9 billion, trade shows are the largest single component of the business-to-business market, comprising 42% of total business-to-business spending in 2011.

South Africa has a number of venues that host trade shows of virtually all sizes. Johannesburg is a leading destination featuring three major venues. The Johannesburg Expo Centre offers more than 42 000m² of indoor space and 80 000 m² of outdoor space. Also in Johannesburg, the Sandton Convention Centre has more than 22 000 m² of exhibition space, and the Coca-Cola Dome, with an 11 000m² trade show site.

The Cape Town International Convention Centre offers 11 200m² of exhibition space, which it plans to double.

The Durban International Convention Centre markets itself as one of the most advanced state-of-the-art facilities in the world. It has two halls with a combined exhibition space of 9 600 m² as well as gardens and plazas totalling an additional 20 000 m².

Live trade shows allow for human interaction with potential customers: Features can be explained, questions can be answered, concerns can be addressed, and a subsequent dialogue can ensue. In addition, trade shows help build long-term relationships with customers.

Trade shows, like all other components of the business-to-business market, are affected by the economy. The market slowed to a 2.6% increase in 2008 as the economy weakened, and spending fell by 3.8% in 2009 as the full effects for the recession were felt. The FIFA World Cup attracted shows and led to a 2.7% rebound in 2010, but spending dipped 0.3% in 2011, in part reflecting the absence of the FIFA World Cup.

Exposure and the positive experience of visitors to South Africa during the 2010 FIFA World Cup appear to be generating international interest in South Africa as a site for conventions and trade shows.

South Africa is looking to build on its FIFA World Cup exposure. The National Convention Bureau (NCB) began operations in April 2012 and is working to promote South Africa as a global destination for conventions, conferences and trade shows.

We look for a modest rebound in the trade show market in 2012, improved growth in 2013 and annual gains in excess of 5% during 2014-16. Spending in 2016 will rise to a projected R2.4 billion, a 4.6% compound annual increase from 2011.

Filter digital and nondigital spending data.

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Trade show market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Trade shows	1 900	1 950	1 875	1 925	1 920	1 975	2 050	2 160	2 280	2 400	
% change	*9.8*	*2.6*	*-3.8*	*2.7*	*-0.3*	*2.9*	*3.8*	*5.4*	*5.6*	*5.3*	*4.6*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 10.8: Trade shows (R millions)

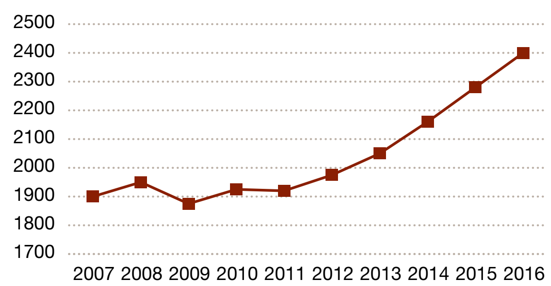
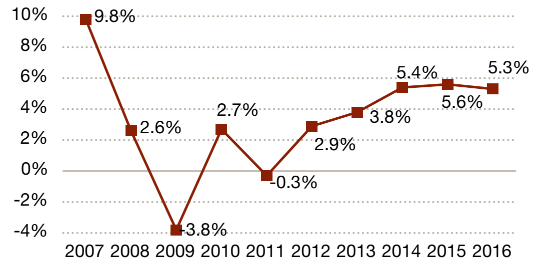


Figure 10.9: Trade shows growth (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Professional books

Print

The professional book market serves scientific, technical, medical, legal and financial services professionals. Spending on print books has grown slowly during the past two years with gains of 0.4% in 2010 and 1.7% in 2011.

As the economy grows, professional employment will increase, which will support the market for professional books. However, we expect that an emerging electronic market will cut into print growth.

Print books will benefit from the electronic market insofar as users will be able to use electronic products and tools to determine whether the content meets their needs and whether they would like to acquire the printed edition.

On balance, we expect print spending to be relatively stable, edging up at a 1.4% compound annual rate to an estimated R257 million in 2016 from R240 million in 2011.

Electronic books

Professional books are generally used for reference purposes, which makes them suitable for electronic formats. Publishers have invested in electronic products and created tools to allow users to customise material. There is a developing electronic book market in South Africa, especially in the professional book sector, which is supported by an investment made by the publishers of electronic books. Electronic books are sold on a subscription basis to a wide variety of professional firms and industry organisations.

The emergence of tablets and e-readers that can accommodate graphs, charts and high-resolution colour images are stimulating electronic sales. As tablet penetration increases and as the e-reader market in general expands, the potential for electronic sales will also expand.

We project spending on electronic professional books to increase to R5 million in 2016 from only R1 million in 2011.

The overall market will be flat in 2012 and will then expand at a low single-digit rate, rising at a 1.7% compound annual rate from R241 million in 2011 to R262 million in 2016.

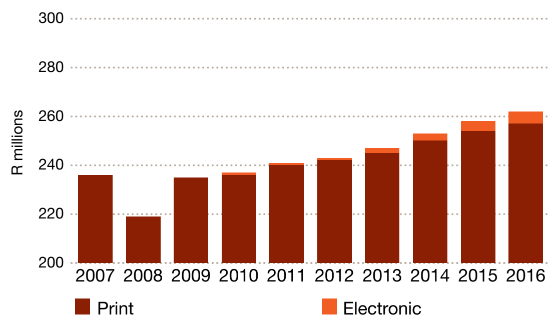
Business-to-business publishing

Professional book market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Print	236	219	235	236	240	242	245	250	254	257	
% change	*-9.6*	*-7.2*	*7.3*	*0.4*	*1.7*	*0.8*	*1.2*	*2.0*	*1.6*	*1.2*	*1.4*
Electronic	†	†	†	1	1	1	2	3	4	5	
% change	*–*	*–*	*–*	*–*	*0.0*	*0.0*	*100.0*	*50.0*	*33.3*	*25.0*	*38.0*
Total	**236**	**219**	**235**	**237**	**241**	**243**	**247**	**253**	**258**	**262**	
% change	***-9.6***	***-7.2***	***7.3***	***0.9***	***1.7***	***0.8***	***1.6***	***2.4***	***2.0***	***1.6***	***1.7***

†Less than R500 000
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 10.10: Total professional book market (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Business-to-business publishing

Business-to-business publishing – online replaces print directories

Business-to-business publishing involves traditional advertising and the advertising of business information. Delivering content of this nature requires owners to take note of the provisions of consumer law, company law, competition law, intellectual property law and the tenets of data protection and privacy law. Transformation in the industry has required content providers to provide information on a variety of new devices, on a variety of new platforms. As with all published products, the threat of piracy and unauthorised access to published content places copyright first on the list of legal issues to be considered.

The legal landscape

Competition considerations

Strategic alliances are being formed across the industry to allow for greater synergy between traditional publishing and other forms of media. This is attracting the attention of the Competition Commission. The law of unfair competition provides that anyone who intentionally or negligently causes loss or damage to a business rival (i.e. a competitor) through wrongful conduct will be liable for damages.

Consumer rights

The implementation of technological protection measures (TPMs) can conflict with the consumer's freedom to access and interact with a purchased product. The Consumer Protection Act grants consumers the right to redress for faulty purchases.

Contractual challenges

Publishers must obtain all the rights in a publication in order to trade legally with the final product. Cross-media ownership and the growth of online publishing require careful management of all relevant rights. The publishing agreement must provide for all the necessary rights in the publication. These rights could include the rights to reprints, translations, film rights, format provision, distribution and warehousing agreements; syndication agreements; e-book agreements; digital rights management; trademark registration; confidential information; and international publishing sale and distribution rights.

Publishers are only allowed to mandate collective rights organisations to license the use of their publications if they are the owner of the work. Blanket licences are ordinarily granted to educational institutions.

In compiling directories, publishers should limit their liability for inaccuracies in content.

Copyright challenges

Publishers should bear in mind that although data per se does not attract copyright protection, compilations of data are protectable. The distribution of content to the public requires the consent of the copyright holder. The Copyright Act regulates the production and distribution of literary and artistic works. Publishers have to understand, exploit and avoid infringing copyright. Piracy of digital books is a constant threat to the industry. Publishers must protect the copyright they control and take care when granting copyright licences to third parties.

The Copyright Act allows for 'fair dealing' as an exception to copyright infringement. The copying of parts of a protected work is allowed for private study or personal use of a work.

Publishers must take care not to infringe the copyright in content belonging to third parties.

Copyright notices

Publishers should include copyright notices or warnings on a published work. If consumers are expected to agree to an end user licence agreement, they need to be made aware of this fact in advance. Appropriate technological protection measures should be considered: Will the content be locked or will it grant only authorised persons the rights to access, reproduce or forward copies of the work?

The Electronic Communications and Transactions Act (ECT Act) places a liability on Internet service providers (ISPs) to notify subscribers of infringement reports from copyright owners and to comply with take-down notices regarding infringement of protected content.

Data protection and privacy considerations

Currently, no all-encompassing privacy or data protection legislation exists in South Africa. Privacy is protected by the ECT Act, the common law of delict and Section 14 of the Constitution. The Protection of Personal Information (POPI) Bill is expected to be passed into law soon. It will require publishers of directories (and digital directories) and business-to-business publishers to guarantee the data be tamper-proof and to acquire consent to publish in advance.

Digital rights management

The move from print to online presents publishers with access control and copyright challenges. Digital rights management (DRM) is used by publishers and hardware manufacturers to limit the use of digital content after sale. But DRM is increasingly regarded as a challenge to the industry, not pirates.

Consumers are increasingly expecting multi-format capacity on purchased products. Most DRM systems use technological protection measures (TPMs) to protect the product. The ECT Act provides for a broad restriction on circumvention of any technological protection measures and does not have any limitations or exceptions for legitimate use. This is regarded as an infringement of consumers' fair dealing rights since DRM makes no distinction between infringing and legitimate use of a product.

The challenges presented by DRM are that monopolies can be created over devices that handle the media and works are rendered inaccessible after copyright has expired, creating permanent lock-up in a product.

Privacy rights can be affected by DRM in the following ways: login and registration facilities, biometric identification, spyware that sends information about the user without the end user's knowledge or consent, surveillance functionalities that gather information about users' reading, viewing and listening habits.

Publishers are becoming increasingly aware that DRM cannot only enforce legal rights, they can displace them too. The constraint on information presents a challenge rather than an opportunity to publishers – thriving in an increasingly globalised, converged market requires a new approach.

In managing their digital rights, publishers must now consider file sharing options and cross-border licensing of on-demand availability rights.

Internet and electronic uses

Publishers cannot assume their rights to publish include publication on the Internet, as an e-book or in a multimedia format. Publishers must ensure they have the rights to publish online or electronic versions of a work.

Privacy

Guaranteed by the Constitution, and weighed up against public interest considerations, this right safeguards private information from being published without reason. Invasion of privacy can take two forms: disclosure of private information and intrusion into the private sphere of another.

Privacy rights are infringed when information is published and/or distributed without the provider's consent. Publishers of directories must ensure the content they publish does not violate privacy considerations. The ECT Act sets out principles for dealing with personal data collected via electronic transactions.

Online payment

Increasingly, online publishers are introducing pay walls for specialised content. This activity places publishers within the ambit of the provisions of the ECT Act.

Online publishing issues

Terms and conditions of use are a prerequisite and should cover data protection and privacy practices. 'Click-wrap' and 'shrink-wrap' end user licences must be clearly defined. Click-on payment facilities must be managed in line with the requirements of the Consumer Protection Act and the ECT Act.

Linkages (hyperlinks and metatags) in online multimedia content can expose publishers to copyright infringement of content owned by third parties.

Denise Fouché – Technology Legal Advisory Services, PwC

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Global trends in the business-to-business market

Outlook

- Overall global business-to-business spending rose by 0.4% in 2011, partially reversing a 0.6% decline in 2010.
- We project that spending will edge up by a further 1.7% in 2012, and to grow at progressively faster rates through the forecast period, with gains in excess of 4% annually during 2015-16.
- Spending for the forecast period as a whole will increase at a 3.4% compound annual rate to $226.3 billion in 2016 from $191.1 billion in 2011.
- Global business information, the largest component, at $79.2 billion in 2011, will total $97.6 billion in 2016, up 4.3% on a compound annual basis.
- Print directory advertising will fall at an 8.9 % compound annual rate to $13.5 billion from $21.5 billion.
- Digital directories will reach $14.1 billion in 2016 from $5.5 billion in 2011, a 20.7% compound annual increase.
- Total directory advertising will rise at a 0.4% compound annual rate to $27.6 billion in 2016 from $27 billion in 2011. Digital directories will constitute 51.1% of total directory advertising in 2016 from 20.3% in 2011.
- Print advertising in trade magazines will expand from $13.9 billion to $14.9 billion, a 1.4% increase compounded annually. Digital trade magazine advertising will increase from $2.1 billion to $4 billion, growing at a 14.0% compound annual rate.
- Total trade magazine advertising will rise at a 3.4% compound annual rate to $18.9 billion from $15.9 billion. Digital advertising will constitute 21.0% of total trade magazine advertising in 2016, up from 12.9 % in 2011.
- Trade magazine print circulation spending will increase from $7.6 billion to $7.7 billion, a 0.1% compound annual advance.
- Digital circulation spending on online content and mobile downloads will generate $1.5 billion in incremental revenue by 2016, raising total circulation spending to $9.2 billion, 3.7% higher than in 2011 on a compound annual basis.
- Total trade magazine spending will increase at a 3.5% compound annual rate, rising to $28 billion in 2016 from $23.6 billion in 2011.
- Trade shows will grow at a 4.2% compound annual rate to $48.4 billion in 2016 from $39.3 billion in 2011.
- The print professional book market will decrease at a 0.4% annual rate to $20 billion in 2016. Electronic books will total $4.7 billion in 2016, growing at a 23.3% compound annual rate.
- The overall professional book market will grow from $22 billion to $24.7 billion, a 2.3% increase compounded annually.
- Total business-to-business advertising will increase at a 1.6% compound annual rate to $46.5 billion from $43 billion.
- End-user spending on business information, trade magazine circulation, trade shows, and professional books will rise at a 4.0% compound annual rate to $179.9 billion in 2016 from $148.2 billion in 2011.

Key drivers

- The economic cycle plays an important role in business-to-business spending because each segment of the market is sensitive to the economy. During the next five years, an expanding economy will have a positive impact on spending in most regions except for EMEA, which will remain weak in the near term.
- The other major driver is the shift in the market from physical platforms to digital platforms, which will be accompanied by shifts in spending from physical to digital.
- Printed formats such as print directories and magazines will see ongoing negative impacts, as growing penetration by tablets and smartphones drives the migration from physical to digital.
- Within the digital market, mobile usage is the main driver of spending.

Global business-to-business market by component (US$ millions)

	2007	2008	2009	2010	2011p	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Business information	88 659	86 490	76 941	77 772	79 182	81 375	84 468	88 358	92 789	97 627	
% change	*4.5*	*-2.4*	*-11.0*	*1.1*	*1.8*	*2.8*	*3.8*	*4.6*	*5.0*	*5.2*	*4.3*
Directory advertising											
Print	31 722	30 169	26 565	23 636	21 547	19 673	17 922	16 308	14 803	13 508	
% change	*1.2*	*-4.9*	*-11.9*	*-11.0*	*-8.8*	*-8.7*	*-8.9*	*-9.0*	*-9.2*	*-8.7*	*-8.9*
Digital	2 441	3 102	3 584	4 469	5 493	6 761	8 069	9 795	11 831	14 096	
% change	*51.8*	*27.1*	*15.5*	*24.7*	*22.9*	*23.1*	*19.3*	*21.4*	*20.8*	*19.1*	*20.7*
Total directory advertising	34 163	33 271	30 149	28 105	27 040	26 434	25 991	26 103	26 634	27 604	
% change	*3.7*	*-2.6*	*-9.4*	*-6.8*	*-3.8*	*-2.2*	*-1.7*	*0.4*	*2.0*	*3.6*	*0.4*
Trade magazines											
Print advertising	19 203	17 768	13 997	13 716	13 867	13 979	14 154	14 374	14 618	14 889	
% change	*-0.2*	*-7.5*	*-21.2*	*-2.0*	*1.1*	*0.8*	*1.3*	*1.6*	*1.7*	*1.9*	*1.4*
Digital advertising	1 413	1 651	1 513	1 723	2 057	2 385	2 734	3 105	3 512	3 961	
% change	*56.5*	*16.8*	*-8.4*	*13.9*	*19.4*	*15.9*	*14.6*	*13.6*	*13.1*	*12.8*	*14.0*
Total advertising	20 616	19 419	15 510	15 439	15 924	16 364	16 888	17 479	18 130	18 850	
% change	*2.4*	*-5.8*	*-20.1*	*-0.5*	*3.1*	*2.8*	*3.2*	*3.5*	*3.7*	*4.0*	*3.4*
Print circulation	8 505	8 366	7 920	7 695	7 612	7 644	7 678	7 681	7 674	7 669	
% change	*0.7*	*-1.6*	*-5.3*	*-2.8*	*-1.1*	*0.4*	*0.4*	*0.0*	*-0.1*	*-0.1*	*0.1*
Digital circulation	NA	NA	NA	12	42	134	335	657	1 082	1 525	
% change	*–*	*–*	*–*	*–*	*250.0*	*219.0*	*150.0*	*96.1*	*64.7*	*40.9*	*105.1*
Total circulation	8 505	8 366	7 920	7 707	7 654	7 778	8 013	8 338	8 756	9 194	
% change	*0.7*	*-1.6*	*-5.3*	*-2.7*	*-0.7*	*1.6*	*3.0*	*4.1*	*5.0*	*5.0*	*3.7*
Total trade magazines	29 121	27 785	23 430	23 146	23 578	24 142	24 901	25 817	26 886	28 044	
% change	*1.9*	*-4.6*	*-15.7*	*-1.2*	*1.9*	*2.4*	*3.1*	*3.7*	*4.1*	*4.3*	*3.5*
Trade shows	41 701	42 773	39 522	39 416	39 263	40 174	41 571	43 522	45 790	48 222	
% change	*6.6*	*2.6*	*-7.6*	*-0.3*	*-0.4*	*2.3*	*3.5*	*4.7*	*5.2*	*5.3*	*4.2*
Professional books											
Print	21 085	20 966	20 311	20 530	20 381	20 239	20 195	20 157	20 056	19 969	
% change	*8.2*	*-0.6*	*-3.1*	*1.1*	*-0.7*	*-0.7*	*-0.2*	*-0.2*	*-0.5*	*-0.4*	*-0.4*
Electronic	878	1 126	1 219	1 380	1 657	2 050	2 541	3 109	3 863	4 730	
% change	*26.3*	*28.2*	*8.3*	*13.2*	*20.1*	*23.7*	*24.0*	*22.4*	*24.3*	*22.4*	*23.3*
Total professional books	21 963	22 092	21 530	21 910	22 038	22 289	22 736	23 266	23 919	24 699	
% change	*8.8*	*0.6*	*-2.5*	*1.8*	*0.6*	*1.1*	*2.0*	*2.3*	*2.8*	*3.3*	*2.3*
Total advertising	54 779	52 690	45 659	43 544	42 964	42 798	42 879	43 582	44 764	46 454	
% change	*3.2*	*-3.8*	*-13.3*	*-4.6*	*-1.3*	*-0.4*	*0.2*	*1.6*	*2.7*	*3.8*	*1.6*
Total end user	160 828	159 721	145 913	146 805	148 137	151 616	156 788	163 484	171 254	179 742	
% change	*5.4*	*-0.7*	*-8.6*	*0.6*	*0.9*	*2.3*	*3.4*	*4.3*	*4.8*	*5.0*	*3.9*
Total	**215 607**	**212 411**	**191 572**	**190 349**	**191 101**	**194 414**	**199 667**	**207 066**	**216 018**	**226 196**	
% change	*4.8*	*-1.5*	*-9.8*	*-0.6*	*0.4*	*1.7*	*2.7*	*3.7*	*4.3*	*4.7*	*3.4*

Sources: PricewaterhouseCoopers LLP Wilkofsky Gruen Associates, Global entertainment and media outlook 2012-2016 (PwC, 2012)

Chapter 11

Out-of-home advertising

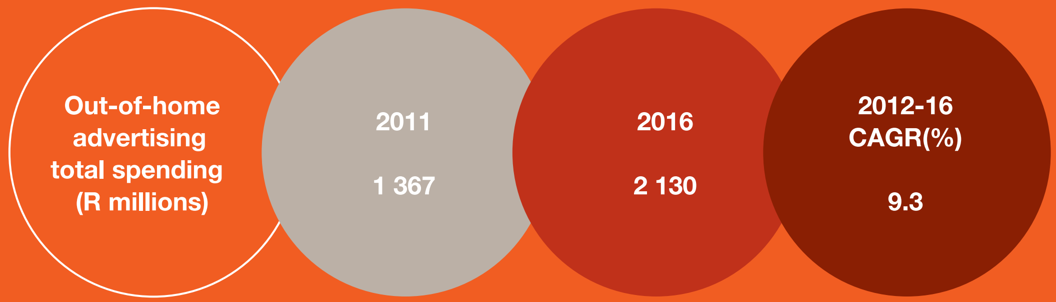
Sunet Liebenberg
Senior Manager, PwC Southern Africa

The out-of-home advertising market consists of advertiser spending on out-of-home media such as billboards, street furniture (for example bus shelters), transit displays (for example, bus sides, on-train print, taxi wraps), sports arena displays and captive ad networks (in venues such as elevators, bathrooms, etc.), as well as other formats. Advertising spending is tracked net of agency commissions.

Out-of-home advertising

Outlook

… at a glance



	2011	2016	2012-16 CAGR %
Out-of-home advertising (R millions)	1 367	2 130	9.3

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

…in brief

- Out-of-home advertising reaches approximately 85% of the adult population in South Africa.
- Growth of digital billboards and digital networks will continue to invigorate the market.
- Innovative and spectacular out-of-home displays provide advertisers with exciting new ways to reach customers.
- The expansion of captive video networks will also fuel growth because out-of-home can reach people in areas inaccessible to most other media. Mobile ad spending is increasing as advertisers seek media to reach people away from home while they are travelling or shopping.
- As the measurement of out-of-home advertising improves, we expect advertisers to increase their spending in this media category.
- Total out-of-home advertising spending is forecast to grow at a 9.3% compound annual rate from R1.4 billion in 2011 to R2.1 billion in 2016.

Overview

The out-of-home market in South Africa increased 11.6% in 2011, somewhat less than the 14.2% gain registered in 2010. The gain in 2010 was aided by spending related to the FIFA World Cup.

In 2012, the increase in out-of-home advertising is expected to slow to 9.7% and will then maintain a high single-digit growth rate through the forecast period.

The strong growth rate forecast is based on improved economic conditions combined with the increasing use of more sophisticated out-of-home advertising, which includes the growth of digital advertising.

Digital networks are expected to grow as prices continue to decline and quality improves. Digital screens provide more effective displays and also more revenue potential, as the same site can accommodate multiple advertisers.

Improved audience measurement, including the use of GPS technology, as well as the auditing of existing sites, is giving advertisers increased confidence in the medium.

As the measurement of out-of-home advertising improves, and the effectiveness of spending can more easily be compared to that in other media, we expect the out-of-home segment to become a more significant segment in the advertising market.

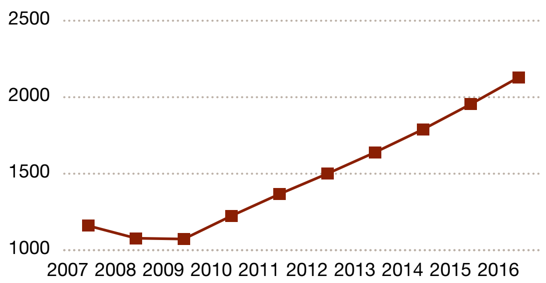
By 2016, out-of-home advertising in South Africa is expected to total an estimated R2.1 billion, a 9.3% compound annual increase from the R1.4 billion in 2011.

Out-of-home advertising (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Out-of-home advertising	1 160	1 078	1 073	1 225	1 367	1 500	1 640	1 790	1 955	2 130	
% change	*13.7*	*-7.1*	*-0.5*	*14.2*	*11.6*	*9.7*	*9.3*	*9.1*	*9.2*	*9.0*	*9.3*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 11.1: Out-of-home advertising (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Key developments in the out-of-home advertising market

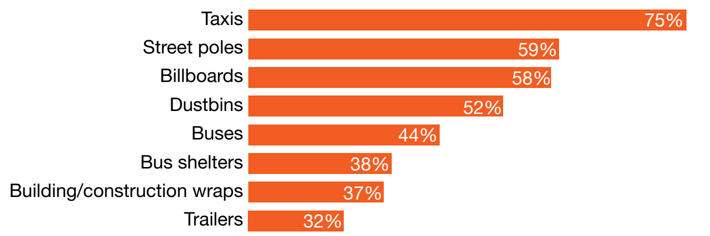
Overall, out-of-home advertising reaches approximately 85% of the adult population in South Africa, exceeded only by radio and television, which reach about 90% of the population. By contrast, magazines and newspapers only reach approximately 50% of the adult population.

Within the out-of-home category, taxi ads, which consist of ads placed on the outside of taxis as well as digital screens inside them, had the greatest exposure in 2011, reaching 75% of the adult population in an average week. Street poles and billboards reached approximately 60% of the adult population.

There are a variety of other out-of-home advertising platforms, including street furniture, such as bus shelters and dustbins, transit ads on and inside trains, buses and giant signs that wrap buildings, which reach a significant proportion of adults each week.

Billboards, which are the dominant form of out-of-home advertising, provide numerous benefits to advertisers: They can reach a mass audience and can also be targeted to specific demographics based on location; they are available 24 hours a day; and they cannot be bypassed or turned off.

Figure 11.2: Average weekly reach 2011 (%)



Source: South African Advertising Research Foundation

Unlike the situation in the USA and much of Western Europe, where three major international companies, Clear Channel, JCDecaux and CBS Outdoor, dominate the out-of-home market, these companies currently do not have a presence in South Africa. Instead, the out-of-home market is dominated by smaller local companies. Continental Outdoor Media is the largest out-of-home company in the country, controlling almost half of the billboard market in South Africa. Other major out-of-home companies in South Africa include Primedia Outdoor, Adreach, Provantage Media and Outdoor Network.

Improved measurement

The growth of out-of-home has been hindered by the lack of research quantifying its effectiveness. Traditionally, measuring exposure to out-of-home advertising has been based on gross traffic numbers provided by road councils, which represent unaudited historical data.

Some countries around the world have developed more advanced measurement systems. For example, Australia introduced its MOVE (Measurement of Outdoor Visibility and Exposure) system in February 2010. The system estimates the number of people who actually view an ad as opposed to simply the number of people who pass by the sign. The improved measurement system has helped spur the growth of out-of-home in Australia, with feedback suggesting that media buyers have been using MOVE results to validate their use of out-of-home rather than as a tool to select certain out-of-home formats over others. It seems that MOVE has increased the sector's appeal and attracted buyers who previously didn't use out of home for their campaigns.

Out of Home Media South Africa (OHMSA), the trade organisation representing the industry, and the South African Advertising Research Foundation (SAARF) are evaluating other research models used around the world to determine which one is best suited for use in South Africa to further prove the effectiveness of the industry.

They have trialled a system that tracks the movements of participants with GPS devices to monitor which billboards they pass as opposed to relying on their memory. With the proper research methodologies in place, advertisers will be able to evaluate out-of-home advertising relative to other media based on reach and frequency. This will help them to allocate their expenditures more efficiently. This added knowledge is expected to help drive out-of-home advertising.

Another important step is establishing a reliable database of outdoor advertising sites. To this end, Outdoor Auditors recently completed its latest nationwide audit of advertising sites in South Africa. The database now contains data for about 9 000 sites nationwide, including the recently-erected sites along the Gautrain route.

Top 3 brands across locales:

Rural areas	Townships	Urban areas
Bonnita	The Glass Recycling Company	BlackBerry
Capitec	Morvite	Momentum
Lux	Selati	FNB

Source: 'Billboard business is BIG in Mzansi!', Daily Sun (14 October 2011)

Top 10 advertisers in terms of number of sites:

Following a nationwide audit, Outdoor Auditors announced the top 10 advertisers, which were dominated by telecommunications companies and fast-moving consumer goods.

- Black Label
- Selati
- Cell C
- Vodacom
- Colgate
- KFC
- Coca-Cola
- Standard Bank
- Lucky Star
- Kellogg's

Source: 'Billboard business is BIG in Mzansi!', Daily Sun (14 October 2011)

Regulation

Another factor hampering the growth of out-of-home advertising in South Africa is the regulatory environment. There is currently no nationwide regulatory framework, as the South African Constitution states that local municipalities are responsible for billboards and the various local councils are free to enact their own rules.

For example, KwaZulu-Natal is considering banning all out-of-home advertising in the province. Cape Town has strict regulations preventing the growth of out-of-home with the application process for new permits taking six months.

Another challenge for the out-of-home industry is the current review of the draft Control of Marketing of Alcoholic Beverages Bill by the Department of Health, which prohibits the advertising and promotion of alcoholic beverages. Should these proposals be approved, the negative impact on the alcoholic beverage industry and the media industry is likely to be significant.

The scope for creativity and innovation in out-of-home advertising is unlimited.

Companies are aware of concerns about content, the aesthetic impact of displays and road safety. Local municipalities need to balance the potential for economic returns against the views of their constituents about aesthetics and safety.

Certain councils require that billboard sites must be approved when they are built and must then be re-approved periodically. Sometimes, council approvals are delayed causing previously approved billboards to be deemed illegal pending their re-approval.

Occasionally regulations are actually beneficial to the industry. For example, the regulation requiring a certain distance between billboards prevents clutter and increases the value of the billboards.

The poor reputation that out-of-home has suffered over the past few years due to a perceived lack of accountability is starting to change as specialist auditing companies and independent bodies increasingly monitor the out-of-home space on a regular basis.

Innovative and spectacular advertising

The out-of-home sector has a history of showcasing new technologies and this has continued with the launch of campaigns that encourage interactivity with consumers and use new 3D technology.

Transit advertising provides an opportunity to reach consumers on the go. For example, Graffiti, a vehicle branding company, has introduced animated taxi-top advertising in Johannesburg, Pretoria, Cape Town and Durban, as well as branding of the outside of cabs for specific promotions.

In addition to providing advertising on the outside of taxis, buses and trains, Provantage Media operates In-Taxi Television in more than 1 000 taxis nationwide. The network, which is broadcast over 17-inch plasma screens, features 30-minute segments that contain 10 minutes of advertising. MASSIV TV, which offers a similar service, recently expanded its operations to the Western Cape through a long-term agreement with the Pit Stop Taxi Group.

The Gautrain, the new mass rapid transit railway system linking Johannesburg, Pretoria and OR Tambo International Airport launched in 2010, provides Continental Outdoor, the exclusive rights holder for advertising at the stations, many opportunities to reach thousands of commuters daily. Various types of advertising structures have been developed to complement the architectural style of each station.

Street furniture such as bus shelters, benches and dustbins provide advertisers with access to consumers in suburban areas where large-scale billboards are often prohibited by local regulations. Media companies pay to have the street furniture installed in return for the opportunity to provide a limited amount of advertising, while also providing infrastructure for the community at no cost. Provantage recently won the contract to brand all commuter shelters in Johannesburg. The shelters will include bus and taxi shelters throughout the city.

The scope for creativity and innovation in out-of-home advertising is unlimited. In South Africa, a number of interactive campaigns were launched in 2011.

Out-of-home advertising

Bronx Shoes SA unveiled an interactive beard-growing billboard in Cape Town. The billboard has a portrait of a man's face and, as more people 'Like' the company on its Facebook page, the stubble on the man's beard grows. This interactive billboard engages people to go to the company's Facebook page and while there they learn more about its products.

Primedia Outdoor installed a billboard for Hobart's SUPERSPAR with live people standing on the billboard polishing the five stars on a brass plaque that the company received for its service. The intention was to draw attention to the five-star service that customers receive at the store, comparable to that of a five-star hotel.

Ogilvy Johannesburg, in partnership with the television channel, SuperSport created an innovative Wimbledon HD billboard. From afar the billboard looked like a conventional print billboard advertisement, but viewed from close range, its construction from synthetic grass could be seen in detail. This highlighted the fact that consumers can now watch Wimbledon games in HD and 'see every point up close'.

Graffiti has assisted MTN with the recent branding of the giant aerial balloon at Soweto's Maponya Mall. The large-scale installation is the biggest advertising medium in the south of Johannesburg and affords the cellular brand unrivalled exposure among its target customers.

Digital displays that increase the available inventory as well as improve the effectiveness of outdoor advertising are driving the growth of the industry.

Increasingly, 3D is emerging in outdoor advertisements as a new way of reaching consumers. In one campaign, Continental Outdoor installed a 3D billboard at OR Tambo International Airport in Johannesburg showing a 42-ton Hyster reach stacker holding up a three-ton branded container. This is part of a campaign by Barloworld Handling to develop its Hyster brand name into a generic term for forklifts, similar to the generic use of Kleenex and Hoover.

Continental Outdoor also installed a series of billboards for Magnum ice-cream that have what appears to be chocolate dripping from the signs. The images were sculpted by hand to give them a heightened appearance of being real.

In another campaign, Dettol installed a multi-sensory display along the M1 highway in Johannesburg. The giant display looked like an ECG reading and emitted a heartbeat sound as well as a blip on the cardiogram as cars passed by the billboard. The display's tagline, 'A little bit of Dettol, a whole lot of life', built an association to the company's health products as well as its pledge to donate R1 million to the Children's Hospital in Cape Town.

One Digital Media installed a series of whispering windows for 8.ta, Telkom's mobile brand. The store windows play sounds as customers approach them, enticing customers to come closer. By touching the interactive screens, customers can peruse the company's catalogue and compare products or leave their contact information to enable a sales associate to call them. The windows can reach potential customers even when stores are closed.

In addition to advertising products, out-of-home displays can also promote organisations. A giant 3D billboard installed at Cape Town International Airport in December 2011 depicted a Mini Coupé submerged in the ocean, locked in a cage surrounded by sharks and included the tagline 'Another Day, Another Adventure'. Besides promoting the car, the billboard also highlights the brand's commitment to the AfriOceans Conservation Alliance.

Out-of-home advertising includes many unique types of eye-catching displays. The Ponte Tower, a cylindrical skyscraper that dominates Johannesburg's skyline and which is the tallest residential building in Africa, underwent a major change in April 2011 when Vodacom's familiar blue signage atop the building was replaced by the flaming red colour of its parent company Vodafone. The transformation, undertaken by Airport Media, took more than two months to accomplish and included a ton of red paint and seven kilometres of LED lights. It is the largest billboard in the southern hemisphere, measuring 18m high and 130m in circumference.

A massive 900m^2 billboard, billed as the largest freestanding billboard in the southern hemisphere, was erected by Outdoor Exchange along a highway in Johannesburg to launch the Audi A5 automobile.

Digital billboards and digital networks

The industry is migrating from traditional to digital billboards. Digital displays that increase the available inventory as well as improve the effectiveness of outdoor advertising are driving the growth of the industry. Although still accounting for a small portion of the overall market, digital technologies are expected to grow in importance over the next few years.

Digital billboards can accommodate multiple images on a single display, thereby increasing the potential from each location compared with static displays. A digital billboard, which displays sequential adverts that change every 8-10 seconds, can generate 5-6 times the revenue of a poster that displays a single advert.

Digital billboards can be updated remotely as opposed to the manual effort required to replace signage by hand. As a result, although the initial implementation costs for a digital billboard are 8-12 times higher than for a traditional billboard, the ongoing operating costs are reduced.

The ability to change the ads as desired provides advertisers with increased flexibility. Ads on digital billboards can be sold according to the time of day in a manner similar to television advertising, with certain ads appearing in the morning and others in the evening.

Additionally, out-of-home operators can charge premium rates for primetime commuting hours when more people will see the ads. Digital billboards have proven to attract more attention and for longer periods of time than traditional billboards, thereby justifying their premium pricing.

Global innovation

The interaction between smartphones and out-of-home displays is expected to be one of the major new trends in the industry.

Interactive displays are becoming popular with advertisers because they engage passers-by. Consumers who pass interactive displays can use their mobile devices to request additional information about the advertised products or to actually buy the products. For example:

- Bank of America installed an interactive ad in Times Square in New York that allowed people to participate in polls using their smartphones, with the billboard updating the results of the poll.
- There also is a giant screen in Times Square that acts as a video camera capturing the crowd in front of it. The images are interspersed with advertisements. This is another example of the blurring of the differences between out-of-home and outdoor digital video.

Near-field communication (NFC) is an emerging technology that will further the interactive nature of out-of-home advertising. A consumer with an NFC-enabled phone can make purchases instantly, download additional video content or get additional information about products by simply tapping a phone against a display. This technology provides a higher level of interactivity with displays. Posterscope recently launched an NFC campaign in the UK in which consumers who approached the promotional poster for the *X-Men: First Class* movie received preview trailers of the movie.

NFC-enabled displays can recognise someone approaching the sign with an NFC-enabled device and customise the advert according to the individual's preferences. In future, it is likely that NFC technology will be embedded in most wireless phones, enabling advertisers to engage more consumers interactively.

A new type of advertising called gladvertising is expected to emerge soon. Gladvertisements are digital outdoor ads that react to consumers' moods by combining emotion recognition software with cameras to determine a consumer's mood and change the displays based on the mood. For example, if the system detects an unhappy consumer approaching the poster, it could display a sunny vacation.

Source: Global entertainment and media outlook 2012-2016 (PwC, 2012)

Digital billboards are also opening up the out-of-home market to new advertisers. Since digital billboards lower the initial costs to advertisers as they can purchase specific times on the board, the billboards appeal to smaller advertisers that could not afford the major expenditures of traditional billboards. Traditional billboards require the advertiser to print the ads for each site, while digital billboards require only one version of the ad that can be reused over and over again.

Digital billboard advertising will grow as it replaces traditional billboards as well as being introduced in new locations. Digital signs may be introduced in locations where it was not economically feasible to maintain traditional billboards, since it is possible to change the ads on a digital billboard without an on-site visit.

South Africa lags behind the USA and much of Europe in the introduction of digital billboards. However, digital billboards are starting to be installed and provide the potential to spur growth in the industry. Primedia Outdoor is a pioneer in the digital billboard business. The company introduced the concept in 2008 with a number of digital billboards along major roads in Sandton, a wealthy area in Johannesburg. Since then, it has expanded its digital billboards to many locations around the country. Other companies, including Stella Vista, Traction Media and Visual Outdoor Communications, have also introduced digital billboards.

Out-of-home advertising

Operators are establishing networks of digital displays in a range of environments, such as supermarkets, health clubs and gas stations. In this way, similar programming and advertisements can be controlled from a central server and can be screened to many locations simultaneously. Digital networks have longer dwell times in captive locations as compared to billboards in transient locations where there is time only for a quick glance.

One Digital Media (ODM) is the major provider of retail digital networks in South Africa, with over 7 500 screens in more than 1 500 retail stores across the country. ODM replaced traditional menu boards in Wimpy and KFC restaurants with digital menu boards that can advertise localised specials and rotate the products for a more targeted consumer experience. Additionally, ODM has installed digital networks in retail stores like Toys R Us and SUPERSPAR, in taverns, and in the forecourt convenience stores at Shell service stations, among other locations.

There are numerous other companies competing to install digital networks throughout the country. Provantage has also established a digital network in taverns and bars throughout South Africa. Primall Media (Primedia) has installed a network of digital displays in numerous shopping malls around the country.

Airports, which attract a large number of affluent travellers, are a popular location for out-of-home advertising. In April 2012, Provantage and Airports Company South Africa (ACSA), which operates South Africa's major airports, launched a television network in airports nationwide. Airport.tv is being broadcast on numerous screens optimizing dwell time in high traffic areas at the airports. Airport.tv, which offers advertisers access to a captive audience for long periods of time, provides updated news, sports and entertainment content as well as advertising.

Airports provide the opportunity for different types of creative advertising and are home to many digital screens as well as large static signage. In April 2012, Graffiti obtained exclusive rights to brand all of the security trays used by passengers at security checkpoints at all major airports around the country. Bidvest Bank was the first advertiser to put its messages on over 600 trays at the various airports.

NF Media's recent branding of 1 200 seats in the domestic departure areas at Cape Town International Airport and 1 6oo seats at OR Tambo International Airport for Europcar has proved to be an effective way to reach a targeted audience.

New technologies are starting to emerge across the world in out-of-home advertising – holograms, augmented reality, and displays that interact with smartphones. These and many other new methods of outdoor advertising will eventually become common in the South Africa and will invigorate the market. At the same time, as the size of LCD and LED TVs continue to grow and their costs continue to decline, we expect digital networks to become more common, adding excitement to the market.

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Out-of-home advertising: digital offers greater consumer engagement

Advertising content is self-regulated and is governed by the Advertising Standards Authority's Code of Advertising Practice. The Consumer Protection Act (CPA) regulates marketing practices and protects consumer rights.

The legal landscape for out-of-home advertisers:

- **Consumer rights**: Advertisers should consider the provisions of the CPA when marketing their products to consumers.
- **False advertising:** All claims and statements about products and services must be true, correct and complete.
- **Interactivity:** New technology that embeds cameras in billboards to track the mood of passers-by ('gladvertising' and 'sadvertising') presents advertisers with potential privacy infringements.
- **Municipal bylaws:** Out-of-home is regulated by the bylaws for the control of outdoor advertising based on the guidelines contained in the Manual for Outdoor Advertising Control issued by the Department of Environmental Affairs. These bylaws clarify the legal requirements regarding application procedures, safety, amenity and decency, the design and construction of signs, offences and penalties, types of signs and the regulation of their display.
- **Privacy:** Privacy rights are infringed when information is published and/or distributed without the provider's consent. New challenges presented by the Protection of Personal Information Bill regarding out-of-home media encompass the collection of personal information and how such information is handled by the collector.

Denise Fouché – Technology Legal Advisory Services, PwC

Global trends in the out-of-home advertising industry

Outlook

- Globally, the out-of-home advertising market will grow by 5.0% on a compound annual basis from $31.9 billion in 2011 to $40.8 billion in 2016.
- The rate of growth in out-of-home advertising will lag slightly behind the overall global rise in advertising generally, which will rise at a compound annual rate of 6.4% to $661 billion in 2016. This means out-of-home's share of global advertising will slip from 6.6% in 2011 to 6.2% in 2016.
- The drivers of growth in out-of-home advertising will include increased use of digital billboards – which expand the effective out-of-home inventory because multiple ads can be shown on the same display – and improved out-of-home audience measurement.

Key drivers

- The out-of-home advertising industry is migrating from traditional to digital billboards, which expands the available inventory because multiple images can be projected on the same display.
- At the same time, advertisers are becoming increasingly aware of the value of out-of- home advertising because improved measurement techniques provide reach and frequency data comparable to those of other media. In this way, advertisers can more easily measure the cost-effectiveness of out-of-home compared with other media and can integrate it into their media plans.
- The increased fragmentation of other media makes out-of-home appealing to advertisers that want to reach mass audiences.
- At the same time, the expansion of captive video networks will aid advertisers that seek to target specific audiences. These networks reach consumers in locations that are not accessible to other forms of media.
- Out-of-home also goes hand in hand with increased mobile ad spending as advertisers seek media that reach people away from home and when they are shopping.
- Out-of-home is beginning to be developed in several Latin American countries, as transit ads, street furniture and digital networks are increasingly being used.

Global out-of-home advertising market by region (US$ millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
North America	7 727	7 458	6 321	6 600	6 940	7 321	7 701	8 087	8 472	8 857	
% change	*7.6*	*-3.5*	*-15.2*	*4.4*	*5.2*	*5.5*	*5.2*	*5.0*	*4.8*	*4.5*	*5.0*
EMEA	10 576	10 714	8 908	9 419	9 744	10 204	10 628	11 076	11 506	11 979	
% change	*7.5*	*1.3*	*-16.9*	*5.7*	*3.5*	*4.7*	*4.2*	*4.2*	*3.9*	*4.1*	*4.2*
Asia-Pacific	13 431	14 106	12 770	13 379	14 166	15 106	15 859	16 669	17 505	18 424	
% change	*7.8*	*5.0*	*-9.5*	*4.8*	*5.9*	*6.6*	*5.0*	*5.1*	*5.0*	*5.2*	*5.4*
Latin America	864	942	911	1 008	1 090	1 178	1 264	1 356	1 458	1 570	
% change	*4.7*	*9.0*	*-3.3*	*10.6*	*8.1*	*8.1*	*7.3*	*7.3*	*7.5*	*7.7*	*7.6*
Total	**32 598**	**33 220**	**28 910**	**30 406**	**31 940**	**33 809**	**35 452**	**37 188**	**38 941**	**40 830**	
% change	***7.6***	***1.9***	***-13.0***	***5.2***	***5.0***	***5.9***	***4.9***	***4.9***	***4.7***	***4.9***	***5.0***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, Global entertainment and media outlook 2012–2016 (PwC, 2012)

Chapter 12

Video games

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The video game market consists of consumer spending on new console games (including handheld games), personal computer (PC) games, online games and mobile or wireless games, as well as video game advertising. The category excludes spending on the hardware and accessories used to play the games. Retail purchases of games are included in either the PC games or console games category. The online games category includes micro-transactions, which are players' purchases of accessories and additional game content that enhance the gaming experience. Online games are often first purchased at retail and then played online. When these games are played online for a subscription fee, the subscription fee is counted in the online games category.

Outlook

… at a glance

Vidoe games total spending (R millions)	2011	2016	2012-16 CAGR(%)
	1 299	1 771	6.4

	2011	2016	2011-2016 CAGR (%)
Console/handheld games	777	988	4.9
PC Games	139	102	-6.0
Online games	98	277	23.1
Mobile games	262	366	6.9
Total end-user spending	1 276	1 733	6.3
Advertising	23	38	10.6
Total	**1 299**	**1 771**	**6.4**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

…in brief

- Smartphones and tablets, aided by an intuitive touch interface and improved graphic capabilities are fast becoming the device of choice for casual game players.
- Increased broadband penetration and the growing digital distribution of content will drive growth in the online game market.
- The growth of microtransactions, together with an increase in social gaming, is providing a boom for the industry and is challenging traditional subscription revenue models.
- The PC games market continues to be challenged as consumers turn their attention to newer technologies.
- Piracy of PC games, which is prevalent in the industry in South Africa, continues to hamper the growth in this segment.
- Online gaming and advertising on social network sites like Facebook is growing rapidly and attracting users who were not traditionally interested in gaming.
- Total spending on video games is projected to grow at a 6.4% compound annual growth rate from R1.3 billion in 2011 to R1.8 billion in 2016.

Overview

The video games market in South Africa grew by a modest 3.8% in 2011 to R1.3 billion, mainly due to lower growth than expected in average prices in the console/handheld games market.

The largest category of video games spending is console/handheld games, representing 60% of the market in 2011. After declining by an estimated 1.5% in 2012, we expect the market to turn around in 2013 and growth to strengthen in the latter part of the forecast period. We expect a jump in 2015 as we anticipate all three next-generation consoles to have entered into the market by that stage.

The mobile market is the second-largest category, representing 20% of the total spending in 2011. Growth has been fuelled by the introduction of new smartphones and tablets that facilitate the playing of games. The mobile market is expected to show the second-strongest growth amongst end-user categories, as more people download games on their phones. This is due to the popularity of these games, the increased penetration of smartphones and tablets into the market and the relatively low cost of these games.

The PC games market declined 12.6% in 2011 as more attention has been focused on other market segments. This market is expected to continue to decline and the decrease would be even larger were it not for the growth of the very popular massively multiplayer online games (MMOGs), which are providing some buoyancy.

Video game market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Console/ handheld games	520	688	791	765	777	765	784	825	918	988	
% change	*207.7*	*32.3*	*15.0*	*-3.3*	*1.6*	*-1.5*	*2.5*	*5.2*	*11.3*	*7.6*	*4.9*
PC games	207	171	171	159	139	131	123	115	108	102	
% change	*115.6*	*-17.4*	*0.0*	*-7.0*	*-12.6*	*-5.8*	*-6.1*	*-6.5*	*-6.1*	*-5.6*	*-6.0*
Online games	25	43	61	78	98	130	168	204	241	277	
% change	*66.7*	*72.0*	*41.9*	*27.9*	*25.6*	*32.7*	*29.2*	*21.4*	*18.1*	*14.9*	*23.1*
Wireless games	126	161	194	229	262	285	312	332	349	366	
% change	*51.8*	*27.8*	*20.5*	*18.0*	*14.4*	*8.8*	*9.5*	*6.4*	*5.1*	*4.9*	*6.9*
Total end-user spending	878	1 063	1 217	1 231	1 276	1 311	1 387	1 476	1 616	1 733	
% change	*141.9*	*21.1*	*14.5*	*1.2*	*3.7*	*2.7*	*5.8*	*6.4*	*9.5*	*7.2*	*6.3*
Advertising	10	15	17	20	23	26	29	32	35	38	
% change	*233.3*	*50.0*	*13.3*	*17.6*	*15.0*	*13.0*	*11.5*	*10.3*	*9.4*	*8.6*	*10.6*
Total video games	**888**	**1 078**	**1 234**	**1 251**	**1 299**	**1 337**	**1 416**	**1 508**	**1 651**	**1 771**	
% change	*142.6*	*21.4*	*14.5*	*1.4*	*3.8*	*2.9*	*5.9*	*6.5*	*9.5*	*7.3*	*6.4*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

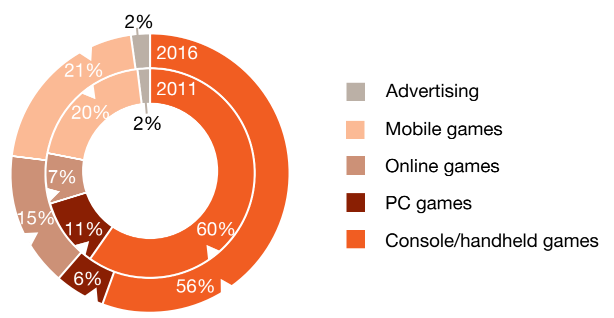
The online games market in South Africa is still relatively small mainly due to low broadband penetration. However, casual games and games on social networks are increasing in importance. MMOGs, which allow thousands of people worldwide to play the same game simultaneously, are also proving to be increasingly popular. The online segment is therefore expected to grow the fastest of any category as broadband penetration continues to increase.

Total end-user spending on video games is projected to grow to R1.7 billion in 2016, a 6.3% compound annual increase from 2011.

The video game advertising market is in its infancy in South Africa, but is growing at a significant rate. The advertising market will continue to grow with the increase in online gaming, which provides additional opportunities for advertising.

The overall video games market is expected to increase to R1.8 billion in 2016, a 6.4% compound annual increase from 2011.

Figure 12.1: Video games – spending and advertising 2011 vs 2016



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Console games market

Consoles

The current generation of consoles – consisting of the Microsoft Xbox 360, the Nintendo Wii and the Sony Playstation 3 – were introduced in South Africa over the last six years.

A recent trend in the market has been a shift toward integrated entertainment devices, as opposed to gaming-only consoles. Various hardware providers have launched online gaming environments and have explored integrating social media and other entertainment such as access to social networks, film content and other online applications, to create a comprehensive online environment.

The Xbox 360 was the first of the current generation of consoles to be introduced and sold over 66 million units worldwide by the end of 2011, compared to approximately 50 million units by the end of 2010.

The next generation of all major consoles are expected to be released towards the end of the forecast period.

Microsoft Xbox 360

In November 2010, Microsoft introduced Kinect, which uses a specially-designed camera to enable games to detect a player's motions and replicate them on screen, eliminating the need for a controller. Eighteen million Kinects were shipped worldwide in 2011, compared with 8 million a year earlier. In December 2011, X-box released voice-activated search powered by Kinect and Bing.

One of Microsoft's strengths is Xbox Live, an online multiplayer gaming network, social network and media suite. The Xbox Live dashboard was redesigned at the end of 2011, providing more prominent positioning to entertainment options to encourage the perception that the Xbox 360 is an entertainment device that also plays games. The Xbox Live online network is available via a paid subscription (Xbox Live Gold) and a free subscription (Xbox Live Free). The Xbox Live Free online service, which has limited capabilities such as voice chat and some downloadable content, is available at no cost. A paid subscription to the Xbox Live Gold service is required for multiplayer gaming, accessing social networks such as Facebook and Twitter and accessing premium content.

Kinect for Windows was introduced worldwide in February 2012, enabling the device to be used with PCs, thereby integrating the console and PC gaming experience for users. The Windows version works with a variety of applications, enabling other companies to integrate it into their programmes. Microsoft is currently working with many companies such as Toyota, American Express and Mattel on new applications that use the device. Kinect for Windows became available in South Africa in May 2012.

Rumours abound about the next generation Xbox console that many have called the Xbox 720. The device, which has not been announced officially, is expected to include a much faster processor and possibly Blu-ray technology. The device is not likely to be released before the end of 2013. In the interim, there are expectations that Microsoft may introduce an economy version of the Xbox 360, although this is still unconfirmed.

Sony PlayStation 3

Sony has introduced several versions of its PS3 since its initial launch. In 2012, Sony announced that the PlayStation Network is to be rebranded as the Sony Entertainment Network, along with competitive online media options in line with similar offerings from Microsoft. This is a strong indication of a move towards a more integrated entertainment environment.

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The PS3 is being marketed as the most technologically advanced home entertainment centre, as well as an outstanding gaming console and includes both a Blu-ray player and DVR capabilities. The PS3 online environment is free to users and allows game developers to control their own environments.

Video games

In addition, other online content such as movies can be downloaded. Sony also offers the PlayStation Network Plus, introduced in 2010, which is an optional paid upgrade to its free online environment that provides free games, discounts and other content.

Sony introduced the Move motion controller in October 2010. It is similar to the Wii controller in that it is waved and can be used in lieu of a gaming instrument such as a sword. Unlike the Wii Remote, however, the Move makes additional use of the PlayStation Eye camera to track the gaming device's position with greater fidelity and enables added game play features such as augmented reality. Augmented reality is a type of virtual reality that combines real and imagined images in real-time.

While there has been a lot of speculation about the next Sony game console, company officials have stated that there will be no new PS4 in 2012 and that they will continue to support the PS3 for several years. It remains to be seen how soon and to what extent the new generation console enhancements will improve the relative gaming experience for Sony.

Nintendo Wii

The Nintendo Wii is marketed mainly as a game machine as opposed to the Sony and Microsoft machines, which are being promoted as media centres for home entertainment. Nintendo has expanded the universe of game players to include younger children, older adults and women, making the Wii the most popular console in the world. This is mainly due to the simplicity of its games and the uniqueness of its controller.

Since its launch, all of Nintendo's major competitors have introduced motion sensitive systems and the Wii has not kept pace technologically. Currently, the Wii is the only major console that does not display in high-definition format. As a result, Nintendo was the first of the major manufacturers to announce the introduction of its next console generation, the Wii U, at the Electronic Entertainment Expo in Los Angeles in June 2011.

The Wii U, which is expected to be released by the end of 2012, will display 1080p high-definition (HD) graphics and will feature a 6.2-inch touchscreen controller that interacts with the television sets but also functions as a monitor for continuous use when the television set is turned off. The device is rumoured to include the ability to act as an e-reader capable of displaying books, magazines, and strategy guides for the company's games.

The device is expected to work with multiple stick-like controllers to enable multiplayer gaming and the company is also developing an applications store. Games for the new device will be available both in physical form at retail stores and as digital downloads. The Wii U is expected to be only slightly technologically superior to its current competitors.

Handheld devices

Combined with interest in the current generation of consoles, the market for portable game consoles continues to show strength. The Nintendo DS is the most popular portable device in South Africa and across the world because of its simplicity, which has broadened its appeal beyond hardcore gamers.

The DS has two screens, providing players with two views of the action, touchscreen capabilities, wireless connectivity and a built-in microphone, which are innovative features in a handheld game console.

The DS has broadened the market, attracting women and older players with its *Touch! Generations* brand of games, which includes a number of games in the *Pokémon* and *Brain Training* franchises, both of which are exclusive to the Nintendo DS.

In March 2011, Nintendo introduced the 3DS, a device that enables users to play games in stereoscopic 3D without the need for special glasses. In addition to playing new games that take advantage of its 3D capabilities, the 3DS is backwardly compatible, enabling all previous DS games to work. In addition, studios are working to bring 3D movies to the device.

Initial sales of the 3DS were disappointing as a result of the limited number of titles, an incomplete online environment at the time of its launch and poor battery life. However, in August 2011, the Core Group, the official distributor of Nintendo products in South Africa, reduced the recommended retail price of the 3DS to almost R1 000 less than its initial launch price.

The worldwide price reduction, combined with the launch of several new titles including *Mario Kart 7* and *Super Mario 3D Land,* catapulted the 3DS to being the top-selling gaming device in the world in 2011. Sales are expected to remain strong in 2012 with the release of several major titles, including *Kid Icarus: Uprising*, *Luigi's Mansion 2* and *Metal Gear Solid: Snake Eater 3D*.

The other major device in the sophisticated portable game market is Sony's PSP (PlayStation Portable). Since its launch in South Africa in 2005, a number of different models have been introduced, including a budget-model called the PSP-E1000, which was introduced in 2011.

Sony introduced the PS Vita, the newest in its line of handheld devices, in South Africa in February 2012. The Vita is a touch-interface motion-sensitive handheld device that is a successor to the PSP and sports HD capabilities and improved graphics, providing a gaming experience approaching that of a PS3. It has a five-inch OLED (organic light-emitting diode) screen running at four times the resolution of the PSP. Some of its titles include Sony's *Uncharted: Golden Abyss* and EA Sports' *FIFA Soccer*. The Vita has a memory card for physical software, as well as the ability to download games and applications from the PlayStation Network (PSN).

Sony Ericsson introduced the Xperia PLAY in South Africa in September 2011. This device is an Android-based smartphone that is the first PlayStation Certified device that is able to support PlayStation games.

Developers are facing the challenge of providing users with a comprehensive gaming experience across various entertainment mediums and devices.

The market for dedicated handheld devices is facing increased competition from the rapidly increasing capabilities of smartphones and tablets. Despite the fact that, on aggregate, the dedicated handheld devices have advantages over smartphones and tablets such as superior game quality and a more controller-like feel, a shrinking number of people are willing to pay the relatively higher price for the games when they are able to purchase much cheaper games for their smartphones.

In general, the overall gaming experience is being enhanced by the linking of different gaming platforms. For example, Xbox Live allows PC gamers to interact with Xbox gamers. Additionally, technology advances are enabling smartphones to act as controllers for some of the consoles, which allows for greater interactivity and gaming versatility. Developers are facing the challenge of providing users with a comprehensive gaming experience across various entertainment mediums and devices.

Software

Activision Blizzard's *Call of Duty: Modern Warfare 3,* which was released for the Xbox 360, PS3, Wii and PC, was the most popular title in South Africa and worldwide in 2011. It was the biggest entertainment launch worldwide in history, surpassing the previous instalment in the franchise, *Call of Duty: Black Ops*, which was the top selling game of 2010. *Call of Duty: Modern Warfare 3* grossed one billion dollars worldwide in its first 16 days, one day sooner than *Avatar,* which was the highest grossing film of all time.

Although it has not been officially announced, Activision Blizzard is expected to continue its pattern of launching major titles at the end of the year to take advantage of holiday sales, with the introduction of the next instalment of the hugely popular *Call of Duty* series. The *Call of Duty* franchise includes five of the top-selling games of all time and the next instalment will likely be one of the biggest games of the year if it follows the pattern of the last few years.

Some popular games such as *Call of Duty: Modern Warfare 3* and *FIFA World Cup 2010* are available for multiple platforms, while others are exclusive to individual consoles. For example, the *Halo* and *Gears of War* series are exclusive to the Xbox 360, whereas the *Mario Bros*. and the *Legend of Zelda* series are exclusive to the Wii.

In general, when a game developer owns the console, its games will be exclusive to that particular console, promoting sales of the console, whereas third-party developers normally make games for multiple platforms to enhance sales of the games. A similar trend has been noted in other markets, such as the publishing market, and it remains to be seen which approach will be more successful in a world moving progressively faster towards an integrated multi-platform media environment.

Video games

A number of highly-anticipated games are scheduled to launch in 2012, including *BioShock Infinite*, the follow up to the 2007 first-person shooter *BioShock*; *Grand Theft Auto V*, the latest in the series; and *Mass Effect 3*, the third of the sci-fi trilogy that started in 2007. All of these games will be available on the PS3 and the Xbox 360. *The Last Guardian* is one of the exclusive PS3 titles expected to debut in 2012, while *Halo 4* will likely be a major exclusive title for the Xbox 360.

With the expected introduction of the Wii U at the end of 2012, it is unlikely that there will be many major exclusive titles developed for the Wii this year. One new exclusive Wii game, *Rhythm Heaven Fever,* is the first console title in the music game series, with previous versions available on the Game Boy Advance and DS.

Since the Wii U will have graphics capabilities comparable to those of its competitors, there will be more multi-platform titles available for it than for the Wii, as some publishers were reluctant to port games to a system that did not have the graphic capabilities to display their games to their full potential.

The launch of the Sony PS Vita in February 2012 resulted in the launch of a number of new games, including *Uncharted: Golden Abyss*. Other highly-anticipated games for the Vita scheduled to debut in 2012 include *Call of Duty Vita*, *LittleBigPlanet* and *Street Fighter X Tekken*.

Nintendo has already launched a number of top-rated games for the 3DS in 2012. These include *Resident Evil: Revelations*, which plays just like the console game, allowing fans of *Resident Evil 4* to have an equivalent experience on a console device, and *Kid Icarus: Uprising*. Other 3DS titles to look forward to in 2012 include *Luigi Mansion 2* and *Professor Layton and the Mask of Miracle*.

Games that utilise the features of the new controllers developed by Sony and Microsoft will continue to be introduced and will help buoy the market until the next generation of consoles is introduced toward the end of the forecast period. Until then, we expect only modest increases in game sales. The next generation of consoles with their expanded features will be accompanied by many new games designed to take advantage of those capabilities.

A total of 2.9 million console/handheld games were sold in South Africa in 2011, a 16.0% increase from 2010.

We expect the growth rate to moderate over the next two years as the current generation of consoles continues to age. We then expect the growth rate to pick up in 2014 as we anticipate the introduction of the next generation of consoles. In 2016, an estimated 3.8 million games will be sold, up 5.6% compounded annually from 2011.

Although the average price fell 12.4% in 2011, this was not enough to offset the increase in the number of units sold, resulting in a modest 1.6% increase in spending. This fall in the average price is expected to continue until the launch of the new generation of consoles, which is forecast to boost the average prices of consoles toward the end of the forecast period.

Spending is expected to be relatively flat in 2012 and 2013, but is expected to increase in the latter part of the forecast period as we anticipate that all of the next generation of consoles will have been released into the market by that time.

For the forecast period as a whole, spending will increase from R777 million in 2011 to R988 million in 2016, a 4.9% compound annual increase. However, we do not expect the high growth rates that occurred when the current generation of consoles was introduced because of the increased competition from other gaming platforms.

Video games

Console/handheld game market

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Unit sales (millions)	1.7	2.0	2.3	2.5	2.9	3.0	3.1	3.3	3.6	3.8	
% change	*240.0*	*17.6*	*15.0*	*8.7*	*16.0*	*3.4*	*3.3*	*6.5*	*9.1*	*5.6*	*5.6*
Average price (R)	306	344	344	306	268	255	253	250	255	260	
% change	*-9.5*	*12.4*	*0.0*	*-11.0*	*-12.4*	*-4.9*	*-0.8*	*-1.2*	*2.0*	*2.0*	*-0.6*
Aggregate spending (R millions)	520	688	791	765	777	765	784	825	918	988	
% change	*207.7*	*32.3*	*15.0*	*-3.3*	*1.6*	*-1.5*	*2.5*	*5.2*	*11.3*	*7.6*	*4.9*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Top 10 Wii games sold in South Africa (2011)

Rank	Title	Publisher	Units	Value (R)
1	Wii Sports	Nintendo	24 658	3 849 074
2	Wii Sports Resort	Nintendo	10 467	1 837 804
3	2009 Super Mario Bros	Nintendo	6 727	3 362 470
4	Wii Party	Nintendo	5 093	899 709
5	Super Mario Galaxy 2	Nintendo	4 566	1 990 560
6	Wii Fit + Board	Nintendo	4 162	4 644 096
7	Mario Kart + Wheel	Nintendo	3 571	2 037 143
8	Mario Kart	Nintendo	3 172	615 968
9	Wii Fit Plus	Nintendo	2 982	1 832 924
10	Super Mario Galaxy 2 + Console	Nintendo	2 793	555 377

Source: GfK Retail and Technology

Top 10 PS2 games sold in South Africa (2011)

Rank	Title	Publisher	Units	Value (R)
1	FIFA 2009	Electronic Arts	23 498	2 327 155
2	Need for Speed: Undercover	Electronic Arts	23 414	2 483 480
3	FIFA 2011	Electronic Arts	20 865	4 702 542
4	FIFA 2012	Electronic Arts	19 722	5 632 878
5	MX vs. ATV Untamed	THQ	18 582	1 877 172
6	Grand Theft Auto: San Andreas	Take 2	16 387	2 291 098
7	Black Platinum	Electronic Arts	14 310	1 590 693
8	Grand Theft Auto: Vice City	Take 2	14 125	1 631 483
9	God of War 2	Sony	13 801	1 598 872
10	The Sims 2 – Castaway	Electronic Arts	11 888	1 235 379

Source: GfK Retail and Technology

Top 10 PS3 games sold in South Africa (2011)

Rank	Title	Publisher	Units	Value (R)
1	FIFA 2012	Electronic Arts	26 569	14 856 572
2	Gran Turismo 5	Sony	14 409	5 626 506
3	God of War 1 and 2 Collection	Sony	14 092	4 528 656
4	Rugby World Cup 2011	505 Game Street	12 286	6 963 105
5	Call of Duty - Modern Warfare 3	Actiblizz	12 113	7 884 074
6	FIFA 2011	Electronic Arts	11 356	4 302 473
7	Uncharted 2 Among Thieves	Sony	10 901	3 873 204
8	Gran Turismo 5	Sony	10 611	5 921 120
9	Grand Theft Auto 4	Take 2	10 471	2 464 616
10	Call of Duty 4 - Modern Warfare 2	Actiblizz	9 563	2 838 157

Source: GfK Retail and Technology

Top 10 Xbox 360 games sold in South Africa (2011)

Rank	Title	Publisher	Units	Value (R)
1	FIFA 2012	Electronic Arts	10 570	5 959 106
2	Call of Duty - Modern Warfare 3	Actiblizz	8 372	5 495 718
3	Rugby World Cup 2011	505 Game Street	6 716	3 780 669
4	Gears of War 3 + Beta Key/Code	Microsoft	6 659	3 784 610
5	Halo 3	Microsoft	6 198	854 309
6	Call of Duty 4 - Modern Warfare 2	Actiblizz	5 925	1 707 654
7	Need for Speed: Most Wanted	Electronic Arts	5 901	594 423
8	Call of Duty - Black Ops	Actiblizz	5 822	3 111 381
9	FIFA 2011	Electronic Arts	5 150	1 913 136
10	FIFA 2010	Electronic Arts	4 980	1 091 312

Source: GfK Retail and Technology

Top 10 handheld games sold in South Africa (2011)

Rank	Title	Publisher	Units	Value (R)
1	MX vs. ATV Untamed	THQ	16 472	2 222 670
2	Gran Turismo 5 Roadster	Sony	14 960	2 434 739
3	G-Force	Disney Interactive Studios	9 102	1 116 490
4	Cars	Disney Interactive Studios	8 515	860 007
5	Grand Theft Auto: Liberty City	Take 2	8 357	1 108 125
6	TRON: Evolution	Disney Interactive Studios	8 114	1 659 186
7	Toy Story 3	Disney Interactive Studios	7 888	1 526 504
8	FIFA 2012	Electronic Arts	7 730	1 162 746
9	Split Second	Disney Interactive Studios	7 483	824 774
10	Secret Agent Clank	Sony	7 409	764 002

Source: GfK Retail and Technology

PC games

The PC games category comprises only the retail sales of PC games and does not include digital distribution of games, subscriptions to play them online, or microtransactions that take place in those games, all of which are included in the online game category.

The PC games market has been in decline for a number of years since the rise of consoles has shifted the market away from the PC. As a result, there are fewer games being developed for the PC, which is also partially due to piracy issues that plague the PC games market.

Retailers do not make the same effort marketing PC games, providing them less shelf space and often relegating the games to the back of their stores. In addition, the growth of digital distribution by companies like Valve's Steam and Electronic Arts' Origin has made downloading the games directly to the PC an easier alternative to purchasing them through retail.

Although the number of PC gamers is declining, they will not disappear entirely as there are distinct groups of players that are loyal to the platform. For those players who do not want to spend money on expensive consoles, games played on a PC provide an enjoyable alternative.

Video games

PC games are generally less expensive than console games due to the fact that they are cheaper to produce. However, at the opposite end of the spectrum, hardcore gamers prefer the advantages provided by the most advanced PCs, with these PCs outperforming all of the current generation of consoles. PCs also offer better graphics than the aging consoles. PCs can be upgraded constantly as opposed to the consoles, whose technology is relatively stable until the next generation is introduced. The high-end graphics processing unit (GPU) from Nvidia is selling well as hardcore gamers upgrade their computers to play games like *Battlefield 3* and *Elder Scrolls: Skyrim*.

PCs provide gamers with a superior method of playing certain game genres such as strategy games and MMOGs, as a keyboard and mouse provide a better means of interacting with the games than a console controller. The growth of MMOGs is aiding the retail PC games market as most MMOGs require a retail purchase of the game, after which the gamer often pays a monthly subscription fee to play the game online. *World of Warcraft* has buoyed the PC game market. The two recent expansion packs – *World of Warcraft: Cataclysm* and *World of Warcraft: Wrath of the Lich King* – have been among the most popular PC games sold in South Africa. The next expansion pack, *World of Warcraft: Mists of Pandaria,* is expected to debut this year.

In addition to *World of Warcraft*, the other major franchise that continues to support PC game sales are the various *Sims* games. *Sims 3,* launched in 2009, is still a major-selling PC game and Electronic Arts keeps the game fresh by releasing expansion packs.

Star Wars: The Old Republic, a major new MMOG, launched in the USA and Europe in December 2011 and quickly became the best selling PC game in those regions. We are still awaiting the launch date in South Africa, where it is also expected to sell very well.

Some games are multi-platform, meaning they are developed for both consoles and PCs to broaden their penetration. A major series in this segment is the various *Call of Duty* games, including the latest one*, Call of Duty 3: Modern Warfare*, which is a major seller in both the PC and console market.

By contrast, there are certain games that are made exclusively for the PC to take advantage of the platform's superior processing power and mouse and keyboard interface. Some major PC exclusives expected to debut in 2012 include *Guild Wars 2* and *Starcraft II: Heart of the Swarm.*

Unit sales in South Africa decreased by 8.8% in 2011 to 930 000. We expect unit sales to continue to decline modestly as digital distribution continues to grow. Unit sales are projected to decline 3.2% on a compound annual basis to 790 000 units in 2016 as consumers continue to migrate to console games. The decline would be greater if it were not for the strength of the MMOG market, which is expected to continue aiding PC game sales.

The average price of a PC game in 2011 was R149, much lower than the R268 price for console games. Prices have decreased during the past five years and we expect modest price decreases to continue through the forecast period, with declines by 2.8% on a compound annual basis to R129 in 2016. Spending will total an estimated R102 million in 2016, a 6.0% compound annual decrease from 2011.

There are certain game types that are better on computers than consoles, like real-time strategy games. You're just able to move things around quicker with a keyboard and mouse … the way controllers are these days, they just haven't caught up yet. And overall, if you have a really nice computer, the graphics are still better than pretty much any other format.

– Consumer, aged 35-59

Source: 'The evolution of video gaming and content consumption', Consumer intelligence series (PwC, 2012)

Video games

PC game market

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Unit sales (millions)	1.14	0.96	0.99	1.02	0.93	0.90	0.87	0.84	0.81	0.79	
% change	*153.3*	*-15.8*	*3.1*	*3.0*	*-8.8*	*-3.2*	*-3.3*	*-3.4*	*-3.6*	*-2.5*	*-3.2*
Average price (R)	182	178	173	156	149	145	141	137	133	129	
% change	*-14.6*	*-2.2*	*-2.8*	*-9.8*	*-4.5*	*-2.7*	*-2.8*	*-2.8*	*-2.9*	*-3.0*	*-2.8*
Aggregate spending (R millions)	207	171	171	159	139	131	123	115	108	102	
% change	*115.6*	*-17.4*	*0.0*	*-7.0*	*-12.6*	*-5.8*	*-6.1*	*-6.5*	*-6.1*	*-5.6*	*-6.0*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Top 10 PC games sold in South Africa (2011)

Rank	Title	Publisher	Units	Value (R)
1	Call of Duty – Modern Warfare 3	Actiblizz	12 809	5 441 054
2	Battlefield 3	Electronic Arts	11 871	4 441 219
3	The Sims 3	Electronic Arts	11 211	3 209 024
4	Grand Theft Auto: San Andreas	Take 2	9 814	884 537
5	Elder Scrolls 5: Skyrim	Bethesda	8 608	3 189 555
6	Call of Duty: Deluxe Edition	Actiblizz	8 548	490 129
7	The Sims: Generations	Electronic Arts	8 426	2 059 250
8	The Sims 3: Late Night	Electronic Arts	8 203	2 041 600
9	The Sims 3: Pets	Electronic Arts	7 914	1 963 272
10	CSI 3: Dimensions of Murder	Ubisoft	7 897	447 772

Source: GfK Retail and Technology

Online games

The online games platform enables players to download games and game content to compete against other players across the Internet and to play simple games on game websites. The PC platform was historically the only means to play games online and is still the dominant platform for online games, far surpassing the Xbox 360, which is in second place.

Consoles are becoming more important platforms because each of the current generation of consoles supports an online environment. The major console manufacturers – Sony, Microsoft, and Nintendo – have each introduced online marketplaces (PlayStation Network, Xbox Live, and Nintendo Wii Shop, respectively) enabling gamers to purchase games and other content and facilitating competition against other players anywhere in the world via the Internet.

Sony's PlayStation Network is a free environment that provides online gaming, as well as a means to download video and game content. Sony's PlayStation Plus subscription service for the PS3 was introduced in June 2010. With this service, gamers, who pay an annual fee of R489, obtain access to game demos before other players, free game downloads and other perks such as discounts at the PlayStation Store. The original PlayStation Network remains free and continues to add new content.

Build personalised data sets by segment and component.

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Similarly, Microsoft offers two online services: First, the Xbox Silver, recently renamed Xbox Live Free, which provides users free access to download a limited number of game demos and movie trailers. Second, is a Gold membership, which is required for online gaming and access to other services like Facebook.

Although the Xbox 360 was released in South Africa in September 2006, the country was not on the list of supported regions for the Xbox Live platform until November 2010, when Microsoft began offering the localised version of Xbox Live in South Africa. The full price of an annual Gold membership is R599.

Valve Software's Steam service is the dominant company in the market for legally downloading games to the PC. In late 2011, the company achieved a record 5 million concurrent users. Steam has over 1 800 games available to download to its 40 million registered users worldwide.

In June 2011, Steam introduced free-to-play games, including Sega's *Spiral Knights* and Perfect World's *Forsaken Worlds* and has expanded its free library around 20 games, with more to be added in 2012.

In June 2011, Electronic Arts launched Origin, formerly the EA Store, as a competitor to Steam. Origin is similar to Steam in that it is a digital distribution system that enables users to purchase games on the Internet and download them to their PCs or mobile devices. Additionally, Origin has a number of other features, including the saving of games in a cloud, enabling them to be played on different devices and social features such as networking with friends. However, Origin's portfolio of games is much smaller than that of Steam.

Roughly 57% of PC player-dominant respondents play multi-player games online. Multi-player online gamers spend an average of four days per week gaming or three hours per day in this mode.

Source: 'The evolution of video gaming and content consumption', Consumer intelligence series (PwC, 2012)

The Mac App Store, which launched in 2011, has made software (including games) available in a familiar marketplace for Apple iOS users (iPhone, iPod Touch and iPad), although this is currently still only available in limited format for users in South Africa. There are thousands of applications in the store with games representing the largest category. This should help grow the market for Mac games because retail game stores rarely stock them, placing more marketing effort behind games for consoles and PCs.

Digital distribution of content is emerging as an important segment of the online market. In addition to full games, players can also download additional game content to enhance their playing experience. Many game developers are adding downloadable digital content for their games to enhance the gaming experience and as an additional source of revenues. However, in South Africa, relatively low broadband penetration compared to major global markets continues to be a challenge.

Massive multiplayer online games (MMOGs), played by thousands of people simultaneously around the world, are usually role-playing games that take place in medieval or fantasy worlds that continue to evolve and can be played over long periods of time.

Most MMOGs are played on PCs with additional content being delivered over broadband connections. After buying the game at retail stores, subscribers often pay a monthly fee to continue playing the game online. Players also often purchase additional equipment and accessories online to enhance their gaming experience.

World of Warcraft, which was launched in November 2004, is by far the most popular MMOG in the world. The game, which once had 12 million subscribers, has seen its subscriber base decline to approximately 10 million. *World of Warcraft: Mists of Pandaria*, the latest expansion pack for *WoW,* is scheduled to launch in 2012 and is expected to buoy demand for the game.

A major new MMOG with a similar business model, *Star Wars: The Old Republic,* developed by Electronic Arts' Bioware, launched at the end of 2011 and reached one million subscribers in its first month. The game has not yet launched in South Africa and it remains to be seen how successful the game will be as a competitor to *WoW* and if the subscription model still has staying power.

By contrast, a number of other MMOGs, such as *Everquest II, Age of Conan* and *DC Universe Online*, have switched from the traditional business model to a free-to-play model, with microtransactions generating revenues for the publishers. After the switch, the number of players for these games increased dramatically, as did the number of microtransactions. However, not all MMOGs that switch from the subscription model are successful as free games as evidenced by the demise of *Lego Universe* in January 2012, which failed to achieve sufficient revenue after switching.

A number of new MMOGs are being developed, including ArenaNet's *Guild Wars 2,* Sony's *Planetside 2*, and BioWare's *Warhammer Online: Wrath of Heroes*. None of these will use the traditional subscription model and will be free-to-play, with microtransactions providing the revenue stream. Electronic Arts introduced a line of free-to-play online games, including *Battlefield Heroes* and *Need for Speed World,* which have reached 25 million players worldwide.

Words with Friends was described as a way to stay in touch or connect with friends they don't see often or don't talk to often by consumers; many said the game makes them feel like they are still maintaining a relationship with their friend. One consumer said: "The social and media games that I play are only with my Facebook friends and I don't ever see them. So it's my way of keeping connected with them, even though I may never see them all year. I like that." (Consumer, aged 35-59)

Source: 'The evolution of video gaming and content consumption', Consumer intelligence series (PwC, 2012)

Microtransactions are becoming an important source of online revenues. Approximately half of online gamers buy virtual items for online games. Microtransactions allow gamers to buy items that provide them with an advantage in the game or enhance the gaming experience.

The free-to-play business model, with microtransactions providing the revenues, is emerging in South Africa, as in other countries. Combined with the free-to-play business model, microtransactions allow gamers to control the amount they spend on games rather than paying a monthly subscription fee. Subscription models work well with the most popular games, while the free-to-play business model works for smaller games to help them build interest. It remains to be seen which business model will prevail as the most successful in the long term.

Social gaming on sites like Facebook, Myspace and Google+ is growing exponentially. Social games are free, widely available, load in a few seconds and require only a few minutes at a time to play. They use a business model called freemium, whereby the games are provided free, with the developers gaining revenues through microtransactions as well as advertising.

The games grow virally because users can invite their contacts to join them in playing the game. These games are also played by women and by people in older age-groups, thereby opening up opportunities for advertisers and other commercial partners to reach customers not traditionally associated with gaming.

Zynga, the major game developer on Facebook, is credited with introducing the first social game, *Zynga Poker*, in July 2007. Its *CityVille* game became the biggest Facebook game of all time, reaching 100 million users and surpassing the record held by *FarmVille*, another Zynga game.

The majority of social games are played on PCs and, to a lesser extent, on smartphones and tablets. *Words With Friends*, originally developed by Newtoy Inc, which is now part of Zynga, has proved very popular on mobile devices. Zynga continues to develop new games in the series, including *Scramble With Friends.*

Although MMOGs get the most publicity, it is actually the casual gaming segment that attracts more players. This segment is comprised of gamers who go to a website to play simple board or strategy games, often at no charge, with banner advertising surrounding the games providing the requisite revenues.

These casual games, which are simple to learn and do not require extended periods of time to play, have expanded the demographic audience of the gaming industry to include more women and older adults. Games.co.za is the biggest free online gaming website in South Africa, joining well-known sites such as Yahoo Games and MSN's Zone, which also provide an online environment to play free games.

SkillPod Media is a leading South African provider of casual online games, as well as games played on social networks. The company has also developed a platform that enables other developers to deploy casual games quickly onto its game portals.

The relatively slow broadband speeds and low broadband penetration in households has resulted in many gamers frequenting Internet cafés to play games. Additionally, many people attend LAN (local area network) gatherings that attract upwards of a thousand people in one location to participate in multi-player games.

LAN gatherings can extend to several days and afford participants the time to network with each other in addition to playing the latest MMOGs. For example, the *Coca-Cola Dome* in Johannesburg hosts an annual gaming expo *rAge*, which attracts more than 20 000 visitors over three days.

Since most games require a broadband connection to play effectively, the growth of broadband penetration is a major driver of the online game market. The broadband universe in South Africa has almost doubled over the last two years, but penetration remains low at only 870 000 households.

Over the same period, the number of online video game subscribers grew by two-thirds from 65 000 in 2009 to 110 000 in 2011. Spending in 2011 rose 25.6% to R98 million.

We expect the number of broadband subscribers to quadruple during the next five years to 3.6 million by 2016, a 32.8% compound annual increase from 2011. Line speeds are increasing and uncapped ADSL service is emerging, spurring the demand for broadband.

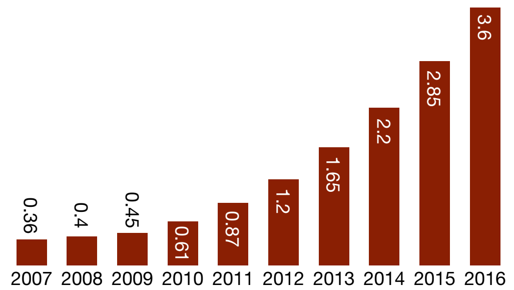
Video games

Online game market

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Broadband subscribers (millions)	0.36	0.40	0.45	0.61	0.87	1.20	1.65	2.20	2.85	3.60	
% change	*44.0*	*11.1*	*12.5*	*35.6*	*42.6*	*37.9*	*37.5*	*33.3*	*29.5*	*26.3*	*32.8*
Online video game subscribers (millions)	0.025	0.045	0.065	0.085	0.110	0.150	0.200	0.250	0.300	0.350	
% change	*66.7*	*80.0*	*44.4*	*30.8*	*29.4*	*36.4*	*33.3*	*25.0*	*20.0*	*16.7*	*26.0*
Online video game penetration of broadband households (%)	6.9	11.3	14.4	13.9	12.6	12.5	12.1	11.4	10.5	9.7	
Average monthly spending (R)	82	80	78	76	74	72	70	68	67	66	
% change	*-2.4*	*-2.4*	*-2.5*	*-2.6*	*-2.6*	*-2.7*	*-2.8*	*-2.9*	*-1.5*	*-1.5*	*-2.3*
Annual spending (R millions)	25	43	61	78	98	130	168	204	241	277	
% change	*66.7*	*72.0*	*41.9*	*27.9*	*25.6*	*32.7*	*29.2*	*21.4*	*18.1*	*14.9*	*23.1*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 12.2: Broadband subscribers (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We expect the penetration of online players to decrease from 12.6% in 2011 to 9.7% in 2016 due to the significant projected increase in broadband households. Despite the decrease in penetration levels, we expect the number of online players to more than triple from 110 000 in 2011 to 350 000 in 2016, representing a 26.0% compound annual growth rate.

Aggregate spending on online games is expected to grow from R98 million in 2011 to an estimated R277 million in 2016, a 23.1% compound annual increase.

Mobile games

Mobile games are games played on mobile phones or other mobile devices. Almost all new mobile phones are Internet-enabled and can download games. The increasing sophistication of the new handsets will make for a more enjoyable gaming experience. As people upgrade their existing handsets for newer models, the number of game-capable handsets will increase dramatically.

Historically, mobile games were rather simplistic due to the graphic limitation of the handsets. As a result, the most popular games were single-player board games, word games and puzzles. This trend is changing as AAA titles are being released for these devices. These casual games help widen the demographics of mobile game players. In fact, more than half of mobile gamers in South Africa are women who enjoy playing casual games such as *Tetris* and *Bejeweled*, two of the most commonly downloaded mobile games.

Originally, many handsets came with embedded games, which served as a differentiator to drive sales of individual phones. These games provided enjoyment for users, but did not provide any additional revenues for the operators. With the expansion of Internet-connected phones, operators have seen the potential for additional revenues from downloading games at a modest fee. However, the carriers' download platforms were often not consumer friendly. A number of third-party websites, such as Gameloft, have been established to facilitate the downloading of games.

The introduction of smartphones, including the iPhone and various Android phones, has revolutionised the mobile games market. There are thousands of games on the various application stores that can be downloaded to the handsets. These application stores improve the buying experience dramatically over carriers' decks, with better descriptions and by offering free trials. The application stores also make it easier for game developers to reach a mass audience quickly.

The sophistication of games for the iPhone and iPod Touch has caused many gamers to substitute these devices for their DS and PSP handheld devices.

In 2010, Apple introduced the iPad, a tablet computer that runs all of the iPhone applications, including games. With its enhanced graphic capabilities and its large touchscreen, the iPad is becoming the platform of choice for many gamers.

The introduction of the iPad 2, with an advanced A5 processor chip, which renders graphics much faster than the previous model, further establishes the iPad 2 as a device on which to play games like *Infinity Blade 2* and *Real Racing 2*, which have graphics that rival those of console games.

The latest version, the new iPad with its high-resolution Retina display, was introduced in South Africa in April 2012 and has brought a whole new user experience to gamers.

Although casual games continue to dominate the market, more advanced games that take advantage of the sophistication of the newer smartphones are also being developed. There are even mobile versions of MMOGs being developed for gamers on the go. These games are expected to become more popular as the number of technically-advanced handsets increases.

There are a growing number of mobile gamers, both because of the rising penetration of smartphones and also because the games are significantly cheaper than console games. For many people in South Africa, the cost of a game console or a PC makes them unaffordable, while almost everyone has a mobile phone, making mobile devices the most popular platform on which to play games.

The decline in handset prices and data access fees is also helping to drive the market for mobile gaming.

The business model for mobile games is changing. Originally, the model consisted of one-time payments for the downloading of games. A growing number of games are being offered free with microtransactions and advertising providing the requisite revenues for publishers. *Angry Birds* was a hugely successful game as a paid download, but has now garnered more fans as a free advertiser-supported game. Rovio announced that in March 2012 its coven of *Angry Birds* apps had amassed one billion downloads. By providing games free, publishers are able to expose more people to the mobile gaming experience and it is likely that some of these people will also pay to download games.

With Angry Birds, I find myself starting the game at one time, and I look up and four hours have passed and I'm still playing because I'm trying to accomplish the three stars that you need to get to the next level to complete.

– Consumer, aged 35-59)

Source: 'The evolution of video gaming and content consumption', Consumer intelligence series (PwC, 2012)

With the expected increase in demand for mobile games, new games and access platforms are being released. In 2011, Games.co.za, the largest free online gaming website in South Africa, launched a new mobile games site, m.games.co.za, where players can download their favourite online games free to a smartphone. Also in 2011, Luma Arcade, a major video game developer in South Africa, launched its latest game, *Racer*, for Android devices.

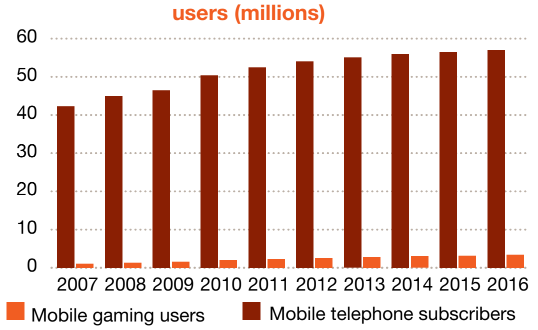
South African mobile service provider, Vodacom, has also created an online gaming application store, where access to online games such as *The Sims, Bejeweled, FIFA* and *Pac-Man*, amongst various others, are available for prices ranging between R20 to R40. This particular type of local service is expected to grow in South Africa due to limited product offerings being available from international stores such as the Apple applications stores.

Zynga, the online game developer famous for its games on Facebook such as *CityVille,* is developing a series of games for mobile devices to expand its user base. It recently introduced its *Scramble with Friends* word game to join *Words with Friends* and *Hanging with Friends* in the mobile segment.

Use of mobile websites is on the rise in South Africa, with more users accessing the Internet from their mobile devices than from computers. Although the majority of cellphone users have played games on their phones, the vast majority did not pay to download games, playing only free games.

In contrast with broadband, mobile penetration in South Africa has reached saturation point, with penetration above 100% in 2011. As a result, the number of subscribers is expected to grow at a modest 1.7% on a compound annual basis through to 2016, reaching 57.0 million from 52.5 million in 2011.

Figure 12.3: Mobile telephone subscribers and mobile gaming users (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Growth of the mobile game market will thus depend more on increased penetration of smartphones and tablets. In 2011, an estimated 4.3% of mobile telephone subscribers paid to download mobile games. We project this share to increase to 6.0% by 2016. We expect the number of people who pay to download games to increase from 2.3 million in 2011 to 3.4 million in 2016, an 8.1% compound annual growth rate.

The average number of paid games downloaded annually will continue to decline as the number of players increases. This is typical with new technologies as the novelty factor decreases. Additionally, the early adopters are more likely to download games as they are the innovators, while those who become subscribers later on are more mainstream and thus likely to download fewer games.

In 2011, the average user downloaded 3.0 games compared with 3.4 in 2007. We expect this figure to continue to trend down as penetration increases. By 2016, the average mobile game user will download 2.5 paid games annually. In general the average number of downloads per user in South Africa is lower than in Western Europe because of the cost, which is relatively high for the average South African.

We expect the average price of mobile games to increase as the games become more sophisticated, with the average price rising from R38 in 2011 to R43 in 2016, a 2.5% increase compounded annually. Spending on mobile games will increase to R366 million by 2016, growing 6.9% compounded annually from the R262 registered in 2011.

Mobile games market

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Mobile telephone subscribers (millions)	42.3	45	46.44	50.37	52.5	54	55	56	56.5	57	
% change	*6.7*	*6.4*	*3.2*	*8.5*	*4.2*	*2.9*	*1.9*	*1.8*	*0.9*	*0.9*	*1.7*
Percent paying for wireless games (%)	2.5	3	3.5	4	4.3	4.7	5	5.4	5.7	6	
Number of users (millions)	1.1	1.4	1.6	2	2.3	2.5	2.8	3	3.2	3.4	
% change	*57.1*	*27.3*	*14.3*	*25*	*15*	*8.7*	*12*	*7.1*	*6.7*	*6.3*	*8.1*
Annual downloads per user	3.4	3.3	3.2	3.1	3	2.9	2.8	2.7	2.6	2.5	
% change	*-2.9*	*-2.9*	*-3.0*	*-3.1*	*-3.2*	*-3.3*	*-3.4*	*-3.6*	*-3.7*	*-3.8*	*-3.6*
Aggregate number of downloads (millions)	3.7	4.6	5.4	6.2	6.9	7.3	7.8	8.1	8.3	8.5	
% change	*48*	*24.3*	*17.4*	*14.8*	*11.3*	*5.8*	*6.8*	*3.8*	*2.5*	*2.4*	*4.3*
Average price (R)	34	35	36	37	38	39	40	41	42	43	
% change	*3*	*2.9*	*2.9*	*2.8*	*2.7*	*2.6*	*2.6*	*2.5*	*2.4*	*2.4*	*2.5*
Aggregate annual spending (R millions)	126	161	194	229	262	285	312	332	349	366	
% change	*51.8*	*27.8*	*20.5*	*18*	*14.4*	*8.8*	*9.5*	*6.4*	*5.1*	*4.9*	*6.9*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Top 10 mobile games downloaded in South Africa (2011)

Rank	Title	Genre	Release Year
1	The Sims 3: Ambitions	Simulation	2010
2	FIFA 11	Sport	2010
3	NFS Hot Pursuit	Racer	2010
4	FIFA 10 World Cup South Africa	Sport	2010
5	Pac Man	Action/Adventure	2008
6	Green Farm	Simulation	2011
7	FIFA 12	Sport	2011
8	ICC Cricket World Cup 2011	Sport	2011
9	Fast & Furious 5	Racer	2011
10	Tetris	Puzzle	2006

Source: Aquidneck Consulting

Most mobile gamers (56%) spend 5-15 minutes per gaming session on their mobile device. This is the least amount of time spent gaming on any device – unsurprising, since this device is basically used when consumers are in transit or on the way to doing something else – so they pick up quick intervals of play time.

Source: 'The evolution of video gaming and content consumption', Consumer intelligence series (PwC, 2012)

Advertising

Video game advertising provides advertisers with an opportunity to reach a demographic audience that has become increasingly elusive through traditional media. Young adults are spending relatively more time playing games than watching television.

Video games provide a unique level of engagement that is missing in other advertising media and as a result, gamers are generally more focused on what they are doing during gaming sessions than when exposed to other media forms.

A very high percentage of players therefore recall advertisements that they are exposed to during gaming sessions, which would ideally improve the success of such advertising campaigns.

Video games

The video games advertising market is composed of several segments, including static advertising, dynamic advertising, advertising on game portals and advergames.

Static advertising, which is hard-coded into a game when it is developed and cannot be changed later, was the first type of advertising to be implemented in the gaming environment. These advertisements were placed in games to give them a more realistic feeling and included items such as banners at the finish line in an auto racing game; billboards that appeared in the background of sporting events, or product placements in which a character is shown with a branded product. These advertisements have a long life span, essentially, as long as the game is played, and everyone who plays the game will effectively be exposed to the respective advertisement. However, these advertisements have a few shortcomings in that they need to be planned well in advance during the development of the game; once inserted they cannot be changed and the advertiser has no measure of how often the advertisements are seen.

The emergence of online games has enabled dynamic in-game advertising, which allows advertisements to be changed online to reflect changes in the market. For example, a billboard promoting a movie can be updated as new films hit the box office. This effectively provides games with a current feel and allows advertisements to be targeted geographically and to specific demographic groups who identify themselves when they register.

Messages can also be programmed for delivery at specific times of day. Since online games are attached to the Internet, it is possible to track the number of times a gamer is exposed to the advertisement and the amount of time that an advertisement appears on the screen. If a player does not spend enough time with an advertisement, it can be programmed to reappear later in the game.

Advergames are games that are developed specifically to promote brands, products, or organisations and can often be played free on corporate websites. These games are usually simple games that promote products in fun ways. Many different advertisers are experimenting with games to communicate their message.

Some of the most popular advergames in South Africa include *Ace Assault II,* promoting Lego toys, *Kart Fighter,* promoting Red Bull beverages and *Dance Star Party Time,* sponsored by Sony. These games are popular in South Africa and around the world.

Skillpodmedia, a South African company, introduced its Advergame Creator, which helps advertisers create their own custom games to promote their products and includes reports that provide feedback on the success of the campaigns, such as the number of times that a logo is clicked.

A major growth area is advertising that appears around games on social networks. For example, Facebook often places advertisements in the borders around social games.

Advertisers can reward gamers for looking at advertisements by providing them with additional game content free. In this way, the advertisements do not interfere with the game, but rather are a means for the gamer to receive additional content that they would normally pay for. This approach is used for games in which advertising would not be appropriate such as those set in medieval fantasy worlds.

The migration of many MMOGs from a subscription model to a free-to- play model has encouraged the gaming community to embrace advertising as an additional revenue stream. Additionally, the growth of mobile gaming has introduced another platform for advertisers.

Greystripe, the world's leading independent mobile advertising network, is bringing advertising-funded games to the iOS and Android platforms. Many mobile applications have two versions: a paid download and a free advertiser-supported one. *Angry Birds,* which was a hugely popular game as a paid download, gained even more fans when a free version was made available.

In April 2012, Microsoft announced that it was introducing television-style 15-30 second advertisements to a wide range of Xbox Live applications. Microsoft will thus be offering the impact of television advertisements with the interactivity of a digital environment to reach the gaming audience.

Studies have shown that gamers actually appreciate in-game advertising if it does not interfere with game play and provides a more realistic game environment. Gamers develop a positive attitude toward the advertised products and buy more of them. Conversely, if the advertised products are obtrusive and interfere with the gaming experience, the gamers adopt negative attitudes toward those products.

It is therefore very important to place the advertisements in a manner that does not interfere with game play. The effectiveness of the advertisements can be improved by integrating them into the playing of the game. For example, a character may drink a certain brand of soft drink, drive a certain model car, or talk on a specific mobile phone.

Display advertisements, advergames and advertising on web-based game portals are the major segments of the video game advertising market. Dynamic in-game advertising has, however, not grown as quickly as many had anticipated, as indicated by the closing of Massive Inc in 2010, a pioneer in the industry that had been acquired by Microsoft in 2006.

Advertising is still a very small segment of the video games market, comprising only R23 million in 2011. However, we expect advertising revenues to grow by almost two-thirds by 2016, reaching R38 million, a 10.6% compound annual increase.

Video game advertising market

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Annual spending (R millions)	10	15	17	20	23	26	29	32	35	38	
% change	*233.3*	*50.0*	*13.3*	*17.6*	*15.0*	*13.0*	*11.5*	*10.3*	*9.4*	*8.6*	*10.6*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Cloud computing

Cloud computing is a new service, which instead of offering games for purchase and download online, provides an on-demand service that maintains the processing of the games on its servers and enables users to play the games via cloud computing. This levels the playing field for all players regardless of the computer they're playing on, and as a result, gamers using computers with low-end processing capabilities can experience the games in the same way as those using high-end machines, since the actual game processing is taking place on the service providers servers and not on the gamers' hardware.

Games are treated as a service, with the business model being either a subscription or a rental that targets non-traditional demographics, a growing trend in the market. The service is not expected to replace a high-end PC or console for hardcore gamers, but it will add more casual gamers to the market.

Video games

Other advantages of the service are that it cuts down on piracy because the games are never actually downloaded and it enables the game developers to update their games more easily. By contrast, game download services provide digital distribution of a game, but require gamers to have powerful computers and significant hard drive capacity to save the games as well as the time to download them.

Once it is fully fledged in the market, cloud computing is expected to have an impact on many segments of the market, including having a negative effect on the retail sales of console games and PC games, while having a positive effect on the subscription-based online game segment.

Since cloud users save game data and history in the cloud, this will make the service stickier. Cloud services will also have a positive impact on advertising because ads can be easily updated.

In South Africa, cloud gaming does face significant challenges such as the fact that cloud gaming services require a server to be placed relatively close to where the gaming activity happens, and as there are not a sufficient number of gamers in South Africa at the moment, we do not expect service providers to install cloud computing servers in South Africa yet.

In spite of increased broadband penetration, South Africa also still has relatively slow Internet connection speeds, which are not conducive to cloud gaming as it requires a high-speed, reliable Internet connection.

Critical legal issues for the video gaming market

Digital gaming businesses deal with the challenges of intellectual property, licensing, user-generated content, free speech and online ownership, both in the virtual and real worlds.

Legal issues include:

- **Censorship:** The Films and Publications Act protects children from exposure to 'disturbing and harmful materials and premature exposure to adult experiences'.
- **Constitutional protection of freedom of expression:** This right protects the media, artistic creativity and the freedom to impart and receive ideas. Restrictions on game developers' freedom of expression must be seen in the light of the limitations provided in Section 16. Speech that constitutes 'incitement of imminent violence; or advocacy of hatred and incitement to cause harm' is not protected.
- **Consumer rights:** Developers and marketers must take note of the provisions of the Consumer Protection Act (CPA) and the Electronic Communications and Transactions Act, particularly regarding consumer rights in respect of marketing to children, subscriptions, giveaways, competitions, and online marketing. The CPA provides redress mechanisms for consumers. Consumer rights include the right to disclosure, equality, privacy, choice, fair and responsible marketing, fair value, quality and safety, and to reasonable terms and conditions.

  In-game advertisers will need to heed the provisions of the CPA, particularly with respect to fair and responsible marketing, promotional competitions and the supply of unsolicited goods and services.

  Developers should be aware that upgrades to products must not interfere with the initial functionality of the purchased product and the consumer's rights to access the product.
- **Copyright infringement:** Both country-specific copyright and patent law and international copyright law under the Berne Convention protect copying and reproducing of subject matter that is protected. Copyright infringements and piracy have long provided challenges to the video gaming industry. Plagiarism in the video gaming industry often goes beyond the taking of ideas to include source code, artwork, narratives, characters, game modifications, sounds and foundational elements.

  Personal copying of a game for which the consumer owns a licence is not allowed. Games are considered as 'cinematograhic films', not software, under South African law. This makes copying for personal use, even under the fair dealing exceptions, an unauthorised act.
- **Electronic communications and transactions:** Any activity that involves unauthorised access and/or modification will be deemed illegal.
- **Parody:** Games that parody celebrities (pop stars, sports stars, politicians) rely on the right to freedom of speech and the use of the celebrity for derivative purposes. Parody arguments will need to be defended against the publicity rights of those depicted.
- **Privacy:** Applications must disclose how they handle personal data. Information gathered from applications downloaded by children is particularly sensitive. Companies must have privacy policies in place that ensure personal information is secure.
- **Terms of use agreements:** Comprehensive terms of use and licensing agreements must provide for multiple distribution channels for games.
- **Trademarks:** Developers are advised to create strong trademarks that can effectively protect their brands. These rights in the virtual world are challenging brand owners to extend their rights to protect 'authentic' digital replicas and to stop unauthorised digital replicas. Physical brands are advertised in the virtual world of Second Life. The rights to virtual products created virtually within Second Life also require protection.
- **Virtual currency:** Game developers increasingly need to consider the financial and legal implications of creating a system of virtual currency that can be redeemed for real currency.
- **Virtual identities:** Players can be held liable for harmful activities conducted by their virtual identities.

Denise Fouché - Technology Legal Advisory Services, PwC

Gaming consumer behaviour

PwC in the United States has an ongoing consumer research programme, through which we gain directional insights on consumer attitudes and behaviours in the rapidly changing media landscape. Recent research focussed on exploring the habits of gamers across several gaming devices and consumers' interest in consuming traditional video content over video game consoles and other gaming distribution methods. The key findings are set out below.

Today's consumers enjoy having an exciting world of interactive entertainment at their fingertips. From playing games online, to becoming heavy users of social games on their tablets and smartphones, gamers now spend more time playing games than streaming movies or television shows to their computer, phone, and game consoles.

Survey and focus group respondents indicated that they spend a relatively even percentage of their gaming time on their computers, smartphones and consoles. They have, however, provided a clear overview of the inherent benefits of playing games on specific devices.

It appears that what consumers want in a gaming experience varies depending on the device:

- **Consoles** are best for when they're playing games at home or online with friends. Consumers treat this as more of a social event and described the experience as 'more theatrical'. More than 70% of console-dominant survey respondents use their console for non-gaming activities 1-7 hours or more per week. This includes streaming movies and TV shows to their game console for an average of about 2 hours per week. Most console-dominant gamers indicated that they spend 60-90 minutes per gaming session.
- **Computers** are best for playing games when consumers want a longer game session, as they are considered to offer more flexibility, better gaming options and better graphics – and for some, yield a better experience. PC player-dominant respondents indicated that they play video games on social sites most often. Most PC-dominant gamers spend 30-60 minutes per gaming session. Roughly 57% of PC player-dominant respondents play multi-player games online, where they typically spend an average of four days per week gaming or three hours per day in this mode.
- **Smartphones** are a convenient way to game, especially when consumers are on the go and want to kill time. They are suitable for anytime and anywhere because consumers always have their phone with them. But gaming on phones is not seen as the best way to enhance 'gamification' and consumers indicated that they are not as willing to spend on mobile gaming as they would be to spend on console or computer gaming. Focus group respondents reiterated the popularity of social games, citing them as the games they play most often on their mobile devices. Roughly 56% of mobile gamers spend 5-15 minutes per gaming session on their mobile device.
- **Tablets** are also good for gaming on the go. They are also considered a better mobile gaming device than a mobile phone – especially when playing longer games, due to the better screen size and aesthetics.

In addition to providing insight into their current behaviours, consumers they have also indicated what they are hoping for in the future:

- Gamers are looking for new experiences with old games. Among both younger and older age groups, there is an interest in experiencing a sense of the 'old-school' games on today's devices.
- Gamers want to play multi-screen games where the experience stays consistent no matter which device is used. Another benefit would be the ability to stop and start a game without consequences (for time-based/asynchronous-play games).
- Gamers are looking for more immersive tablet screens to enhance their gaming experience.
- The idea of streaming video games to their television sets has intrigued most gamers, as they indicated the benefit of increased social game interaction, as well as increased portability and flexibility that would allow gamers to play the coolest, best console-type games on any device, as well as the ability to 'pick up where you left off'.

Impact on businesses in the gaming industry:

- It's all about delivering a consistent experience across platforms for video and video games content. As gaming migrates rapidly from a 'product' to a 'service', offering a superior in-game and across device consumer experience is becoming the primary differentiator.
- Because many consumers use their console for more than just gaming, marketing the diversity of console use may help offset the cost of the investment for the consumer. Consumers are interested in using their consoles to consume video content and using the console as a media hub is therefore an attractive proposition. Additionally, companies can leverage heavy console users to help monetise other forms of content (e.g. video). By extending gaming experiences across multiple platforms, consumers can become engaged in ways that better integrate into their daily lifestyles and workstyles. Doing so provides businesses with more opportunities to monetise their services and enhance brand intimacy.
- Companies may be able to connect with consumers and drive sales by marketing the benefits of accessing and saving games across devices. Games need to be immersive and engaging to keep players' attention. The more immersed they are, the more valuable the experience is – and the more they are willing to pay to continue playing.
- Consumers are interested in and willing to pay for access to a subscription service or gaming library. Marketing should focus on the benefits of extending the optimal console game experience to consumers' televisions, as well as the convenience of not being attached to the console. This provides opportunities for game publishers with large catalogues as well other digital provisioning services that can effectively aggregate compelling game content.
- Because mobile games are perceived to be less valuable compared to other gaming modes, it may be challenging for companies to persuade mobile gamers to spend more than they currently do unless the experience and involvement is elevated.
- Appealing to nostalgia may persuade some consumers to play and spend more. Because many older games are still popular and enjoyed, businesses have an opportunity to drive sales by reformatting those games for today's more technologically advanced devices.

Source: 'The evolution of video gaming and content consumption', Consumer intelligence series (PwC, 2012)

I would like to see where I can play a game on my PC or console and that same experience stays consistent throughout, whichever device I'm on. Now mobile isn't going to have all the games out there that you can do, but there's always these little side adjectives and things that you can do on your phone and that experience would convert over to your game console or on your PC… all that experience or content that you gathered would pour over.

– Consumer, 18-34

Source: 'The evolution of video gaming and content consumption', Consumer intelligence series (PwC, 2012) Gamers are hoping to see more virtual reality capabilities to make the experience more sensory and experiential (such as motion sensors).

Global trends in the video games market

Outlook

- Total global spending on video games will expand from $58.7 billion in 2011 to $83.0 billion in 2016, growing at a 7.2% compound annual rate.
- Global console games, the largest category at $27.5 billion in 2011, will expand at a 2.1% compound annual rate to $30.5 billion in 2016.
- PC games will continue to decline, decreasing at a 1.9% rate compounded annually to $3.1 billion from $3.5 billion in 2011.
- Online games and wireless games will be the fastest-growing end-user categories, with compound annual increases of 13.3% and 10.1%, respectively. Online games will total $31.4 billion in 2016, and wireless games, $14.2 billion.
- Online games will replace console games as the largest gaming category in 2016.
- Video game advertising will increase from $2.2 billion in 2011 to $3.7 billion in 2016, growing by 11.2% compounded annually.

Key drivers

- The shift to online and wireless games will hurt the console game market in the near term. However, new games being marketed for the current generation of consoles – the Wii, Xbox 360 and PlayStation 3 – with improved motion-sensory technology, which changes the game-play experience and brings in a wider range of players, will limit declines.
- The Wii U is the only next-generation console that has been officially announced, but next-generation consoles from other manufacturers are likely to be introduced over the forecast period. These launches will spur sales of games that take advantage of the new technologies, although a dip in sales is to be expected during the generational transition period for static consoles. The latest handheld devices – the Nintendo 3DS and PlayStation Vita, which are primarily gaming consoles – will also continue supporting the market for console/handheld games.
- Deteriorating retail sales of games are hurting retail stores. If this pattern causes some retailers to close, it will further exacerbate the decline in the market for console and PC games.
- Increased broadband penetration, and with it the growing digital distribution of content, will drive the growth of the online market. The migration of many massively multiplayer online games from their subscription models to a free-to-play business model is increasing the number of players worldwide.
- At the same time, the growth of microtransactions is providing a boom for the industry. Casual games and social network games are important components of the online market, helping expand the demographic base and stimulate spending. Some developers are shifting their attention from console games to concentrate more on online games.
- The rising take-up of smartphones and tablets, such as the iPad, with improved graphic capabilities, is enabling developers to produce more-advanced wireless games and will drive demand for those games. Smartphones and tablets, aided by an intuitive-touch interface, are fast becoming the devices of choice for casual game players.

- At the same time, new application stores that make the purchase of games more user-friendly will increase the number of gamers willing to purchase games. The growth of advanced wireless networks, with their faster speeds, will enable wireless games to approach the quality of console games.
- The market for PC games will continue to deteriorate as consumers turn their attention to newer technologies. Piracy of PC games, which is prevalent in certain markets, has also hampered the growth of the segment. The growth of MMOGs, which usually require retail purchase of a PC game, continues to support the retail PC game market.
- Video game advertising is emerging as an additional revenue stream. The growth of social network games and free games is driving an increase in video game advertising.

Global video game market by component (US$ millions)

	2007	2008	2009	2010	2011p	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Console games	26 964	32 006	30 106	28 946	27 493	27 106	26 861	27 703	28 899	30 477	
% change	*28.4*	*18.7*	*-5.9*	*-3.9*	*-5.0*	*-1.4*	*-0.9*	*3.1*	*4.3*	*5.5*	*2.1*
Online games	7 897	10 829	12 921	15 019	16 796	19 475	22 225	25 071	28 176	31 394	
% change	*37.4*	*37.1*	*19.3*	*16.2*	*11.8*	*16.0*	*14.1*	*12.8*	*12.4*	*11.4*	*13.3*
Wireless games	4 176	5 729	6 748	7 815	8 789	9 901	11 008	12 114	13 194	14 249	
% change	*25.1*	*37.2*	*17.8*	*15.8*	*12.5*	*12.7*	*11.2*	*10.0*	*8.9*	*8.0*	*10.1*
PC games	4 346	4 055	3 798	3 777	3 462	3 375	3 312	3 252	3 195	3 141	
% change	*-3.1*	*-6.7*	*-6.3*	*-0.6*	*-8.3*	*-2.5*	*-1.9*	*-1.8*	*-1.8*	*-1.7*	*-1.9*
Total end-user spending	43 383	52 619	53 573	55 557	56 540	59 857	63 406	68 140	73 464	79 261	
% change	*25.5*	*21.3*	*1.8*	*3.7*	*1.8*	*5.9*	*5.9*	*7.5*	*7.8*	*7.9*	*7.0*
Advertising	1 066	1 403	1 628	1 902	2 183	2 492	2 800	3 103	3 414	3 715	
% change	*55.2*	*31.6*	*16.0*	*16.8*	*14.8*	*14.2*	*12.4*	*10.8*	*10.0*	*8.8*	*11.2*
Total	**44 449**	**54 022**	**55 201**	**57 459**	**58 723**	**62 349**	**66 206**	**71 243**	**76 878**	**82 976**	
% change	***26.1***	***21.5***	***2.2***	***4.1***	***2.2***	***6.2***	***6.2***	***7.6***	***7.9***	***7.9***	***7.2***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, Global entertainment and media outlook 2012-2016 (PwC, 2012)

Chapter 13

Sports

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The sports market consists of gate/ticket revenues for live sporting events, media rights fees paid to show sports on television stations, sponsorships (which include payments to have a product associated with a team or event as well as naming rights) and merchandising revenues (which includes the selling of licensed products with team or league logos and/or other intellectual property). Overall spending also includes sports betting, which consists of the house win or the revenues retained by sports books.

Outlook

… at a glance

Sports total spending (R millions)	2011	2016	2012-16 CAGR(%)
	11 160	15 285	6.5

	2011	2016	2012-16 CAGR (%)
Gate revenues	3 550	4 050	2.7
Media rights	1 775	3 350	13.5
Sponsorships	3 600	5 300	8.0
Merchandising	535	610	2.7
Sports betting	1 700	1 975	3.0
Total sports spending	**11 160**	**15 285**	**6.5**

…in brief

- Despite troubled economic times, sport has continued to thrive, with major events being more popular than ever. The 2012 London Olympics staged recently as well as the 2014 FIFA World Cup to be hosted in Brazil, will boost revenues over the forecast period. Lower-tier events will have to work harder to attract supporters.
- Closer convergence is occurring between the sport and entertainment industries, as both sectors continue to rise to the challenges of new digital technologies.
- Sponsorships and media rights emerge as the main engines of growth, with gate revenues under pressure. There will need to be much more focus on developing sophisticated measurement techniques to demonstrate the returns on this investment.
- Sponsorship is the largest contributor to PSL revenue, with Absa as the PSL's title sponsor. Vodacom recently concluded its revised sponsorship of Orlando Pirates and Kaizer Chiefs, amounting to R1 billion over five years.
- Understanding how the media habits of sport consumers are changing is important for all commercial stakeholders in sport – broadcasters and content buyers, sports federations, clubs, sponsors and brands.
- Total spending on sports is projected to grow at a compound annual growth rate of 6.5% over the forecast period, from R11.2 billion in 2011 to R15.3 billion in 2016.

Overview

Revenues associated with the FIFA World Cup in 2010 left the market in 2011, leading to a 42.6% decrease in sports spending, down to R9.5 billion. When sports betting is included, the market totalled R11.2 billion, down 39.7% from 2010.

While the FIFA World Cup provided a major one-off boost to the market in 2010, and a major one-off decline in 2011, the underlying sports market in South Africa is healthy as media rights and sponsorships continue to grow. Furthermore, the legacy and infrastructure that the FIFA World Cup left behind certainly provides South Africa with opportunity.

The Premier Soccer League (PSL) has a media package that puts South Africa in the top 10 media rights earners in the world and is the leading league in Africa. A new PSL deal that goes into effect in 2013 will further boost media rights.

The sponsorship market is also thriving, as companies look to sports to forge relationships with their customers. Vodacom renewed its sponsorship deal with Kaizer Chiefs and Orlando Pirates, effective from mid 2012. The deal, the largest of its kind in South African sports, is worth approximately R1 billion over five years.

Even the gate market, which is relatively weak in South Africa, is expected to expand, benefiting from added teams in Super Rugby and from international events that may be shifted to South Africa because it now has the infrastructure to host such events.

We project the sports market to grow at an estimated 7.1% compound annual growth rate to R13.3 billion in 2016. When sports betting is included, total spending will reach R15.3 billion in 2016, a 6.5% percent compound annual increase from 2011.

Sports market (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Gate revenues	3 500	3 650	3 925	6 600	3 550	3 595	3 710	3 810	3 920	4 050	
% change	*4.5*	*4.3*	*7.5*	*68.2*	*-46.2*	*1.3*	*3.2*	*2.7*	*2.9*	*3.3*	*2.7*
Media rights	1 325	1 475	1 500	3 500	1 775	2 100	2 430	3 000	2 850	3 350	
% change	*6.0*	*11.3*	*1.7*	*133.3*	*-49.3*	*18.3*	*15.7*	*23.5*	*-5.0*	*17.5*	*13.5*
Sponsorships	1 870	2 150	2 400	5 400	3 600	4 080	4 210	4 870	4 680	5 300	
% change	*3.9*	*15.0*	*11.6*	*125.0*	*-33.3*	*13.3*	*3.2*	*15.7*	*-3.9*	*13.2*	*8.0*
Merchandising	525	550	580	990	535	540	555	570	590	610	
% change	*5.0*	*4.8*	*5.5*	*70.7*	*-46.0*	*0.9*	*2.8*	*2.7*	*3.5*	*3.4*	*2.7*
Sports market total	7 220	7 825	8 405	16 490	9 460	10 315	10 905	12 250	12 040	13 310	
% change	*4.6*	*8.4*	*7.4*	*96.2*	*-42.6*	*9.0*	*5.7*	*12.3*	*-1.7*	*10.5*	*7.1*
Sports betting	1 860	1 640	1 610	2 005	1 700	1 740	1 790	2 150	1 900	1 975	
% change	*27.4*	*-11.8*	*-1.8*	*24.5*	*-15.2*	*2.4*	*2.9*	*20.1*	*-11.6*	*3.9*	*3.0*
Total sports spending	**9 080**	**9 465**	**10 015**	**18 495**	**11 160**	**12 055**	**12 695**	**14 400**	**13 940**	**15 285**	
% change	*8.6*	*4.2*	*5.8*	*84.7*	*-39.7*	*8.0*	*5.3*	*13.4*	*-3.2*	*9.6*	*6.5*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 13.1: Total sports revenue (R millions)

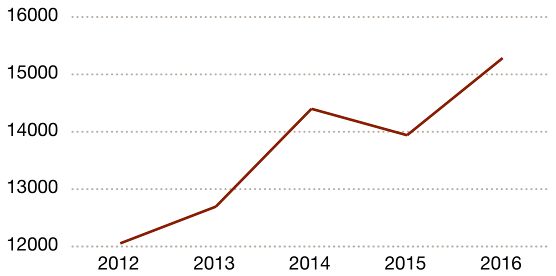


Figure 13.2: Sports revenue per category (R millions)

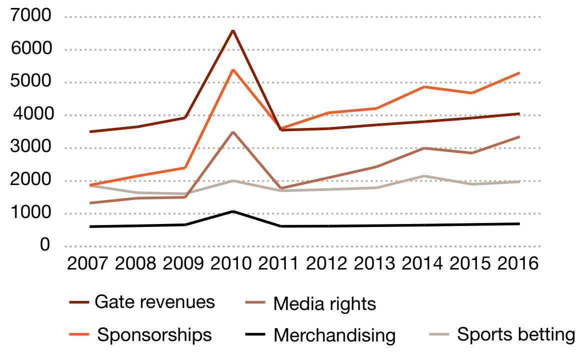
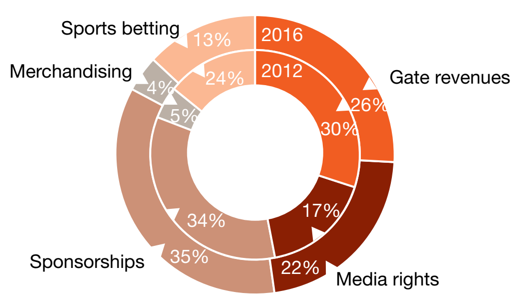


Figure 13.3: Percentage sports revenue per category 2012 vs 2016



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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The global sports market

Across the world, we're seeing closer convergence between the sport and entertainment industries, as both sectors continue to rise to the challenges of new digital technologies, which shape the way we spend our leisure time. At the same time, sponsorships and media rights are emerging as the main engines of growth, with gate revenues under pressure. There will need to be much more focus on developing sophisticated measurement techniques to demonstrate the returns on this investment.

Despite the recent troubled economic times, sport has continued to thrive, with major events appearing to become more popular than ever. However, lower-tier events have to work harder to attract support. We are also seeing more focus on providing value for money, for example by providing added entertainment through offers such as post-event concerts.

The popularity of major events is supported by ongoing improvements in broadcasting and technology, which allow for higher-quality coverage than ever before. At the same time, TV companies are embracing social media to engage with fans and deliver a greater intensity of experience. Meanwhile, sponsors remain eager to contribute to – and be associated with — sports events and teams as part of their marketing mix and are using sophisticated data mining techniques to gain increasing levels of intelligence and insight into their target markets.

Within this generally positive outlook, challenges remain. While stadia, circuits and arenas are full for the big events, spectators face rising ticket prices – and corporate clients and sponsors face wider economic and regulatory concerns of their own. Meanwhile, broadcasters continue to wrestle with finding the best ways to extract value from the new media. As sports search for new ways to keep on growing their revenues, player costs — the single largest expense in most sports – continue to increase rapidly, putting pressure on the bottom line.

Sports organisations are finding it increasingly difficult to balance the needs of all their stakeholders – it used to be all about the fan who would simply vote with their feet, but now the fan has a louder voice via social media. At the same time a corporate world of sponsors and broadcasters, can shape the fans' experience more than ever before.

For the sponsor, all the benefits that an association with sport can have, can be destroyed by poor behaviour on the part of players and administrators, or by corruption, as in the recent spot-fixing scandal involving Pakistani cricketers and the governance saga surrounding Cricket SA.

So where do sports go from here? Here are a few pointers to the future that our industry specialists around the world are seeing:

- As sponsors allocate increasing amounts of money to sport, there will be intensifying pressure for far more sophisticated measurement techniques to demonstrate the returns on that investment.
- Sporting bodies and associations are increasingly seeking to introduce new regulations in an attempt to control the cost base and levels of debt in their sports and leave a sustainable business model for future generations.
- All sporting bodies are walking a tightrope, as they attempt to balance increased commercial demands on their sports, with the often conflicting need to maintain the integrity and unpredictability that make sporting competitions so exciting and appealing to their supporters.

Overall, as our projections show, sports revenues in South Africa are on an upward path through to 2016, following the reduction in 2011, which reflected the expected post FIFA World Cup dip. So the cake is growing. The real competition is about who can deliver the most entertaining and compelling offerings that will claim the biggest slices.

Source: 'Changing the game: Outlook for the global sports market to 2015' (PwC, 2011)

Sports

Going multi-platform

Details of sporting events, athletes and other individuals involved in sports fill the pages of newspapers, magazines, books and Internet sites, as well as countless hours of radio and television.

While broadcasting still generates the lion's share of income from media rights, social media is increasingly the engine driving interaction, hype and interest.

Engagement through the Internet and mobile phones can help to bring people to live matches and encourage them to purchase merchandise. Rights owners can enhance and expand the fans' experience using different media platforms and social networking in an integrated way, adding further value for themselves and the user.

Historically, entertainment companies have led the way in social media, using different platforms according to the content offer. Video content might be seen on YouTube, while Twitter is being used more by celebrities. Interestingly, multi-platform approaches for sports content have not replaced TV, but are complementary to it.

Many TV companies have invested in interactive portals, enabling them to combine online TV screening with social media and to provide an online social and information environment surrounding their media rights and strengthening their value.

Recent research by Digital Clarity indicates that 80% of under-25s use a mobile device to communicate with friends while they watch TV and Twitter reports big spikes in traffic during major sports programmes.

The Euro 2012 smashed the tweets-per-second record (a measure Twitter uses to track how many tweets are sent every second), as soccer fans generated more than 15 000 tweets a second during the Euro 2012 final. The previous record was set during Super Bowl XLVI with roughly 10 000 tweets generated each second.

This blend of TV and online effectively gives the viewer a virtual living room in which they can watch sport with friends even when physically sitting alone, creating a higher intensity of experience.

Gate revenues

Gate revenues were inflated in 2010 by the FIFA World Cup, which attracted 3.18 million people in total attendance. The absence of that tournament led to a 46.2% decrease in gate revenues in 2011 to R3.6 billion.

The underlying gate revenue market is weak in South Africa. PSL gate revenues continued to fall in 2011, offset to some degree by increased revenues from Super Rugby.

The stadiums put in place for the FIFA World Cup are helping South Africa attract international events. South Africa will host the 2013 Africa Cup of Nations, replacing Libya due to concerns over security. This will be the first time since 1996 that the tournament will be held in South Africa. The host cities for this event will be Port Elizabeth, Durban, Rustenburg and Nelspruit, while Johannesburg has been selected to host the opening and closing matches and related ceremonies.

The 2014 African Nations Championship, originally scheduled to take place in Libya, has also been moved to South Africa. The host cities of this event will be Polokwane, Kimberley, Bloemfontein and Cape Town. The African Nations Championship is an African football tournament, which was first played in 2009 and exclusively features players who are active in their country's national championship. Expatriate players, regardless of where they play, do not qualify to take part in the African Nations Championship. The 2017 African Nations Championship, previously scheduled for South Africa, has been shifted to Libya.

Super Rugby added the Melbourne Rebels in Australia to the tournament in 2011. The additional participant and a new format increased the number of matches to 125 from 94, which increased gate revenues. The governing body of Super Rugby, SANZAR, is also considering adding clubs from the United States, Argentina and Japan in 2016, which would further increase gate revenues.

Rugby is more popular in South Africa than in Australia, while New Zealand is a much smaller country. Consequently, except for media rights, which are divided equally, South Africa generates more revenues than the other countries, totalling R505 million in 2011 compared to R443 million in Australia and R313 million in New Zealand.

In August 2012, SARU announced that the Southern Kings (originating from the Eastern Cape Province), would play in the 2013 Super Rugby competition, with the Lions being relegated for at least one year. The team at the bottom of the scoreboard in 2013's competition will play in a two-legged promotion and relegation series against the Lions.

This is expected to have a significant impact on sponsorship for the Lions, as well as gate revenues at Ellis Park, which are expected to decline as a result of the reduction in the number of games being played at the stadium. At the same time, the Southern Kings will likely attract lucrative new sponsorship deals with gate revenues at the Nelson Mandela Bay Stadium expected to increase as some Super Rugby will likely be played at the stadium.

The fact that the gate revenue market is seeing only modest growth levels raises the question of where growth will come from in the future. A source of growth is expected to be shorter format events. The aim is to produce a version of the sport that is faster, less time-consuming and more exciting, so helping it to attract a new audience – such as the 18-25 and female demographic, and/or gain popularity in new territories.

Cricket has had a highly-successful venture into T20 cricket, where they have managed to accomplish these goals. This has translated into increased attendance at cricket matches in the T20 format, both at local and international matches.

In other developments, Bernie Ecclestone, the president and CEO of Formula One Management, has confirmed a bid for Formula One racing to return to South Africa as early as 2014. A bid has been launched for the race to be hosted in Cape Town in and around the Cape Town stadium. A number of challenges would need to be overcome in order to host the race there, including convincing the residents of Green Point to embrace the noise, smell and emissions that come with Formula One racing. Should this materialise, this will provide a boost to the South African gate revenue market and sports market as a whole with more than 300 000 possible attendants for each race weekend.

In golf, South Africa's Sunshine Tour will host the Tournament of Hope, which has prize money of more than R60 million. The South African event, which tees off on 28 November 2013, is intended to raise awareness of HIV/Aids and is expected to be hosted in South Africa for at least the next five years.

Social media, which is very popular in South Africa, is being used to promote interest in sports. Cricket has a large and rapidly growing following on Facebook and Twitter and it is hoped that interest will translate into attendance at matches.

We expect the additional events to provide a modest boost to gate revenues during the next five years. Gate revenues will rise to a projected R4.1 billion in 2016, a 2.7% compound annual increase from 2011.

Gate revenues (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Gate revenues	3 500	3 650	3 925	6 600	3 550	3 595	3 710	3 810	3 920	4 050	
% change	*4.5*	*4.3*	*7.5*	*68.2*	*-46.2*	*1.3*	*3.2*	*2.7*	*2.9*	*3.3*	*2.7*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Sponsorship revenues (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Sponsorship revenues	1 870	2 150	2 400	5 400	3 600	4 080	4 210	4 870	4 680	5 300	
% change	*3.9*	*15.0*	*11.6*	*125.0*	*-33.3*	*13.3*	*3.2*	*15.7*	*-3.9*	*13.2*	*8.0*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

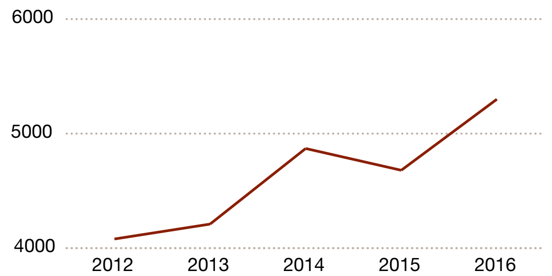
Sponsorships

The relationship between investing in sponsorship and business performance is one that is often questioned by sponsoring companies. Advertising in sports and sponsorships have come under greater scrutiny by the marketing departments of many South African companies.

Advertising opportunities in the sports arena include the sponsorship of sporting events, stadium naming rights, sponsorship of teams and eminent athletes. Sports also drives advertising in the form of adverts displayed at sporting events, during live television broadcasts and through digital media.

Sport has certainly created an emotional link and attachment to its viewers and fans. The target audience is certainly more engaged, emotionally and otherwise, thus linking your brand to a sport, a team an athlete or even an event could be more productive than traditional initiatives.

Figure 13.4: Sponsorship revenues (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The sports sponsorship market in South Africa has maintained momentum as a number of new deals are spurring the sponsorship market.

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Sports

Motivations for sponsorship

While the rationale behind companies deciding to invest in sports sponsorships varies widely, what can be said is that the key motivation is no longer just about maximising brand visibility and awareness, but is also about gaining deeper and more emotional engagement with fans and staff, and even managing the perception of the sponsoring company.

Fast food chain McDonalds — a sponsor of the Olympics since 1976 and FIFA World Cups since 1994 — signed up Olympic US multiple medallist Dara Torres to front its campaign in the run-up to the 2012 Olympics, promoting exercise and balanced eating.

Banks and insurance firms tend to use sports sponsorships to generate global recognition. For example, insurance company Aon sponsors Manchester United's shirts, and the UBS Chinese Grand Prix was held in Shanghai in April 2011. Sberbank of Russia's decision to become a General Partner of the Sochi 2014 Winter Olympics was motivated in large part by a desire to innovate and raise its international profile.

Lifestyle products also use sport — along with music, cinema, theatre, art and other media — to access consumers and to enhance and be part of the experience. Telecommunications company Orange, for example, signed up with UEFA to sponsor the Euro 2012 football tournament. More generally, telecommunications companies are now heavier sponsors of sport than a decade ago, including Vodafone's sponsorship of the Australian cricket team and the Russian telecommunications company MegaFon's active sponsorship of domestic Russian sports leagues, the World Universiade in 2013 in Kazan and the Sochi 2014 Winter Olympics and Paralympics.

An increasingly key element of the rationale both for advertisers and sponsors is integration of social media in their sports involvement. Italian domestic appliance maker Indesit has launched Football.Indesit.com as the community hub for sponsorship of four European football teams, including AC Milan and Arsenal. Building on a social networking base, companies can use data mining to help them develop content that is relevant to each platform and each consumer segment.

Source: 'Changing the game: Outlook for the global sports market to 2015' (PwC, 2011)

Soccer

Puma has become a major player with a new seven-year kit deal with Bafana Bafana, replacing Adidas, which had been the sponsor for the previous 12 years. Puma is now the official technical supplier to the South African Football Association (SAFA) for the 2014 FIFA World Cup in Brazil and the 2018 event in Russia. Puma will also sponsor South Africa for the upcoming Africa Cup of Nations. The deal is valued at approximately R14 million per annum. In addition to the Bafana Bafana partnership, Puma has a number of deals with individual clubs and athletes.

Sponsorship is the largest contributor to PSL revenue. Absa is the title sponsor of the PSL, and Vodacom is a major team sponsor. In addition to the Vodacom sponsorships of Orlando Pirates and Kaizer Chiefs, with a new five-year deal worth approximately R1 billion, Vodacom also sponsors Bloemfontein Celtic and the national men's (Bafana Bafana) and women's (Banyana Banyana) teams. MTN, Telkom and Nedbank are title sponsors for popular knockout tournaments.

Ajax Cape Town announced sports and entertainment solutions company Sail as the exclusive commercial partner to the club in the second half of 2011 – as well as unveiling its new kit for the upcoming season. Sail aims to strengthen the Ajax Cape Town brand through its customer relationship management (CRM) programmes, ticketing solutions as well as LED digital advertising platforms – all of which have been implemented at several major stadiums throughout South Africa.

Rugby

During 2012, the South African Rugby Union (SARU) announced a new three-year sponsorship deal with CIB Insurance. In other SARU deals, Unilever became an associate sponsor of the Springboks, Klipdrift, the official brandy supplier to Springboks and the exclusive brandy provider for SARU functions, the ball and equipment sponsorship with Gilbert was extended, and BMW became the official vehicle sponsor of the Springboks, paying approximately R7 million annually for a five-year period. In the BMW deal, players will be provided vehicles on match days and will wear the BMW brand on their shorts.

In addition, several new rugby club sponsorships include Redefine Properties' 2012 deal with the current Currie Cup champions, the Golden Lions, which sees the company's logo featured on shirts in the Currie Cup and Super Rugby competitions. Absa renewed their title sponsorship of the Absa Currie Cup and Puma signed a new kit deal with the Vodacom Blue Bulls, including the Blue Bulls women's and youth teams.

Athlete endorsements have become increasingly popular as companies look to differentiate themselves through name recognition with popular players. Recent deals in rugby include Schalk Burger's OUTsurance deal and Tendai Mtawarira's deal with BIC. Francois Hougaard has also secured a number of significant sponsorships during the past year.

Cricket

Sponsorships also play a major role in cricket. In early 2012, Cricket South Africa (CSA) announced that MiWay, the auto insurance company, will become the title sponsor of the CSA T20 Challenge, which will now be known as the MiWay T20 Challenge. In early 2012, Puma extended its relationship with AB de Villiers for an additional four years. Beginning in 2012, de Villiers will wear the Evo Speed boot.

Sports

Other

In other sports, Mr Price and Investec became the official kit sponsors of the South African Hockey Association's (SAHA) men's and women's national teams respectively. In golf, European Tour player George Coetzee has a deal with shipping and logistics group GAC to wear the logo in tournaments and to make appearances at events.

South Africa's medal winners at the London 2012 Olympics have already attracted some lucrative sponsorship deals. Gold and silver medal winner in swimming, Chad Le Clos, received sponsorships from Deutsche Bank, Virgin Active, Arena, TransAct, Hoopers Volkswagen and fitness supplement suppliers, Muscle Science. According to Chad's agent, Ryk Neethling, Chad can expect to earn between R2 and R4 million a year in sponsorships. Cameron van der Burgh has also received various sponsorships, including a new sports car from Audi.

Venue naming rights are another source of sponsorship revenue. The table below illustrates some of the naming rights for South African stadiums. The Coca-Cola Park deal is valued at more than R90 million annually.

Naming rights over Dobsonville Stadium, home of Moroka Swallows, have recently been acquired by Volkswagen South Africa for the 2011-12 season. The venue will also be home to Volkswagen Football in Africa.

In addition to sports, these venues are also used for music concerts, enhancing the value of the naming rights and further promoting and marketing the sponsors.

The sponsorship market is highly influenced and affected by major international events that boost spending in years when they are held. The FIFA World Cups and Olympic Games attract significant sponsorship revenue and occur on a two-year rotational basis, providing continuous momentum to the global and local sports industries. Consequently, we expect above-average increases in 2012, 2014 and 2016, followed by reduced growth or declines in 2013 and 2015.

Sponsorship spending will total an estimated R5.3 billion in 2016, an 8.0% compound annual increase from R3.6 billion in 2011.

When looking at the amounts committed to individual sports within the top 50 biggest deals globally, we have also included venue sponsorships. As usual there is remarkable stability in the sports that are most popular with sponsors, with soccer keeping its traditional place at the top of the chart. Multi- sport events in this context include, for example, deals such as UPS with IMG college sports in the USA.

Naming rights

Stadium	Principal sport
Bidvest Wanderers Stadium	Cricket
De Beers Diamond Oval	Cricket
Mercedes-Benz Park	Cricket
OUTsurance Oval	Cricket
Axxess DSL St George's Park	Cricket
Sahara Stadium Kingsmead	Cricket
SuperSport Park	Cricket
FNB Stadium	Soccer
Volkswagen Dobsonville Stadium	Soccer
Bidvest Stadium	Soccer
GWK Park	Rugby Union
Mr Price Kings Park Stadium	Rugby Union
Coca-Cola Park	Rugby Union
Vodacom Park	Rugby Union

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Top 50 sponsorships by sport 2011

Sport	US$
Soccer	1 221 215 000
Venues	1 135 000 000
American football	950 000 000
Olympics	880 000 000
Motorsport-Formula One	441 000 000
Motorsport-NASCAR	358 800 000
Multi-sport events	170 000 000
Cricket	164 660 000
Golf	112 000 000
Ice hockey	100 000 000
Sailing/Yachting	67 500 000
Baseball	50 000 000
Basketball	45 000 000
Conservation/enviroment	36 000 000
Horse racing	35 000 000
Rugby union	30 000 000

Source: 'The World Sponsorship Monitor Annual Review 2011'. Think!Sponsorhsip, United Kingdom, 2011.

Figure 13.5: Top 10 sponsoring industries 2011 – by reported value (US$ millions)

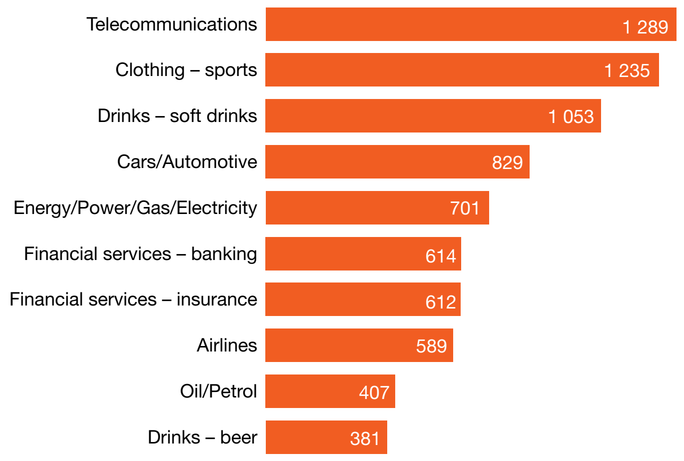

Figure 13.6: Top 10 sponsoring industries 2011 – by number of reported deals

Source: 'The World Sponsorship Monitor Annual Review 2011'. Think!Sponsorhsip, United Kingdom, 2011.

Top 10 global sports sponsorship deals in 2011

Sponsor	Industry	Country	Event or activity	Event code	Sponsor type	Total deal value ($)	Term	Value per year ($)
Pepsi	Drinks – soft drinks	USA	NFL	American football	Organisation sponsor	950 000 000	10	95 000 000
Farmers Insurance	Financial Services – insurance	USA	Farmers Field NFL stadium LA	Venues	Team sponsor	650 000 000	30	21 666 667
MetLife	Financial Services – insurance	USA	New Meadowlands Stadium	Venues	Team sponsor	400 000 000	20	20 000 000
Embratel and Claro	Telecoms	Brazil	Rio 2016 Olympic Games Tier One Sponsor	Olympics	Event sponsor	320 000 000	5	64 000 000
Adidas	Clothing – sports	Germany	Bayern Munich	Soccer	Team sponsor	289 000 000	8	36 125 000
Adidas	Clothing – sports	Spain	Spanish National Football Team	Soccer	Team sponsor	261 840 000	8	32 730 000
Etihad Airways	Airlines	UK	Manchester City stadium	Venues	Team sponsor	240 000 000	10	24 000 000
Sprint	Telecoms	USA	NASCAR	Motorsport - NASCAR	Organisation sponsor	225 000 000	3	75 000 000
Avaya	Telecoms	Russia	Sochi 2014 Winter Olympic Games	Olympics	Event sponsor	200 000 000	1	200 000 000
GE	Energy/Power/ Gas/Electricity	International	TOP sponsorship to 2020	Olympics	Event sponsor	200 000 000	8	25 000 000

Source: World Sponsorship Monitor

Biggest global sports sponsorship deals signed in 2012 – year to date

Sponsor	Industry	Country	Event or activity	Event code	Sponsor type	Total value of deal ($)	Term	Value per year ($)
FedEx	Couriers/Freight	USA	FedEx Cup	Golf	Team Sponsor	220 000 000	5	44 000 000
Nissan	Cars/Automotive	Brazil	Rio 2016 Olympic Games Tier One Sponsor	Olympics	Event sponsor	200 000 000	4	50 000 000
Santander	Financial services – banking	International	Ferrari	Motorsport – Formula One	Team sponsor	120 000 000	3	40 000 000
McDonald's	Restaurants	International	TOP sponsorship to 2020	Olympics	Event sponsor	100 000 000	8	12 500 000
Emirates	Airlines	USA	US Open	Tennis	Event sponsor	90 000 000	7	12 857 143

Source: World Sponsorship Monitor

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Top 10 sports sponsorship deals in 2011 – South Africa

Sponsor	Industry	Event or Activity Title	Event Code	Sponsor Type	Total deal value ($)	Term	Value per year ($)
Yingli	Energy/Power/Gas/ Electricity	FIFA World Cup 2014	Soccer	Event sponsor	40 000 000	1	40 000 000
Absa	Financial Services - Banking	South African Rugby Football Union	Rugby Union	Team sponsor	30 000 000	5	6 000 000
Castle Lager	Drinks - Beer	South African Rugby Football Union	Rugby Union	Team sponsor	14 750 000	5	2 950 000
Puma	Clothing - Sports	South African Football Association	Soccer	Team sponsor	14 000 000	7	2 000 000
MTN	Telecoms	MTN Golden Lions	Rugby Union	Team sponsor	5 400 000	3	1 800 000
BMW	Cars/Automotive	South African Rugby Football Union	Rugby Union	Team sponsor	5 000 000	5	1 000 000
Toyota	Cars/Automotive	Free State Cheetahs	Rugby Union	Team sponsor	4 800 000	3	1 600 000
Acer	Information Technology	South African Rugby Football Union	Rugby Union	Team sponsor	3 749 950	2	1 874 975
Unilever	Household Products	South African Rugby Football Union	Rugby Union	Team sponsor	3 749 950	–	–
Hollard	Financial Services - Insurance	Kaizer Chiefs	Soccer	Team sponsor	3 749 500	4	937 375

Source: World Sponsorship Monitor

Biggest sports sponsorship deals signed in 2012 – South Africa, year to date

Sponsor	Industry	Event or activity	Event code	Sponsor type	Total deal value ($)	Term	Value per year ($)
Procter & Gamble	Household products	South African Sports Confederation and Olympic Committee	Olympics	Team sponsor	7 499 500	10	749 950
National Lotteries Board	Gambling/Lottery	South African Sports Confederation and Olympic Committee	Olympics	Team sponsor	6 210 000	1	6 210 000
Klipdrift	Drinks – spirits	South African Rugby Football Union	Rugby Union	Team sponsor	3 749 500	5	749 900
Gilbert	Sports equipment	South African Rugby Football Union	Rugby Union	Team sponsor	3 749 500	–	–
South African Airways	Airlines	South African Olympic and Paralympic teams	Olympics	Team sponsor	585 000	1	585 000

Source: World Sponsorship Monitor

Sports

The sponsorship market remains buoyant even in difficult economic times. This shows a growing confidence in sponsorship's ability to deliver excellent returns for all concerned when the right mix of brand and platform is achieved.

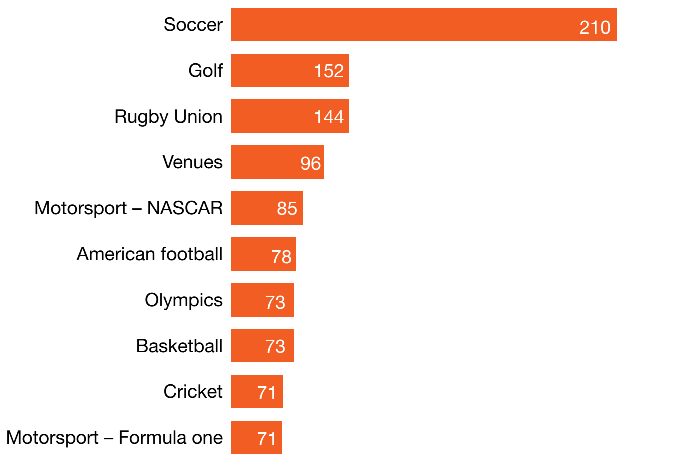
However, some challenges do lie ahead for the sector. Chief among these are the need to make effective use of social media, the growing importance of community and social responsibility projects and the growing need to demonstrate the impact and effectiveness of sponsorship campaigns.

Top sports clothing sponsored – reported deals 2011

Sponsor	Value (US$)
Adidas	610 745 000
Nike	179 735 000
Under Armour	160 925 000
Puma	97 600 000
Umbro	21 250 000
New Balance	16 750 000
Burrda	15 750 000
Quiksilver	15 425 000
Reebok	11 420 000
Asics	10 325 000

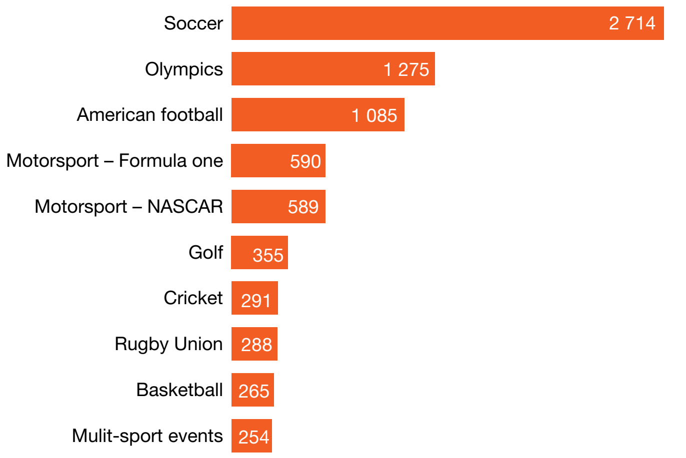
Source: 'The World Sponsorship Monitor Annual Review 2011'. Think!Sponsorhsip, United Kingdom, 2011.

Figure 13.7: Top 10 sponsored sports 2011 – by number of reported deals



Source: 'The World Sponsorship Monitor Annual Review 2011'. Think!Sponsorhsip, United Kingdom, 2011.

Figure 13.8: Top 10 sponsored sports 2011 – by reported value (US$ millions)



Source: 'The World Sponsorship Monitor Annual Review 2011'. Think!Sponsorhsip, United Kingdom, 2011.

Media rights fees (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Media rights fees	1 325	1 475	1 500	3 500	1 775	2 100	2 430	3 000	2 850	3 350	
% change	*6.0*	*11.3*	*1.7*	*133.3*	*-49.3*	*18.3*	*15.7*	*23.5*	*-5.0*	*17.5*	*13.5*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Media rights

Over the five years to 2016, we project healthy overall growth in media rights revenues of 13.5% compounded annually. However, this top-line growth figure masks large year-on-year swings, reflecting the traditionally dramatic impact of major global events such as the Olympics and FIFA World Cups.

One of the most powerful and consistent forces driving the media rights market is technology, which continues to advance at a dramatic pace. Understanding how the media habits of sport consumers is changing is important for all commercial stakeholders in sport – broadcasters and content buyers, sports federations, clubs, sponsors and brands.

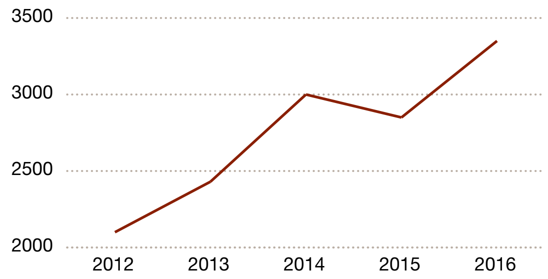
Live sport is becoming ever more valuable for broadcasters as the time-sensitive nature of sport and the high level of engagement of the viewer is very attractive to advertisers as well as enticing new subscribers.

The quality, experience and sense of immersion offered by emerging 3D imagining technology also raises questions over the longer-term impact of these services on attendance at live games. Full stadia look better on TV and give a more compelling experience for the viewer.

SuperSport and the SABC are the significant players in the media rights market in South Africa.

In cricket, SuperSport previously had commercial broadcast rights to the Proteas' home matches, but in late 2011 the CSA announced a new eight-year deal with Taj Television and Willow TV International. Taj Television has rights in Asia and the Middle East and Willow TV has rights for Canada, the United States and Mexico. The combined deals will generate approximately R160 million annually beginning in the 2012-13 season, compared to less than R70 million in the SuperSport deal.

Figure 13.9: Media rights fees (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In early 2012, the SABC signed a three-year deal with SAFA for all national team games. In 2011, SABC and Sports Five acquired rights to broadcast the Africa Cup of Nations, the Champions League, the Confederations Cup and the Under-20 African Championship.

The SABC also subcontracts over-the-air rights from SuperSport for the PSL and the Rugby World Cup, among other events. For the 2011 Rugby World Cup, the SABC aired 28 matches live and seven on a delayed basis. The SABC will also have rights to a number of PSL matches in its new deal with SuperSport.

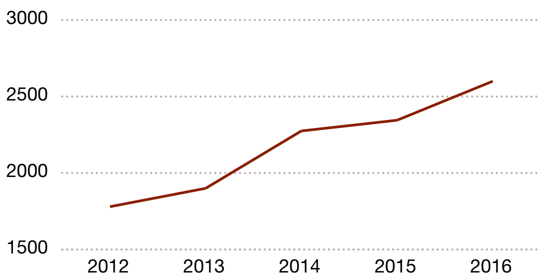
The new deals for Super Rugby and the PSL, and escalating media rights deals in general, reflect the growing importance of sports on television. Between 2007 and 2011, sports advertising on television rose by 45% and during the next five years it is estimated to grow by 62.5%. The expectation of incremental advertising revenue growth is fuelling demand for sports programming.

Sports advertising on television (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Sports advertising on TV	1 100	1 195	990	1 440	1 600	1 780	1 900	2 275	2 345	2 600	
% change	*22.2*	*8.6*	*-17.2*	*45.5*	*11.1*	*11.3*	*6.7*	*19.7*	*3.1*	*10.9*	*10.2*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 13.10: Sports advertising on television (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

DStv Mobile has recently launched the new 'watch wherever you are' broadcast television service that can be accessed by DVB-H enabled cellphones, a mobile decoder (DStv Drifta), a handheld television device (DStv Walka) for on-the-go viewing and the recently-launched iDrifta, a plug-and-play mobile DVB-H receiver for Apple iOS devices. Offering five dedicated SuperSport sports channels, this technology is ideal for sports enthusiasts.

We project media rights in South Africa to rise from R1.8 billion in 2011 to R3.4 billion in 2016, a 13.5% compound annual increase. Media rights will be the fastest-growing component of the sports market during the next five years.

Merchandising

Merchandising is the smallest category of revenue in our forecasts, accounting for only 4.7% of total sports spending.

Merchandising revenue is mainly generated at events themselves. The 2010 FIFA World Cup boosted gate attendance and led to a 70.7 % increase in merchandising revenues. Due to the absence of the FIFA World Cup in 2011, merchandising revenue fell 46% to R535 million.

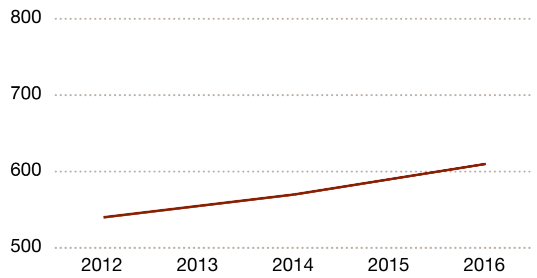
The economy also plays an important role in merchandising sales. Slow growth in the near term is likely to limit the merchandising market, but improving economic conditions during the latter part of the forecast period will spur merchandising. Retail is part of the of the whole sports experience for many fans and helps generate engagement among people who live in different markets and/or who cannot attend matches. This engagement helps both to monetise sports brands and to build demand for media coverage of the clubs/teams involved.

Merchandising revenues (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Merchandising revenues	525	550	580	990	535	540	555	570	590	610	
% change	*5.0*	*4.8*	*5.5*	*70.7*	*-46.0*	*0.9*	*2.8*	*2.7*	*3.5*	*3.4*	*2.7*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 13.11: Merchandising revenues (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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We project the merchandising market to grow at a 2.7% compound annual rate to an estimated R610 million in 2016.

Critical legal issues for the sporting sector

The increasing commercialisation of sport is driven by the entertainment value presented by broadcasting and sponsorship. And where there's commerce, the law applies. Tightly negotiated broadcast rights and sponsorship contracts have the potential to offer meaningful benefits from large sporting events.

The globalisation of sport requires an awareness of the international law implications. South Africa recently experienced firsthand the power of international sporting bodies such as FIFA. Increasing globalisation has made way for new communications media to deliver sporting events to greater audiences.

The sporting world is made up of the professional sports industry, sporting federations and associations, code-specific organisations and professional athletes. The Sports Law Association, a South African body of lawyers and academics, keeps track of the legal issues and players in this field.

The legal landscape

Sport in South Africa is regulated by the Ministry of Sport and the Department of Sport and Recreation, responsible for policy and delivery of sport. The sector is governed by a collection of legislation covering the major legal challenges. Internationalisation requires an understanding of the global regulations that impact the sector.

Some of the legal issues include:

- Advertisers' rights: Commercial speech is afforded freedom of speech protection. The commercial interests of the presenter and the audience are considered.

- Agency agreements and contracts: Inadequate contract management agreements can result in liability for players and agents alike. These should be crafted to cater for the rights and obligations of all parties, local and international – athletes, players' associations, governing bodies and all commercial partners (corporate investors, event organisers, official sponsors and agencies).

- Dispute resolution: Increasing disputes concerning transfer fees and the notion of free agency indicate that dispute resolution clauses should be included in contracts.

- Tax: Taxation clauses are relevant to local sportspeople earning local and foreign income from sporting activities and for foreign players earning local income.

- Broadcasting rights: Increased competition for broadcast rights dictates that these rights should be carefully negotiated to provide for coverage of sporting events and the impact of exclusivity periods.

- Competitive practices: Certain practices prohibited in terms of the Competition Act apply to sports broadcasting. The common law restricts unlawful competition. The following practices constitute unlawful competition: ambush marketing (remember the Bavarian World Cup incident), passing off, puffing and disparaging of a competitor's goods. Reserve clauses in athletes' contracts also have the potential to be anti-competitive.

- Constitutional and administrative law: Governing bodies are obliged to administer their codes in line with constitutional and administrative law requirements. Corporate governance, too, requires transparency of appointments, fair remuneration for officials and finances.

- In keeping with transparency requirements, match fixing incidents must be reported on and dealt with in terms of the provisions of the law.

- Consumer rights: Marketers must take note of the provisions of the Consumer Protection Act and the Electronic Communications and Transactions Act, particularly regarding consumer rights in respect of marketing to children, subscriptions, giveaways, competitions, and online marketing. The Consumer Protection Act provides redress mechanisms for consumers. Consumer rights include the right to disclosure, to equality and to reasonable contractual terms and conditions.

- Copyright: Copyright is vital to the commercialisation of sport. A variety of intellectual property rights are commercially exploited in the sporting industry; the relevant licences should be negotiated and implemented. These include: the image rights of athletes; the copyright and trademark rights of sponsors and the merchandising rights of sporting goods companies. Organisers, marketers and sponsors of tournaments should negotiate their intellectual property rights specific to the event and downstream media activity. Sponsorship and endorsement agreements should take intellectual property rights into account.

- Counterfeit goods: The Counterfeit Goods Act provides for the removal and destruction of goods made available for sale without the requisite permission in place.

- Sports betting: An August 2010 announcement by the Gauteng Gambling Board banning online gambling platforms has created uncertainty in the market. Bookmakers should ensure compliance with the regulations of their local gambling boards and that the requisite provincial bookmaker's licence is in place. If betting online, players should ensure that the betting website uses the proper licence(s).

- Privacy: Athletes' rights to privacy should be respected. The recent experiences of Caster Semenya point to the duty to protect information pertaining to drug testing, medical and personal information.

- Risk management: Appropriate risk management strategies will minimise liability by eliminating potential risks to spectators, participants, officials and property (physical and intellectual). Liability resulting from breach of contract, duty of care or standard procedures must be considered. Contracts must contain indemnity and disclaimers of liability clauses.

Denise Fouché – Technology Legal Advisory Services, PwC

Sports

Orlando Pirates vs Kaizer Chiefs: a case study

Orlando Pirates and the Kaizer Chiefs are the two most successful clubs in the PSL, both in revenues and in historical on-field performance. As both clubs are based in Soweto, this translates into an intense rivalry.

Both clubs have an impressive honours list. Chiefs have 10 league titles and one African Cup Winners' Cup, while Pirates have won nine league titles and one CAF Champions League title. Both clubs have also won a number of local cup competitions over the years. Pirates are also the current (2011-2012) PSL champions.

The two clubs also participate in the Soweto Derby at the FNB Stadium, which sells out annually. The most recent match was won by Pirates in March 2012.

To capitalise on this rivalry, Carling Black Label is sponsoring an annual match between the two clubs that will allow fans to vote for the starting players on each squad and to text votes during the match for one substitution per side.

Vodacom has sponsorship deals with both clubs that currently pay R30 million per year to each club. A new five-year deal beginning in mid-2012 will raise that total to R100 million per year for each club. The new deal signals a reshaping of the local sponsorship market and suggests larger deals in general in the coming years.

The two clubs also have shirt deals, in this case with competing sponsors. Pirates has a shirt deal with Adidas while Chiefs has a deal with Nike.

In other deals, Peugeot South Africa will be the new vehicle sponsor of Pirates, in a deal worth an estimated R5 million. The Player of the Year will receive a RCZ Sports Coupé and Peugeot will supply a fleet of cars on match days.

Pirates had the higher revenues in 2011, estimated at R87 million, compared to R81 million for Chiefs. Pirates' revenues were enhanced by prize money in winning knockout tournaments such the MTN 8 and the Nedbank Cup.

The effect of prize money is not included in the forecast period. The new Vodacom sponsorship deal will boost revenues for Orlando Pirates by 23.0% in 2012 and by an additional 46.7% in 2013. For the forecast period as a whole, revenues for Orlando Pirates will rise at an estimated 15.1% compound annual rate to R176 million in 2016.

We project revenues for Kaizer Chiefs to increase by 37.0% in 2012 and a further 52.3% in 2013, reflecting the new sponsorship deal with Vodacom. Growth during the entire forecast period will average 18.7% compounded annually to R191 million in 2016.

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 13.12: Percentage revenue per category: Kaizer Chiefs

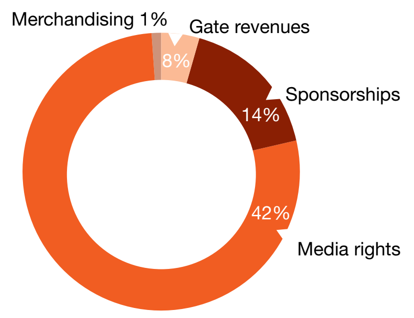
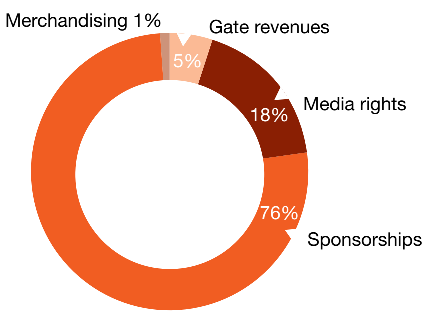
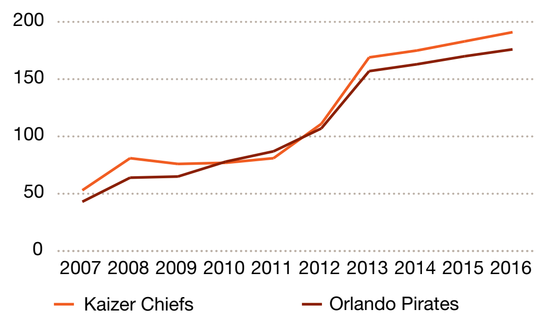


Figure 13.13: Percentage revenue per category: Orlando Pirates



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 13.14: Total revenues: Kaizer Chiefs vs Orlando Pirates (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Orlando Pirates (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Gate revenues††	3	5	5	8	7	6	6	6	7	7	
% change	–	*66.7*	–	*60.0*	*-12.5*	*-14.3*	–	–	*16.7*	–	–
Media rights	5	18	18	18	18	19	25	25	25	25	
% change	–	*260.0*	–	–	–	*5.6*	*31.6*	–	–	–	*6.8*
Sponsorships‡	35	40	41	51	61	81	125	131	137	143	
% change	*2.9*	*14.3*	*2.5*	*24.4*	*19.6*	*32.8*	*54.3*	*4.8*	*4.6*	*4.4*	*18.6*
Merchandising	†	1	1	1	1	1	1	1	1	1	
% change	–	–	–	–	–	–	–	–	–	–	–
Total	**43**	**64**	**65**	**78**	**87**	**107**	**157**	**163**	**170**	**176**	
% change	–	***48.8***	***1.6***	***20.0***	***11.5***	***23.0***	***46.7***	***3.8***	***4.3***	***3.5***	***15.1***

††Regular season only.
‡Includes prize money in knockout tournaments.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Kaizer Chiefs (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Gate revenues††	5	6	7	6	5	5	6	6	7	7	
% change	–	*20.0*	*16.7*	*-14.3*	*-16.7*	–	*20.0*	–	*16.7*	–	*7.0*
Media rights	5	18	18	18	18	19	25	25	25	25	
% change	–	*260.0*	–	–	–	*5.6*	*31.6*	–	–	–	*6.8*
Sponsorships‡	42	56	50	52	57	86	137	143	150	158	
% change	*-16.0*	*33.3*	*-10.7*	*4.0*	*9.6*	*50.9*	*59.3*	*4.4*	*4.9*	*5.3*	*22.6*
Merchandising	1	1	1	1	1	1	1	1	1	1	
% change	–	–	–	–	–	–	–	–	–	–	–
Total	**53**	**81**	**76**	**77**	**81**	**111**	**169**	**175**	**183**	**191**	
% change	***-13.1***	***52.8***	***-6.2***	***1.3***	***5.2***	***37.0***	***52.3***	***3.6***	***4.6***	***4.4***	***18.7***

††Regular season only.
‡Includes prize money in knockout tournaments.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Challenges: reshaping the competitive and technological landscapes

As sports rights holders go increasingly online and multi-platform to engage fans, they are competing more and more with other forms of content taking similar approaches, as well as with other immersive experiences such as cinema and live music. Yet the audiences will often vary. Comparing the viewership of the X Factor with, for example, Champions League football confirms that live events are a bigger draw through TV, but that there are different audiences for each, with the X Factor attracting more social media interaction and a higher proportion of women and children.

Demographics can also impact the value and speed of going multi-channel. For sports like golf and cricket, the balance between older and younger viewers is likely to be tipped towards older audiences. This means it takes longer for innovations and changes to be embraced.

However, they still do come through in time. The BBC has built a thriving global online community around its online text commentary service for international cricket, reflecting the fact that many users are at work and do not want to be seen listening or watching, but can click through to the site unobserved in a quiet moment.

Sport is still, however, nowhere near the entertainment sector in terms of Twitter profile. Lady Gaga has 29 million followers on Twitter, while the Brazil and Real Madrid footballer, Kaka, is the top sportsman with 12.5 million and is in 17th place.

There are only five other sports entities or personalities in the Twitter top 100, all from the USA. This is perhaps just as well for clubs, since the challenges of managing what sports people say on Twitter have been demonstrated time and again. They are the public face of sports and clubs, but it is extremely difficult to monitor or control them. In early 2011, Liverpool footballer Ryan Babel was charged with improper conduct by the FA after posting a mock-up picture of a referee in an opposing team's shirt on Twitter.

Source: 'Changing the game: Outlook for the global sports market to 2015' (PwC, 2011)

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Sports betting

Sports betting is very popular in South Africa, generating an estimated R1.7 billion in 2011 for bookmakers. Sports shown on television generate the most betting activity. Football is the leading sports betting category and cricket and rugby, particularly Super Rugby, also generate substantial wagering.

The FIFA World Cup in 2010 attracted significant wagering and boosted the overall betting market by 24.5% to more than R2 billion. Even without the FIFA World Cup, the betting market in 2011 was 5.6% larger than in 2009.

The economy is a major driver of betting in general, including sports betting. Improving economic conditions during the latter part of the forecast period will have a positive impact on sports betting.

The sports betting market is also affected by major events such as the FIFA World Cup. We expect the FIFA World Cup in 2014 to lead to a 20.1% increase in sports betting in that year.

For the forecast period as a whole, sports betting will increase at a 3.0% compound annual rate to R2 billion by 2016.

Sports betting (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Sports betting	1 860	1 640	1 610	2 005	1 700	1 740	1 790	2 150	1 900	1 975	
% change	*27.4*	*-11.8*	*-1.8*	*24.5*	*-15.2*	*2.4*	*2.9*	*20.1*	*-11.6*	*3.9*	*3.0*

Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Conclusion

Sporting bodies continue to innovate in pursuit of growth in gate revenues. Clear examples include combining concerts and sporting events into one event, as frequently now happens with motor sport and horse racing.

All such marketing efforts raise the need to strike the right balance between entertainment and sport, and between drawing in crowds and maintaining the credibility and quality of the sport on offer. Cricket bodies, for example, need to consider the potentially negative impact of the growth in the IPL's T20 format on revenues from the more established five-day and 50-over formats.

For most sports, there is an important link between the live experience and the experience of the TV viewer, since the viewing experience is far better and more atmospheric if the stadium is full.

Organisers can further improve the viewing experience by managing and incentivising the paying attendees.

Spectators can become part of the entertainment as they are encouraged to display ever more complex messages in the stands through the distribution of coloured cards. More controversially, the vuvuzelas used at the 2010 FIFA World Cup created a distinctive atmosphere. Crowds can also become a platform for a sponsor, as evidenced by the sea of red caps distributed by Vodafone and seen at various Formula One events.

Emerging trends in the global sports market

Sport and entertainment converge

While the commercial dynamics of sport and entertainment have always overlapped, the two are now closer than ever before. At root, people buy tickets to sports events and pay-TV services carrying exclusive sports content expecting to be entertained. If they are not, they will vote with their feet and their wallets – and will soon be followed by media partners and sponsors seeking other opportunities.

In many cases, sporting entertainment and commercial success are now seen as two sides of the same coin. Sport and entertainment events are increasingly being staged together, as a way to enhance the overall experience and extend the length of events — and therefore the time that supporters and viewers stay.

With an average audience of 111 million viewers in the USA, the 2011 Super Bowl became the most-watched programme of any kind in the history of American television. The entertainment line-up included Keith Urban and Maroon 5 during the pre-game, Christina Aguilera singing the national anthem and The Black Eyed Peas at halftime. Glee was the lead-out programme, attracting nearly 27 million viewers, almost double its usual audience. Grand Prix events also now involve concerts, including Lady Gaga performing at the after-party for the first ever Indian Grand Prix.

The trend towards blending more entertainment content isn't always welcomed by sports 'purists', who often feel their sport is being hijacked. The shift towards entertainment can also cause dilemmas for governing bodies, which want to encourage excellence in sporting achievement and do not want their core offer of serious sporting competition to be trivialised by too much frivolity. When the Indian Premier League was launched in 2008, almost as much media attention was focused on the cheerleaders as the sporting contest, much to the chagrin of diehard cricket fans.

Sports media goes social

A further area of convergence between sport and entertainment is the rising use of social media. Social networking continues to create opportunities and challenges for traditional broadcasters — and also for sportspeople who appear increasingly prone to overstepping the boundaries of what they should say on platforms such as Twitter.

Partly as a result of this open personal interaction, social media allows fans to get closer to athletes and sports personalities, and provides sponsors with an opportunity for two-way communication, thus enabling them both to embed their brand, and also to understand and manage how fans perceive the brand.

This again mirrors trends in entertainment, where social networking is an increasingly closely related and integrated element of the content offering. As people have become used to voting for their favourite acts on television programmes such as the X Factor, sports fans increasingly want to be involved in their chosen sports via social media sites.

The English League Two football club Stockport County recently gave its fans the opportunity to vote on its summer signings, and many owners of sports media rights look to enhance the value of their rights through presences on Twitter and Facebook.

Commercial challenges

As such trends gain momentum, the sports industry continues to face challenges on the financial and commercial front. Many of these relate to the impact of economic uncertainty and consumer caution, which are affecting all consumer-facing sectors.

However, sport also faces a delicate balancing-act, because of the need to maintain value for money in light of increased ticket prices and rising expectations among the paying public.

If sports charge more for tickets, then spectators expect them to provide more in return. The same ultimately applies to the cost of media rights, which can knock on to the pay TV subscriptions funded by subscribers.

The balance between price and value is further complicated by the deep sense of ownership that many sports fans feel for their club or sport. Again reflecting trends in entertainment such as brand and product placement, sports sponsors want to be embedded within the product, rather than just being a name on a shirt.

Naming rights remain a popular investment for sponsors, both for new and established sport and entertainment venues. Examples include Barcelona Football Club's five-and-a-half year, €171 million shirt sponsorship deal with the not-for-profit Qatar Foundation. However, this type of open commercialism does not always go down well with paying customers, and thousands of Barcelona fans signed a petition demanding the agreement be dropped – by tradition, Barcelona never previously had a shirt sponsor and used to publicise UNICEF for free. Sport's status as a 'healthy' pursuit also tends to generate significant criticism of sponsorship from companies such as alcohol or fast food providers, limiting the benefits on both sides.

Rising player costs

In many sports, the focus on providing the most entertaining and successful product is driving rapid inflation in player costs. Sporting bodies and regulators are struggling to maintain a reasonably level playing field in financial terms, arguably in order to maintain an exciting and competitive sporting landscape. In European Football, the governing body UEFA has drawn up Financial Fair Play Regulations that are scheduled to come fully into effect in the 2013-2014 season.

The Regulations are designed to ensure that football clubs stop their debt-fuelled overspending and live within their means over a rolling three-year period. In Formula One, the teams agreed to instil some financial prudence in response to declining sponsorship revenues during the downturn in 2009 and agreed to the Resource Restriction Agreement, which is believed to have reduced spend over the last two seasons.

Internationalisation

A further challenge for governing bodies is the increasing pressure to grow their sports in new international markets, while at the same time maintaining the local support base and the integrity of their competitions.

A related issue is the perennial conflict between club and country, in sports such as soccer, where players are remunerated so highly for success in the club game, that they are often perceived – rightly or wrongly – to be uninterested in their national team.

Source: 'Changing the game: Outlook for the global sports market to 2015' (PwC, 2011)

Glossary of terms

Glossary of terms

3G	Third-generation wireless
4G	Fourth-generation wireless
ACE	Africa Coast to Europe
ADSL	Asymmetric digital subscriber line
ASA	Advertising Standards Authority
BRICS	Brazil, Russia, India, China and South Africa
CAGR	Compound annual growth rate
CDE	Collaborative digital enterprise
CRM	Customer relationship management
DALRO	Dramatic, Artistic, Literary Rights Organisation
DRM	Digital rights management
DTT	Digital terrestrial television
DVB-H	Digital Video Broadcasting – Handheld
DVB-T2	Digital Video Broadcasting – Second-Generation Terrestrial
E&M	Entertainment and media
EASSy	Eastern Africa Submarine Cable System
ECS	Electronic communications service
ECT Act	Electronic Communications and Transactions Act
EMEA	Europe, the Middle East and Africa
GDP	Gross domestic product
HD	High-definition
ICASA	Independent Communications Authority of South Africa
IFPI	International Federation of Phonographic Industry
IPL	Indian Premier League
FTTH	Fibre-to-the-home
GB	Gigabyte
ICT	Information and communication technology
IOL	Independent Online
IP	Internet Protocol
IPAP	Industrial Policy Action Plan
IPAP 2	Industrial Policy Action Plan 2
ISPs	Internet service providers
LED	Light-emitting diode
LTE	Long Term Evolution
Mb	Megabyte
Mbps	Megabyte per second
MHZ	Megahertz
MSAN	Multi-service access node
NCB	The National Convention Bureau
PASA	Publishers' Association of South Africa
POPI	Protection of personal information
PIPA	Protect Intellectual Property Act
PSL	Premier Soccer League
PVR	Personal video recorder
RAPU	Recording Industry Anti-piracy Unit
RiSA	Recording Industry of South Africa
SAex	South-Atlantic Express
SAFA	South African Football Association
SAMPRA	South African Music Performance Rights Association
SAMRO	South African Music Rights Organisation
SANZAR	South Africa, New Zealand and Australia Rugby
SARU	South African Rugby Union
SOPA	Stop Online Piracy Act
SUV	Sport utility vehicle
Tbps	Terabytes per second
TPMs	Technological protection measures
VOD	Video on demand
VDSL	Very-high-bit-rate digital subscriber line
WACS	West African Cable System

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