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South African entertainment and media outlook: 2010-2014

First South African edition

Drawing on extensive proprietary data and in-depth analysis, this groundbreaking publication explores the pervasive impact of new technologies, changing consumer behaviour and other trends on end-user spending and advertising revenues across major segments of the entertainment and media industry.
October 2010

pwc

South African entertainment and media outlook: 2010-2014
First South African edition

Following a steep economic decline in 2009 and the windfall of the 2010 FIFA World Cup, this publication provides an overview of how the entertainment and media industry in South Africa will develop over the coming years. Focusing on 12 major industry segments, it details the key trends observed and challenges facing industry segments as well as considering their future prospects.

South African entertainment and media outlook: 2010-2014 combines deep knowledge of the local market with a truly global perspective and is 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.com/za.

About PricewaterhouseCoopers' Entertainment and Media industry group

Every day, PricewaterhouseCoopers (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 help clients in South Africa and elsewhere make the most of changing market scenarios.

We understand how development in the broader E&M environment is 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.

Prepared and edited by:

PricewaterhouseCoopers (PwC), which provides industry-focused assurance, tax and advisory services to enhance value for its clients. More than 163,000 people in 151 countries in firms across the PwC network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

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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.

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

Consumer insights

In developing this publication, we aimed to provide readers with useful information and to bring this to life by including real-life consumer insights. To this end, we contracted GlobalEdge Marketing Consultants to perform consumer lifestyle research relating to the media and entertainment industry.

This research comprised face-to-face interviews with a sample of consumers that included a mix of the following demographic groups:

- Persons between the ages of 15 and 50;
- A mix of racial groups;
- Males and females;
- Residing in Gauteng, the Western Cape and KwaZulu-Natal; and
- LSM 5-7 and LSM 8-10.

The results of this research have been utilised throughout this publication.

Use of Outlook data

Permission to cite

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Johannesburg
14 October 2010

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

Welcome to *South African entertainment and media outlook: 2010-2014*, the first publication in PricewaterhouseCoopers' South African *Media outlook* series. The forecasts and analysis in this publication focus on twelve major entertainment and media (E&M) industry segments. Each chapter details the key trends observed and challenges facing industry segments as well as considering their future prospects. The 'Industry overview' section highlights the notable themes observed during 2009 and provides an informed perspective on industry trends in the coming years.

In 2009, the global recession severely impacted economic activity, translating into steep declines in advertising as well as consumer spending. As the E&M industry begins to recover from the economic downturn, the resilience of E&M products and services during the recession is evident. Meanwhile, the overall advertising market is undergoing a structural resizing brought about by the Internet, as consumers and advertisers migrate online.

Total South African E&M spending grew by 1.8% in 2009, in contrast to the 1.8% decline globally, but this is down from the 8.5% growth seen in 2008.

Across the world, it is evident that the speed with which consumers are transitioning to digital has been accelerating beyond the industry's expectations. In South Africa, while the spend on digital media is expected to grow significantly, it is unlikely that it will dominate in the forecast period. Non-digital revenue streams are expected to continue to be much larger and will still account for 69.1% of total South African spending in 2014. This suggests that the way forward for E&M companies lies in using digital technologies to generate revenues from ongoing changes in consumer behaviour, while also maintaining and supporting their non-digital offerings as a valuable source of cash and customers.

We at PricewaterhouseCoopers continue to stay on top of trends and developments that may impact E&M companies, now and in the future, and we look forward to further sharing our thoughts with you. We appreciate your feedback and ask that you continue to tell us what we can do to make our publications more relevant and useful to you.

If you would like further clarification on any matters covered in this publication, or you believe we can be of service to your business in any way, please contact one of our E&M specialists listed on page 6 of this report.

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

Sincerely,

Ignatius Sehoole

Vicki Myburgh

Chapter 1

Industry overview – South African entertainment and media outlook: 2010-2014

We are pleased to present the first edition of PricewaterhouseCoopers' South African entertainment and media outlook: 2010-2014 (the Outlook).

The information in this publication brings together the collective knowledge of our team of professionals who work with entertainment and media (E&M) companies in South Africa and globally. We believe that this is a unique resource for the industry, offering a five-year outlook for consumer spending and advertising revenues in South Africa and globally, as well as insights into the technology, legislative, political and business trends driving these forecasts. The purpose of this overview is to provide a synopsis of the data presented in the other 12 chapters of this publication and to present an analysis of some of the most significant themes and insights generated by the data in the various chapters.

The *Outlook* presents annual historical data for 2005-2009 and provides annual forecasts for 2010-2014 in the following 12 entertainment and media segments:

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

2009: A year to remember?

With some notable exceptions, the severe recession in most countries led to steep declines globally in advertising, the category most sensitive to the economy and to reductions in consumer/end-user spending. Global advertising fell by 11.8% and consumer/end-user spending decreased by 0.5%. As a whole, the global E&M market declined by 3.0% in 2009.

In South Africa, while not as severely affected by the global recession as some other countries, the E&M industry grew by 1.8% in 2009, down from the 8.5% growth in 2008 and the double-digit annual gains during the three years preceding 2008.

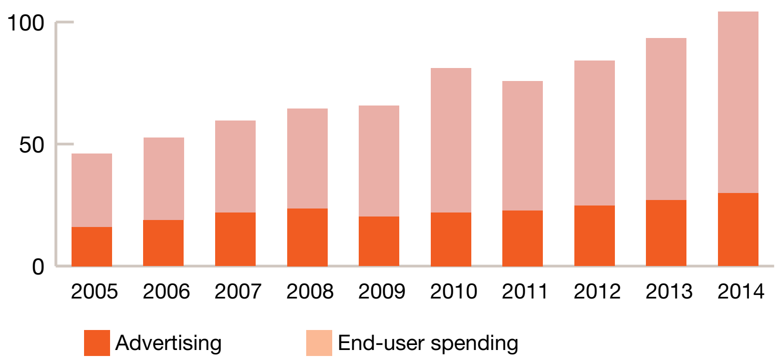
Advertising, which is more sensitive to cyclical trends than end-user spending, fell by 14.3% as the full effect of the recession was felt in 2009. Consumer/end-user spending, which comprised 69% of the total market in 2009, countered the effects of the recession with a booming box office market, continued growth in TV subscription spending and a jump in broadband spending. Growth actually increased to 11.1% from 8.8% in 2008.

The growth in consumer/end-user spending was led by broadband and mobile Internet access, which boosted Internet access spending by 29.8%. Television subscriber numbers increased by 17.4%, which fueled a 20% increase in subscription spending.

Entertainment and media spending (R millions)											
South Africa	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2010–14 CAGR**
Advertising	15,995	18,823	21,909	23,631	20,247	21,924	22,769	24,780	27,024	29,830	
% change	*19.6*	*17.7*	*16.4*	*7.9*	*-14.3*	*8.3*	*3.9*	*8.8*	*9.1*	*10.4*	*8.1*
End-user spending	30,055	33,726	37,644	40,957	45,483	59,266	53,044	59,476	66,360	74,537	
% change	*9.1*	*12.2*	*11.6*	*8.8*	*11.1*	*30.3*	*-10.5*	*12.1*	*11.6*	*12.3*	*10.4*
Total	**46,050**	**52,549**	**59,553**	**64,588**	**65,730**	**81,190**	**75,813**	**84,256**	**93,384**	**104,367**	
% change	***12.5***	***14.1***	***13.3***	***8.5***	***1.8***	***23.5***	***-6.6***	***11.1***	***10.8***	***11.8***	***9.7***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Entertainment and media spending (R billions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

On a segmental basis, the Internet was the fastest-growing segment in 2009 with a 29.8% increase, boosted by a surge in broadband growth and double-digit increases in advertising, the only significant advertising category to grow in 2009.

Video games was next at 13.4%, followed by filmed entertainment at 11.7%. Double-digit growth in each component offset a flat PC games market and propelled overall video games spending while a strong box office market drove filmed entertainment.

Sports revenues increased by 5.8% in 2009 as new tournaments and a strong sponsorship and merchandising market offset the absence of spending associated with the Beijing Olympics in 2008.

The economy

While industry-specific factors will affect the spending pattern for each segment during the next five years, the economic cycle will be an important driver. In 2009, South Africa experienced its first recession in years, although it appears to be on the path to recovery in 2010.

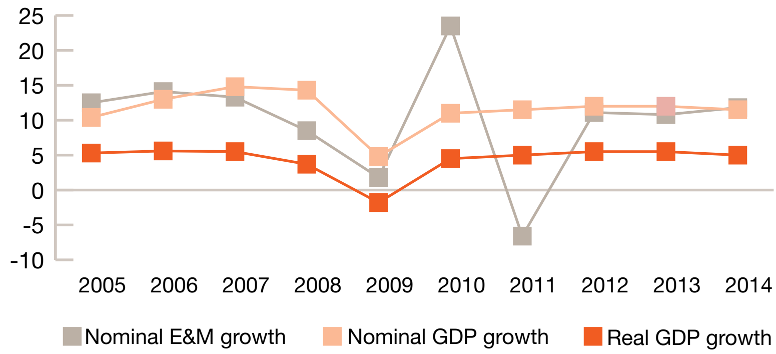
Growth in real GDP, which is adjusted for inflation, slowed to 3.7% in 2008 from gains in excess of 5% annually during 2005-07, and then fell by 1.8% in 2009. We expect a 4.5% rebound in 2010 and a return to growth of 5% or more during the subsequent four years. Overall, real GDP growth will average 5.1% compounded annually during the next five years.

Inflation propelled nominal GDP at double-digit rates during 2005-08 and kept the economy growing in nominal terms in 2009 with a 4.8% increase despite the decrease in real GDP. As real GDP began expanding in 2010, we project a return to double-digit growth in nominal GDP during the next five years. We expect nominal GDP growth to average 11.6% on a compound annual basis through 2014.

GDP growth (%)											
South Africa	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2010-14 CAGR**
Real GDP growth	5.3	5.6	5.5	3.7	-1.8	4.5	5.0	5.5	5.5	5.0	5.1
Nominal GDP growth	10.4	13.0	14.8	14.3	4.8	11.0	11.5	12.0	12.0	11.5	11.6

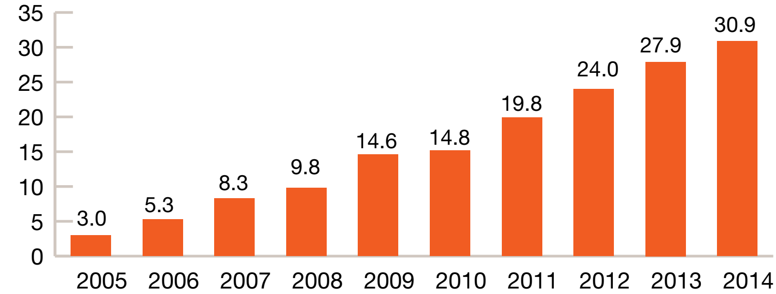
Source: Statistics South Africa, World Bank, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

E&M growth versus GDP growth (%)



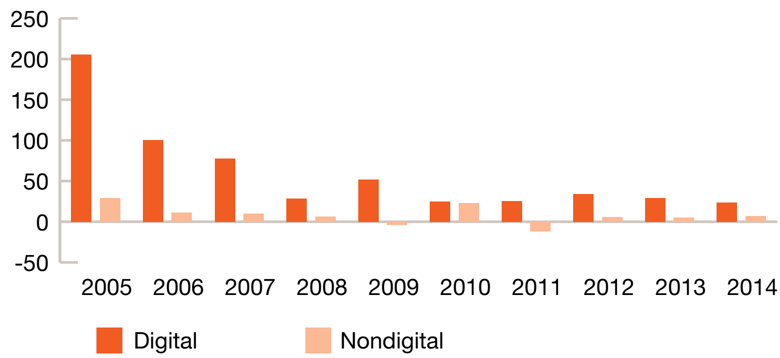
Sources: Statistics Africa, World Bank, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Digital share of E&M spending (%)



Sources PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Digital and nondigital spending growth (%)



Sources PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Except for the disproportionate impact of the 2010 FIFA World Cup, we expect the general pattern in nominal GDP to be reflected in the general pattern for entertainment and media growth.

The 2010 FIFA World Cup will provide a large boost in 2010 and the absence of that spending will lead to a large decline in 2011. The economy in these years will have less of an impact than it has had in the past. We then look for entertainment and media spending to closely track nominal GDP growth during 2012-14.

In addition to the impact of the economy, the E&M market in South Africa continued to migrate to digital formats. In 2009, digital accounted for 14.6% of spending, up from 9.8% in 2008. We expect the digital market to constitute 30.9% of total spending by 2014.

Nondigital spending began declining in 2009 and while the economic recovery will help the nondigital components of the market, nondigital spending growth will remain modest and digital will continue to be the principal driver.

Note: Digital spending consists of broadband and mobile access; wired and mobile Internet advertising; online and mobile TV advertising; digital recorded music distribution; digital downloads; online and wireless video games; digital advertising in newspapers and consumer magazines; online radio advertising; electronic consumer and educational and professional books; digital directory advertising and trade magazine digital advertising.

2014: South African outlook

Total South African E&M spending in 2014 will total an estimated R104.4 billion, a 9.7% compound annual increase from R65.7 billion in 2009.

The 2010 FIFA World Cup will contribute to a 23.5% increase in total E&M spending in 2010 and a 6.6% decline in 2011 after the impact of the tournament has left the market. We then project spending to expand at double-digit rates through 2014.

During the next five years, the Internet will be the only segment to average double-digit annual growth with a projected 20.5% compound annual increase. Broadband growth and double-digit increases in mobile access and mobile advertising will drive the Internet market.

Television will be the next fastest-growing segment with a projected 9.8% compound annual increase, the result of continued growth in subscription spending and a rebound in advertising.

Radio and out-of-home advertising will be next with compound annual increases of 8.1% and 7.7% respectively, followed by video games at 7.3%. New stations and an improved economy will lead to healthy growth in radio advertising, the emergence of digital displays will fuel out-of-home and a surge in online games will be the principal driver of video games.

Sports spending will expand at a projected 6.9% compound annual rate. Larger stadiums built or rebuilt for the 2010 FIFA World Cup will provide an ongoing enhancement to gate revenues, while improved economic conditions will boost media rights fees and sponsorships and merchandising.

Filmed entertainment will increase at a projected 5.3% compound annual rate, boosted by Blu-ray, which will revitalise home video and 3D, which will contribute to box office growth.

We expect spending on recorded music to be lower in 2014 than in 2009 as falling physical sales offset gains in digital spending. We also anticipate that the remaining segments will expand at compound annual rates of less than 5%.

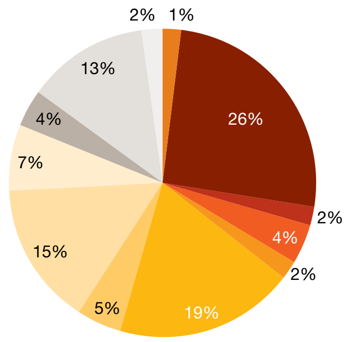
Entertainment and media spending by segment (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Filmed entertainment	906	912	892	905	1,011	1,046	1,104	1,165	1,234	1,309	
% change	*4.6*	*0.7*	*-2.2*	*1.5*	*11.7*	*3.5*	*5.5*	*5.5*	*5.9*	*6.1*	*5.3*
Television	11,265	12,789	14,797	16,556	17,233	19,809	21,277	23,259	25,215	27,547	
% change	*11.5*	*13.5*	*15.7*	*11.9*	*4.1*	*14.9*	*7.4*	*9.3*	*8.4*	*9.2*	*9.8*
Recorded music	1,692	1,768	1,832	1,802	1,535	1,373	1,265	1,222	1,222	1,235	
% change	*10.7*	*4.5*	*3.6*	*-1.6*	*-14.8*	*-10.6*	*-7.9*	*-3.4*	*0.0*	*1.1*	*-4.3*
Radio	1,972	2,175	2,390	2,634	2,439	2,532	2,747	2,970	3,256	3,599	
% change	*28.3*	*10.3*	*9.9*	*10.2*	*-7.4*	*3.8*	*8.5*	*8.1*	*9.6*	*10.5*	*8.1*
Out-of-home	1,020	1,300	1,475	1,365	1,360	1,480	1,550	1,660	1,810	1,975	
% change	*29.9*	*27.5*	*13.5*	*-7.5*	*-0.4*	*8.8*	*4.7*	*7.1*	*9.0*	*9.1*	*7.7*
Internet	5,364	6,716	8,712	9,761	12,671	14,563	17,101	21,507	26,679	32,177	
% change	*12.5*	*25.2*	*29.7*	*12.0*	*29.8*	*14.9*	*17.4*	*25.8*	*24.0*	*20.6*	*20.5*
Consumer magazine publishing	3,249	3,607	3,929	4,151	3,525	3,737	3,624	3,793	3,984	4,200	
% change	*8.4*	*11.0*	*8.9*	*5.7*	*-15.1*	*6.0*	*-3.0*	*4.7*	*5.0*	*5.4*	*3.6*
Newspaper publishing	8,446	9,562	10,653	11,506	9,682	9,570	9,612	9,955	10,497	11,151	
% change	*15.8*	*13.2*	*11.4*	*8.0*	*-15.9*	*-1.2*	*0.4*	*3.6*	*5.4*	*6.2*	*2.9*
Consumer and educational book publishing	3,225	3,893	4,076	4,298	4,370	4,493	4,645	4,836	5,068	5,320	
% change	*18.8*	*20.7*	*4.7*	*5.4*	*1.7*	*2.8*	*3.4*	*4.1*	*4.8*	*5.0*	*4.0*
Business-to-business	2,396	2,624	2,763	2,828	2,527	2,530	2,573	2,657	2,789	2,965	
% change	*8.0*	*9.5*	*5.3*	*2.4*	*-10.6*	*0.1*	*1.7*	*3.3*	*5.0*	*6.3*	*3.2*
Sports	6,250	6,900	7,225	7,825	8,275	18,900	9,125	10,000	10,375	11,575	
% change	*6.2*	*10.4*	*4.7*	*8.3*	*5.8*	*128.4*	*-51.7*	*9.6*	*3.8*	*11.6*	*6.9*
Video games	291	359	894	1,085	1,230	1,312	1,394	1,490	1,591	1,752	
% change	*20.2*	*23.4*	*149.0*	*21.4*	*13.4*	*6.7*	*6.3*	*6.9*	*6.8*	*10.1*	*7.3*
Total	**46,050**	**52,549**	**59,553**	**64,588**	**65,730**	**81,190**	**75,813**	**84,256**	**93,384**	**104,367**	
% change	***12.5***	***14.1***	***13.3***	***8.5***	***1.8***	***23.5***	***-6.6***	***11.1***	***10.8***	***11.8***	***9.7***

Note: Television, newspaper, consumer magazine, trade magazine, and directory Web site and mobile advertising is included in their respective segments and also in the Internet advertising segment, but only once in the overall total.

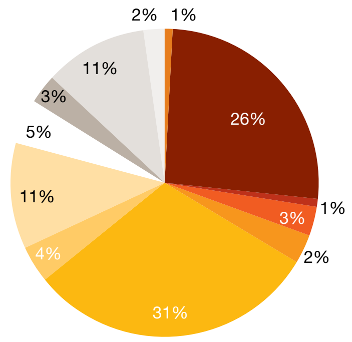
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

South Africa: E&M spending by segment: 2009



Filmed entertainment	1%
Television	26%
Recorded music	2%
Radio	4%
Out-of-home	2%
Internet	19%
Consumer magazine publishing	5%
Newspaper publishing	15%
Consumer and educational book publishing	7%
Business-to-business	4%
Sports	13%
Video games	2%

South Africa: E&M spending by segment: 2014



Filmed entertainment	1%
Television	26%
Recorded music	1%
Radio	3%
Out-of-home	2%
Internet	31%
Consumer magazine publishing	4%
Newspaper publishing	11%
Consumer and educational book publishing	5%
Business-to-business	3%
Sports	11%
Video games	2%

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Key global themes

Towards 2014: The search for position in the digital value chain

The coming five years will see digital technologies increase their dominance across all segments of entertainment and media as digital transformation continues to expand and escalate. While the industry has a long history of experimenting and fragmenting in response to change, the current advances in technologies and consumer behaviours are unprecedented both in their speed and also in their simultaneous impact across all segments. As a result, the industry will become more fragmented and diverse than ever before.

Outlined below are three key issues at the heart of industry developments: the accelerating pace of digital transformation, increased fragmentation and the need to sustain nondigital revenues.

With economic confidence and advertising remaining uncertain, consumer feedback and usage habits remain the only reliable guide to the commercial viability of products and services. Consumer behaviour, which continues to evolve, will therefore be an important driver of industry developments over the coming five years and we will examine this in further detail later in this chapter.

We will also analyse the impact of evolving consumer behaviour on the industry's business models.

Finally, we will focus on what this means for E&M companies in the long-term and highlight the imperatives created by the new digital value chain.

Core industry developments

The increasing pace of change

Today's E&M environment is one in which it is very easy to get surprised at the pace of developments, even if you have already predicted the direction of travel correctly. Consumers are embracing new media experiences with unexpected speed.

Fragmentation reaches a new level

The rapidly advancing digital transformation is driving industry and audience fragmentations to levels not previously seen. The current wave of change is different to previous ones, in both its speed and simultaneous impact across all segments.

For example, in recent years, television has progressed from a handful of analogue channels to a multiplicity of niche and themed channels, fragmenting the audience in the process. Now, with digitisation, those niche content experiences are becoming available across a widening array of platforms and devices, driving audience fragmentation both further and faster.

Another aspect of fragmentation is that consumers' media consumption and purchasing decisions differ widely at different times in different markets. For example, the mobile Internet explosion has already happened in Japan, while South Africa is still at the bottom of its growth curve.

The importance of nondigital revenues

Not surprisingly, digital services will provide most of the industry's future growth – a prospect reflected by the fact that digital technologies are now effectively a "given" in all segments. But it is vital to remember that legacy offline revenue streams are still significantly larger than digital revenues and will remain so throughout the five-year forecast period. This means the industry needs to ensure it embraces digital not as a *competitor* to traditional analogue services, but as a *complement*.

E&M companies will need to strike the right balance between old and new, by nurturing and sustaining their cash-generative traditional offerings, while using these revenues to identify and seize the right role and positioning for their businesses within the emerging digital value chains.

In many cases digital revenues are also relatively small, even if they are where the growth is.

The consumer in the driver's seat

Over the coming five years, we believe the force exerted by changing consumer behaviour will make itself felt in three thematic areas:

- The rising power of mobility and devices;
- The growing dominance of the Internet experience over all content consumption; and
- Users' increasing engagement and readiness to pay for content – driven by improved consumption experiences and convenience.

Theme 1: The rising power of mobility and devices

The rising penetration of smartphones and other Internet-enabled devices – supported by advanced next generation network (NGN) infrastructure and enriched by a growing array of mobile applications – means the tipping point is fast approaching at which usage, subscription and advertising revenues for content services will migrate quickly towards mobile platforms.

Globally, there were nearly 500 million people accessing the Internet through mobile devices in 2009, up from only 100 million as recently as 2005. We project that by 2014, this total will rise to 1.4 billion.

The expanding functionality of mobile devices is causing the focus of consumers' brand loyalty and trust to move away from the service or content provider towards the device itself and to the underlying content. Consumers today relate to iPods, not generic portable music players; and to Kindles and iPads, not generic electronic readers. In previous generations, the device was more important than the brand of the device.

A further difference is that many of the current generations of devices are proprietary (or 'closed') systems. The competition between the proprietary iPhone and Google's open-system Android-based Droid will provide a pointer as to whether closed or open systems will ultimately prevail. Our ongoing research with focus groups suggests that consumers will want to share content and applications across all their devices.

Theme 2: The growing dominance of the Internet experience over all content consumption

Increasingly, the consumer has moved beyond thinking of the Internet as an end in itself and expects all forms of media to embed the convenience, immediacy and interactivity of the Internet. With the emergence of new generations of tablets and netbooks, the unified Internet-based consumption experience has taken another step forward.

No segment of entertainment and media will be immune to blurring with the Internet. This trend will be further accentuated with the deployment of various next generation networks (NGNs) in countries around the world. With theoretical speeds of up to 100Mbps, this upgrade in infrastructure will not only provide greater access to video and interactive content, but will also accelerate digital migration.

This trend is becoming more evident in television with the introduction of a new generation of Web-enabled TVs. The advancement of the device itself, coupled with upgrades in infrastructure, will be the catalyst for new forms of television consumption that will enable consumers to stream or download content whenever they want it, run applications, play games and ultimately view content on any device.

Theme 3: Increasing engagement and readiness to pay for content – driven by improved consumption experiences and convenience

In a media world of expanding choice and rising speed, the quality, convenience and pricing of the consumption experience will be the key determinants of consumer's engagement with a content service. Experience shows that – given the right price point – consumers will pay for easy-to-use, high-quality, relevant services, even if there are free, less reliable alternatives available.

The content proposition becomes all the more compelling when it delivers an experience that cannot easily be reproduced elsewhere, such as movies in 3D, sport on HD TV, or a live concert. Companies across all segments of entertainment and media are seeking to create and monetise richer and more compelling consumer experiences that cannot be reproduced in other environments.

Convenience at the point of use is a further important driver in convincing consumers to pay. In this regard, the flexibility, scale and accessibility of cloud computing are proving to be powerful assets for entertainment and media offerings.

Location-based services will be a further element of the drive to boost convenience and increase consumers' engagement with content services, thereby enhancing providers' ability to charge. "Hyperlocal" services – made possible by the addressability of Internet-based distribution or by using location-based mobile technology – will give consumers local news and information as well as enabling businesses to promote advertising to local consumers.

Experimentation in business models

Changing consumer behaviour around the three themes highlighted here have caused entertainment and media businesses to radically rethink their approaches to monetising content, as participants across the industry strive to identify and secure their optimal positioning and revenues in the digital value chain. With consumption habits continuing to change, businesses are experimenting and testing out new ways of monetising these new behaviours, while looking to maintain their offline revenues and realise synergies with digital offerings.

Digital migration puts revenues under pressure

As they continue this experimentation with business models, companies know that digital transformation will not necessarily benefit overall industry revenues. For example, online and mobile ad rates are currently lower than ad rates on traditional platforms – so when usage shifts from traditional platforms to digital platforms, the result can be a net decline in revenue. Digital end-user prices also tend to be lower than those on traditional platforms, so a move from traditional to digital has a similarly negative impact.

This means companies are fighting for a larger slice of a shrinking pie, and the challenge for content providers is to monetise rising digital consumption more effectively. While digital distribution provides a number of cost savings – lower manufacturing costs, savings on shipping, and reduced inventory management and returns costs – the continuing need to support a traditional infrastructure limits the overall benefit. In the book industry, for example, as long as a print market remains, the print infrastructure needs to be maintained. This means the digital savings will only apply to a small slice of the market.

Future hope for digital ad revenues?

There is hope that some digital revenues could exceed previous expectations – supported by the addressability of online advertising and an expansion in advertising around online content. Some research suggests that the shift towards blended cross-platform TV and Internet ad campaigns could result in Internet advertising actually becoming more "valuable" than TV ads, potentially twice as valuable.

To date, there has been a widespread view that consumers will not accept as many ads when consuming content online as when watching TV. However, consumers' tolerance of online ads has yet to be really tested and may be significantly greater than thought, especially given Internet ads' greater interactivity and the potential for increased relevance through better targeting.

Combine the potential for higher volumes of online advertising with its additional addressability – enabling ads to target specific customers in specific places at specific times – and the outlook for digital ad revenues becomes much brighter. The drawback for the industry is that this scenario may take some time to come about. While the technologies to support addressability are mature, their market penetration is still at an early stage, so the impact on Internet ad revenues is not yet significant.

Testing the limits of paid-for content

Meanwhile, experimentation is continuing around business and pricing models. Some newspaper and magazine publishers are testing out the limits of what consumers are prepared to pay for. While established financial publications such as the *Wall Street Journal*, *The Financial Times* and *The Economist* have protected their online content behind "pay-walls" for some time, it has been widely regarded as virtually impossible for newspapers and magazines to charge consumers for general online content.

However, in March 2010, News International broke ranks when it said two of its flagship UK newspapers – *The Times* and *The Sunday Times* – would start charging for the general news coverage on their Web sites from June 2010, although existing subscribers to the print editions would still have free online access. Some other newspaper publishers have committed to continuing to offer general news content free online, while all are eagerly tracking their readers' responses to developments in e-book readers.

In South Africa, online news services are currently mostly free, although News24 recently introduced a Breaking News Alerts SMS service at a rate of R5 per week.

Similar divergence and innovation in business models is evident across the industry. Variable pricing is being introduced for music downloads and the industry is still experimenting with moving from a pay-per-song downloading model to a monthly subscription for streamed music. Publishers are raising electronic book prices, reducing the differential between electronic and print and delaying electronic distribution to give print a dedicated window.

From ad-supported to "hybrid"

It does not appear that advertising alone can fully support the shift from traditional to digital platforms – putting the focus on hybrid ad-funded models blended with subscription and/or transaction revenues. True, digital advertising will grow faster than nondigital advertising during the next five years, but relevant digital advertising in 2014 will still be a third lower than projected print newspaper advertising.

This fragmentation of approach is very different from one or two years ago, when content providers were largely focusing on ad-supported models. The economic turbulence in many markets led to a decline in overall global advertising that also impacted growth rates in digital advertising in many countries. Even when the economy recovers, the sustainability of "pure" ad-supported business models is in doubt because of the relatively small size of digital advertising spend, particularly if we discount search, which is the fastest-growing component of online advertising.

With the shift away from "pure" ad-funded models, a growing proportion of business models look to generate revenues from consumers. However, the ability to monetise transactions depends on a range of issues, including who is involved in any partnership to deliver the service and where the balance of ownership lies in terms of the consumer relationship and brand loyalty.

A further question is how to collect the money. Micropayments can be a valuable tool, as demonstrated by social media sites gaining a mix of ad revenues and transactional micropayments from their social gaming applications. Despite the dramatic growth in micropayments in some markets, there is growing evidence that many consumers are happier paying a subscription or a small number of larger bills than making an ongoing series of very small payment decisions.

A related issue is the business model for social networking sites – a key question being whether they can generate ad revenues without alienating their user base. In April 2010, Twitter announced it intended to start running advertising, or "promoted tweets", at the top of search pages to generate revenues from companies. Such a move appears to open up clear potential for a hybrid "freemium" model, which blends advertising, subscription and transactional revenues and that includes a paid-for ad-free premium service.

Imperatives in the search for position in the digital value chain

Historically, entertainment and media's profitability was supported by the high costs of content creation and content distribution, which represented high barriers to entry. The migration to digital production and distribution has lowered these barriers. Combined with the increasing pace of migration, these commercial pressures mean companies have no time to waste in identifying, pursuing and occupying their optimal position in the digital value chain.

Social and consumer dynamics are at the heart of change. Time-starved individuals want both to use multiple, connected devices and to have a personal experience, often with others. The explosion in digital media choices also means they face trade-offs between the availability, quality and price of content.

At the same time, many people will continue with "traditional" habits such as reading a physical book or newspaper. Companies need to maintain these legacy revenue streams while investing in their digital services and creating a complementary and synergistic relationship between the two.

These dynamics will drive the emergence of a new industry value chain. Companies need to establish clarity about their role in it and their relationships with the other participants. Two important dimensions that they should focus on are scale and diversification – both of which are supported by emerging technologies, such as cloud computing, that reduce the costs of editing, storage, search and distribution. In addition, accessing infrastructure and customer relationship management (CRM) databases on a service-for-a-charge basis supports risk-taking, an ability to flex the cost base and easier collaboration.

Irrespective of the choice of business models, one consistent element is the increasing need to partner with other organisations. The proliferation of platforms and rising consumer expectations mean companies can no longer "be everything". Today's strategic partnerships in entertainment and media typically focus on two areas: revenue growth through access to intellectual property (IP) and sharing costs and/or risks. Cross-sector partnering will continue to escalate.

We believe seven capabilities will be key to operating successfully in the digital entertainment and media value chain:

- Strategic flexibility;
- Delivery of engagement and relationship with the customer through the consumption experience;
- Economies of scale and scope – driving synergies between different activities in conglomerates and using digital standards to exploit scale;
- Speed of decision-making and execution, with the appetite to experiment and fail;
- Agility in talent management;
- Ability to monetise brand/rights across platforms; and
- Strong capabilities in partnership structuring and M&A targeting and integration.

In developing or acquiring these capabilities, companies will also need to keep a close eye on the impact of four legacy challenges created by digital:

- **IP rights** – often the digital rights to proven content are at best uncertain and, at worst, impossible to untangle;
- **Release windows** – in a world of pervasive multi-channel digital content, basing release windows on geography and platforms no longer works;
- **Regulation** – the rapid rise of globally-available, ubiquitous digital content has seen policymakers and regulators worldwide struggling to keep pace. Entertainment and media companies need a firm grasp of regulatory trends across all jurisdictions in which they operate; and
- **Operational step-change** – organisations will need to clarify and deepen their understanding of their own operating model if they are to deliver their strategic intent.

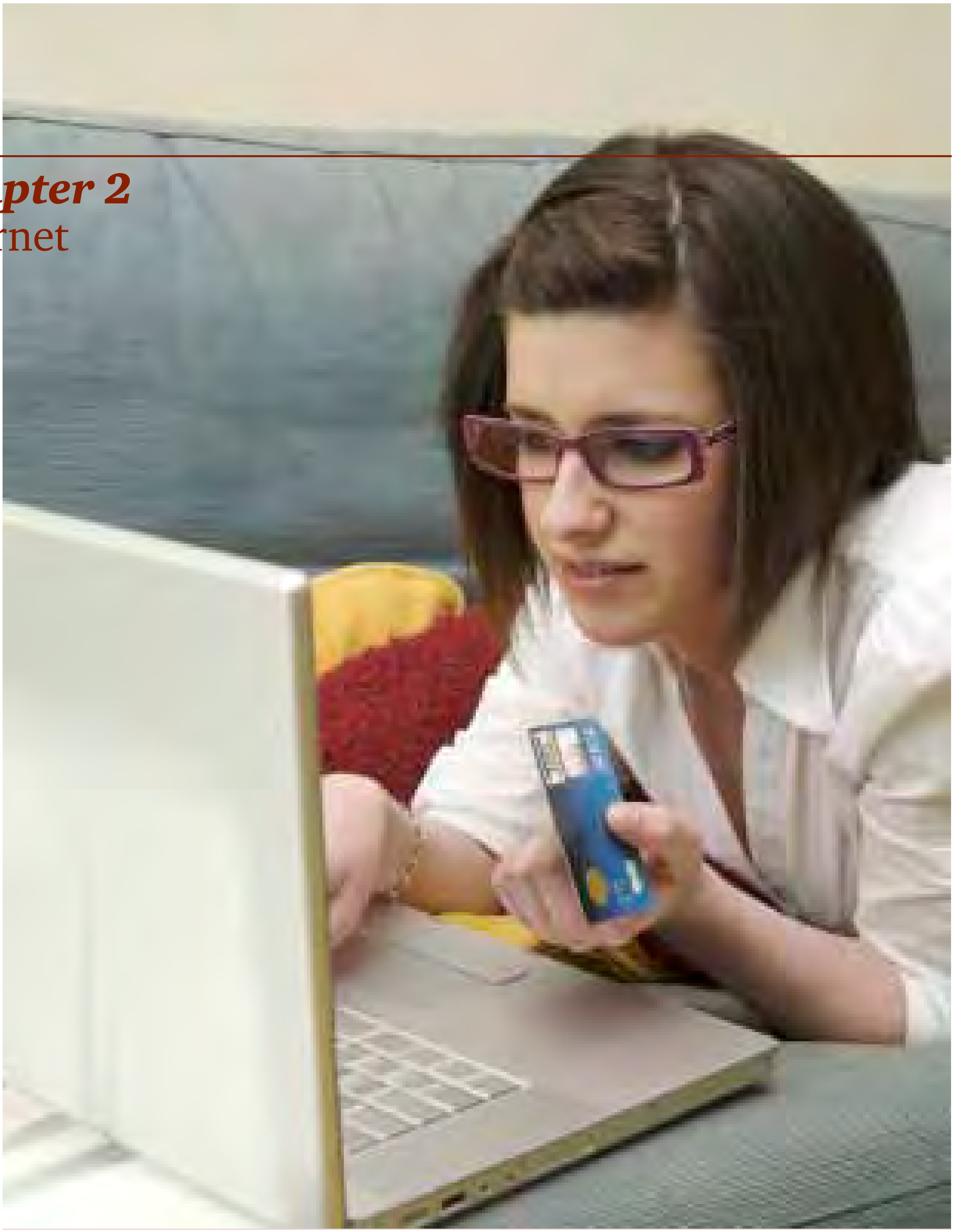
Conclusion

The economic turbulence and uncertainty of the past two years have been tough for E&M companies. But the most lasting legacy of the downturn may well prove to be its role in accelerating the pace of digital transformation, bringing with it new – and more profound – challenges.

The industry is at a defining moment and faces the challenge of re-evaluating and redefining its business models in ways that will ultimately redraw the value chain. Media companies that identify their optimal positioning and that move quickly to diversify their revenues, to increase scale when appropriate, and to reshape their operating models to realise that positioning, will be well-placed to succeed.

Sources: *Global entertainment and media outlook* (PwC, 2010); *Australian entertainment and media outlook* (PwC, 2010)

Chapter 2
Internet



Louis de Jager, Assistant Manager, PwC Southern Africa.

Elenor Smith, Assistant Manager, PwC Southern Africa.

The Internet market consists of spending by consumers to access the Internet as well as spending by advertisers. Internet wired and mobile access consists of fees paid by consumers to Internet service providers (ISPs) and to wireless carriers for Internet access via mobile devices, whether provided as a stand-alone service or as part of a bundle whose Internet component is estimated. Internet access spending does not include fixed line rental fees payable to Telkom. Internet advertising – wired and mobile – consists of spending by online advertisers on display, classified, paid search and other online formats as well as advertising delivered to mobile phones via formats designed for mobile handset screens.

Figures shown in this section do not include the following, which are included in the respective content chapters:

- Purchasing content such as music; and
- Spending on entertainment content either downloaded over the Internet or via mobile phones.

Overview

The South African Government has made broadband access a central priority and has set the goal of making broadband universally available by 2019. Increased capacity, increased competition and falling prices will contribute to growing broadband penetration. The number of broadband households more than doubled during the past two years and we expect it to more than quadruple during the next five years.

The Internet market in South Africa is still in its development phase. Fewer than 10% of households had a broadband connection in 2009. Internet advertising is still in the development phase and the mobile Internet access market is only emerging. In fact, although only 2.7% of wireless telephone subscribers used their mobile devices to access the Internet, more people accessed the Internet through mobile devices than through a fixed broadband connection.

There were 1.3 million mobile broadband users in 2009 compared with 800,000 fixed-line broadband users. When the 3.2 million dial-up users are included, the total number of Internet users was 5.3 million. Mobile broadband will be the fastest-growing technology during the next five years with an expected 50.7% compound increase to 10.1 million users by 2014. By 2014, 72% of broadband users will access the Internet through mobile devices and 63% of all Internet users will be accessing the internet via mobile devices.

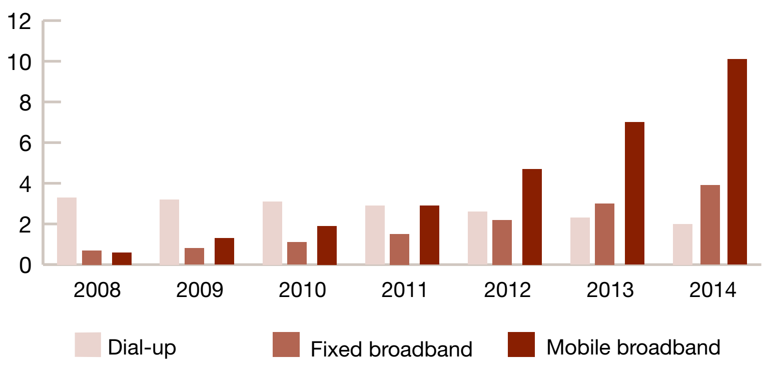
We also expect fixed broadband to show significant growth, rising to 3.9 million users in 2014, a 37.3% compound increase. The number of dial-up users will decline by 9.0% on a compound annual basis, falling to 2 million in 2014 from 3.2 million in 2009. Dial-up will account for only 12.5% of Internet users in 2014 compared with 60% in 2009.

Internet users (millions)

Technology	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Dial-up	3.3	3.2	3.1	2.9	2.6	2.3	2.0	-9.0
Fixed broadband	0.7	0.8	1.1	1.5	2.2	3.0	3.9	37.3
Mobile broadband	0.6	1.3	1.9	2.9	4.7	7.0	10.1	50.7
Total	**4.6**	**5.3**	**6.1**	**7.3**	**9.5**	**12.3**	**16.0**	**24.7**

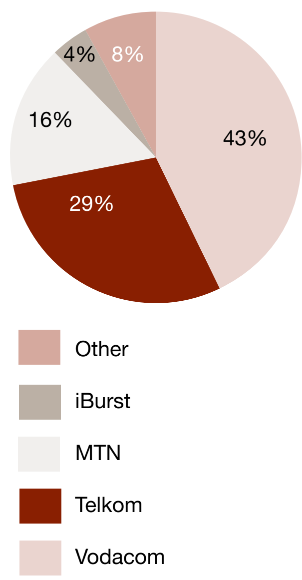
Sources: Internet World Stats, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Internet users (millions)



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Distribution of broadband subscribers (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Vodacom was the principal broadband provider in 2009, accounting for 43% of subscriptions, followed by Telkom at 29%, MTN at 16% and iBurst at 4%. There were also a number of other small providers that collectively accounted for 8% of the broadband market. Cell C entered the broadband market late in 2010 offering its services in selected areas. The broadband market share analysed here relates to household consumers and does not include corporate customers.

Internet use in South Africa is concentrated among people aged 25 and older. Although comprising only 48% of the total population in 2009, 87% of Internet users were 25 and older. Usage was concentrated in the 25-44 age group, which accounted for 56% of all Internet users, while representing 28% of the population. Even people aged 55 and older were more likely to access the Internet than those aged 25 and under. The proportion of Internet users among the older age group was 27% higher than its share of the population. At the other extreme, only 2% of Internet users were 19 or younger although this age group accounted for 40% of the population.

Distribution of Internet users by age

Age group	Percentage of Internet users	Percentage of the population
19 and under	2	40
20-14	11	12
25-34	31	17
35-44	25	11
45-54	17	9
55+	14	11

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

A key reason why Internet use tends to be more concentrated among older people is that it is highly correlated with income, and household income generally rises with age up to retirement. People in households with monthly incomes of R9,000 or higher accounted for 79% of all Internet users, even though that group represented only 27% of the population. More extreme, although accounting for only 3% of the population, people in households with monthly incomes of R40,000 or higher comprised 26% of all Internet users. At all income levels, the incidence of Internet use rises with income.

Monthly household income (R)	Percentage of Internet users	Percentage of the population
Less than 3,000	9	41
3,000-8,999	12	32
9,000-15,999	16	13
16,000-24,999	18	7
25,000-39,999	19	4
40,000-69,999	17	2
70,000+	9	1

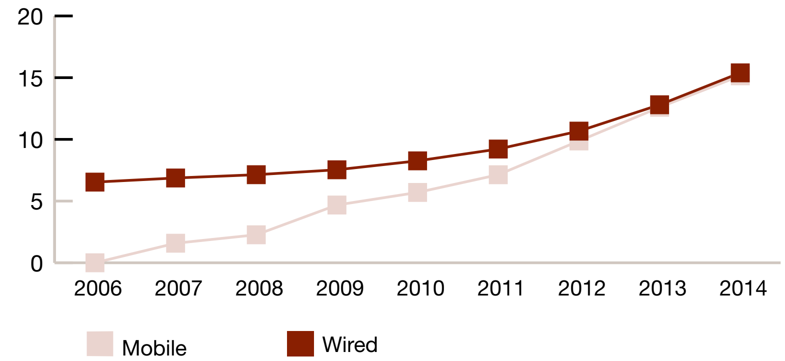
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

With Internet penetration relatively low, there is significant room for growth. During the past five years, overall Internet spending rose at double-digit annual rates, including a 29.8% increase in 2009 despite the recession. Access spending expanded by 29.9% and the small advertising market grew by 27.8%.

Fixed broadband access spending, which in 2005 was as large as dial-up, overtook dial-up in 2009 and by 2014 will be eight times higher. Total wired access spending rose by 5.6% in 2009 and we expect a 9.6% increase in 2010. We then look for a return to double-digit growth in 2011 with annual increases in excess of 20% during 2013-14 when the declining dial-up market is expected to have less of an impact on total spending than it has now. For the forecast period as a whole, wired Internet access spending will increase at a 15.4% compound annual rate to R15.4 billion by 2014.

Increasing wired household access is an emerging mobile access market. The wireless infrastructure is more advanced than the broadband infrastructure in South Africa and faster speeds are spurring the market. We expect mobile Internet access spending to reach R15.2 billion in 2014, a 26.5% compound annual increase from 2009.

Internet users (millions)



PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total Internet access spending will increase at a 20.1% compound annual rate to R30.5 billion in 2014 from R12.2 billion in 2009.

The effects of an expanding broadband subscriber base offset the adverse impact of the recession – wired Internet advertising rose by 25.7% in 2009. We expect a pickup in 2010 as online advertising associated with the 2010 FIFA World Cup has boosted spending. We then expect an expanding broadband subscriber base to continue to fuel growth with annual increases continuing to exceed 20%. Growth will average 25.1% compounded annually for the forecast period as a whole.

An expanding mobile Internet subscriber base will boost mobile advertising. From a small base, we expect this market to expand at an 80.5% compound annual rate.

Total Internet advertising will increase at a 29.2% compound annual rate to an estimated R1.6 billion in 2014 from R455 million in 2009.

The overall Internet market will rise to R32.2 billion by 2014 from R12.7 billion in 2009, averaging 20.5% growth compounded annually.

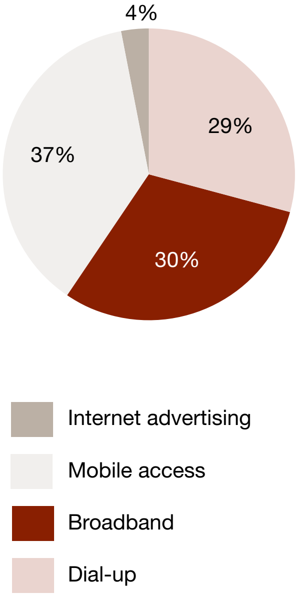
South Africa's Internet market is at an earlier stage of development compared with the EMEA region as a whole, but is beginning the process of narrowing the gap.

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

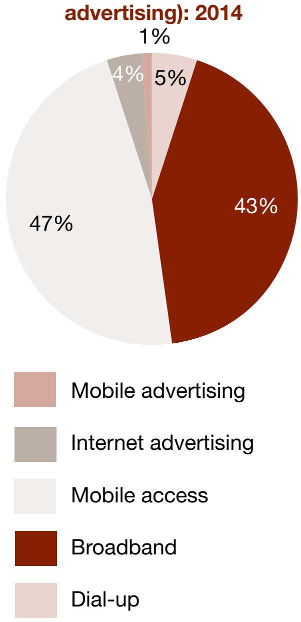
South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Dial-up	4,092	4,196	4,158	3,969	3,720	3,363	3,024	2,550	2,112	1,710
Broadband	1,122	2,340	2,712	3,168	3,816	4,896	6,192	8,118	10,692	13,680
Total wired Internet access	5,214	6,536	6,870	7,137	7,536	8,259	9,216	10,668	12,804	15,390
Mobile access	NA	NA	1,584	2,268	4,680	5,700	7,134	9,870	12,600	15,150
Total Internet and Mobile access	5,214	6,536	8,454	9,405	12,216	13,959	16,350	20,538	25,404	30,540
Internet advertising	150	180	255	350	440	575	700	870	1,100	1,350
Mobile advertising	NA	NA	3	6	15	29	51	99	175	287
Total advertising	150	180	258	356	455	604	751	969	1,275	1,637
Total access and advertising	**5,364**	**6,716**	**8,712**	**9,761**	**12,671**	**14,563**	**17,101**	**21,507**	**26,679**	**32,177**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Internet spending (access & advertising): 2009



Internet spending (access & advertising): 2014



PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Internet access spending

Wired access

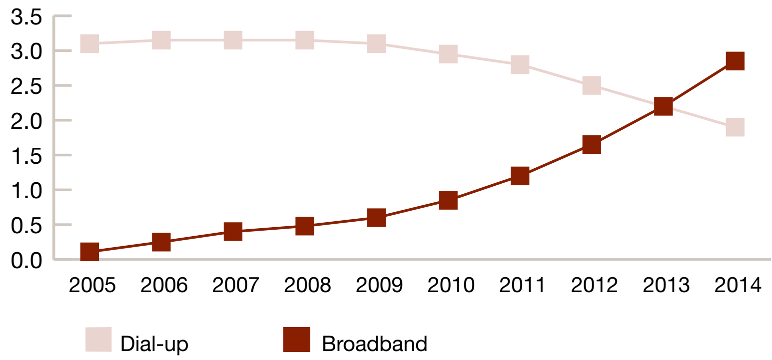
Limited competition and high costs have constrained broadband in South Africa. As recently as early 2008, Telkom was the only provider of international bandwidth. Neotel entered the market in April 2008 with both companies using the SAT-3/SAFE undersea cable that connects South Africa with Europe through Portugal and Asia through Malaysia. SEACOM, a 1.27 Tbps cable connecting South Africa, Kenya, Tanzania, Mozambique and Uganda with Europe and India, became operational in mid 2009 and significantly opened up the market. SEACOM's South Africa capacity allocation was quickly sold out.

In March 2010, Internet service provider (ISP) M-Web became the first major player in South Africa to offer uncapped ADSL on a significant scale. Other ISPs such as MyISP, Axxess, Afrihost, Imagine Interexcel, Interprise, iSat, Nexus, Plugg, RSA Web, SA Gateway, Sainet, Snowball, Openweb, Webnow, and Webstorm have subsequently entered the market and are offering uncapped plans that allow for unlimited downloads for a fixed monthly fee.

The opening of SEACOM prompted further infrastructure upgrades. Neotel, MTN and Vodacom are jointly building a R2-billion fibre-optic backhaul network that will connect all the major cities in South Africa.

The 1.4 Tbps East African Submarine Cable System is expected to be operational in late 2010 and the 3.8 Tbps West Africa Cable System (WACS) will be available in mid 2011. The 5.12 Tbps Africa Coast to Europe Cable (ACE) and the South African link of the 1.28 Tbps Main One Cable is expected to go live in 2012. The combination of these international cable deployments will dramatically increase overall broadband capacity and lead to lower prices.

Wired Internet households (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In addition to the increase in capacity, changes in the regulatory environment are making the market more competitive. Prior to 2007, competing ISPs were required to purchase network access from Telkom. During the past two years, the Government began granting communication network services licences that allow ISPs to either build their own networks or to buy network access from any company they choose. The result has been the emergence of a number of resellers and competing providers.

Competitive carriers are investing in WiMAX, a fixed wireless technology, to provide broadband for areas currently not reached by DSL, thereby making broadband more widely available.

In October 2009, the Government issued a licence to Broadband Infraco, a state-owned company created in 2007, to sell domestic broadband services on a wholesale basis to ISPs, providing additional competition to Telkom, Vodacom and MTN. Broadband Infraco has an 11,000-km fibre-optic network as well as an investment in WACS that will allow it to offer international connectivity when the cable becomes available in 2011.

The combination of increased competition, lower prices, greater capacity and an overall improved infrastructure will lead to a significant boost in broadband penetration. We expect the number of fixed broadband households to increase from 600,000 in 2009 to 2.9 million by 2014, a 36.6% compound annual increase. Fixed broadband household penetration will reach an estimated 29.4% in 2014 from only 6.2% in 2009.

Growth in fixed broadband will come in part from dial-up subscribers trading up. The dial-up household universe fell by 1.6% in 2009 to 3.1 million. As broadband availability increases, we expect steeper decreases in dial-up, particularly during 2012-14. The dial-up household base will fall to a projected 1.9 million by 2014, a 9.3% decrease compounded annually. Dial-up household penetration will decrease to 19.6% in 2014 from 32.1% in 2009.

The number of fixed broadband subscribers will equal the dial-up subscriber base in 2013, and by 2014 dial-up will be a third lower.

The overall fixed Internet household base rose by only 1.9% in 2009 as the declines in dial-up nearly offset growth in broadband. As the dial-up subscriber base becomes smaller, further decreases will have less of an effect on the total number of Internet households. Consequently, we expect faster growth during the next five years.

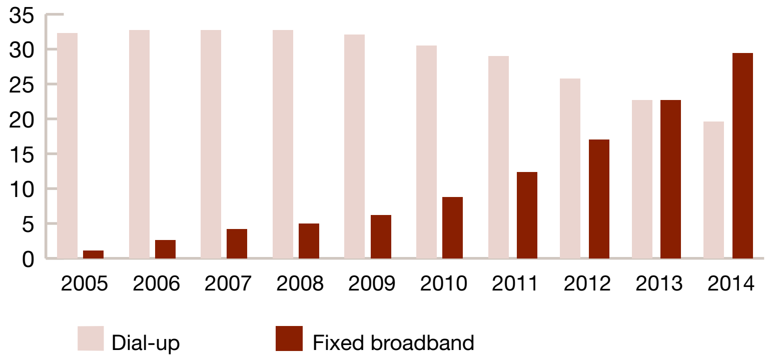
The total number of wired Internet households is expected to reach 4.8 million in 2014 from 3.7 million in 2009, a 5.1% compound annual increase. We anticipate household penetration will rise to 49.0% in 2014 from 38.3% in 2009.

Wired internet households (millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Dial-up	3.10	3.15	3.15	3.15	3.10	2.95	2.80	2.50	2.20	1.90	
% change	*3.3*	*1.6*	*0.0*	*0.0*	*-1.6*	*-4.8*	*-5.1*	*-10.7*	*-12.0*	*-13.6*	*-9.3*
Fixed broadband	0.11	0.25	0.40	0.48	0.60	0.85	1.20	1.65	2.20	2.85	
% change	*175.0*	*127.3*	*60.0*	*20.0*	*25.0*	*41.7*	*41.2*	*37.5*	*33.3*	*29.5*	*36.6*
Total	**3.21**	**3.40**	**3.55**	**3.63**	**3.70**	**3.80**	**4.00**	**4.15**	**4.40**	**4.75**	
% change	***5.6***	***5.9***	***4.4***	***2.3***	***1.9***	***2.7***	***5.3***	***3.8***	***6.0***	***8.0***	***5.1***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Wired household penetration (%)



PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fixed broadband market

Increased competition has significantly reduced broadband access fees during the past five years. The average wired broadband connection cost R530 in 2009, 38% lower than the R850 average in 2005.

The full-year's effect of the opening of SEACOM and the new international cables that will become available during the next two years will lead to further competition and accelerated decreases in the average monthly fee. We expect the average fee to drop to R430 by 2011, a 19% decline from 2009. Thereafter, decreases will moderate, in part because some subscribers will opt for faster speeds that command premium prices. We expect that the average broadband subscriber will pay R400 per month in 2014, a 5.5% compound annual decrease from 2009.

The drop in monthly fees along with improvement in the broadband infrastructure will drive fixed broadband penetration during the next five years.

Broadband access spending will increase from R3.8 billion in 2009 to R13.7 billion in 2014, a 29.0% compound annual increase. With average prices expected to be lower in 2014 than in 2009, spending growth will lag penetration growth.

Wired broadband access market

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Subscribers (millions)	0.11	0.25	0.40	0.48	0.60	0.85	1.20	1.65	2.20	2.85	
% change	*175.0*	*127.3*	*60.0*	*20.0*	*25.0*	*41.7*	*41.2*	*37.5*	*33.3*	*29.5*	*36.6*
Average monthly fee (R)	850	780	565	550	530	480	430	410	405	400	
% change	*-1.7*	*-8.2*	*-27.6*	*-2.7*	*-3.6*	*-9.4*	*-10.4*	*-4.7*	*-1.2*	*-1.2*	*-5.5*
Broadband access spending (R millions)	1,122	2,340	2,712	3,168	3,816	4,896	6,192	8,118	10,692	13,680	
% change	*170.4*	*108.6*	*15.9*	*16.8*	*20.5*	*28.3*	*26.5*	*31.1*	*31.7*	*27.9*	*29.1*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Dial-up market

Dial-up, a less expensive alternative to broadband, continued to expand through 2007, serving areas not reached by the broadband infrastructure and households that could not afford broadband. During the past three years, however, as broadband prices have declined, the number of dial-up subscribers flattened and then began to fall in 2009.

Continued declines in broadband fees and the increased availability of broadband to more areas will lead to further declines in dial-up, with decreases accelerating during 2012-14. By 2014, there will be an estimated 1.9 million dial-up subscribers, down 9.3% on a compound annual basis from 3.1 million in 2009.

Infrastructure improvements and increased competition will also put downward pressure on dial-up fees. Dial-up fees have been trending down since 2005, falling from R110 per month to R100 per month in 2009. We expect these decreases to continue during the next five years with the average fee falling to R75 per month by 2014.

Dial-up access spending will drop from R3.7 billion in 2009 to an expected R1.7 billion in 2014, a 14.4% compound annual decrease.

Dial-up access market

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Subscribers (millions)	3.10	3.15	3.15	3.15	3.10	2.95	2.80	2.50	2.20	1.90	
% change	*3.3*	*1.6*	*0.0*	*0.0*	*-1.6*	*-4.8*	*-5.1*	*-10.7*	*-12.0*	*-13.6*	*-9.3*
Average monthly fee (R)	110	111	110	105	100	95	90	85	80	75	
% change	*-8.3*	*0.9*	*-0.9*	*-4.5*	*-4.8*	*-5.0*	*-5.3*	*-5.6*	*-5.9*	*-6.3*	*-5.6*
Dial-up access spending (R millions)	4,092	4,196	4,158	3,969	3,720	3,363	3,024	2,550	2,112	1,710	
% change	*-5.3*	*2.5*	*-0.9*	*-4.5*	*-6.3*	*-9.6*	*-10.1*	*-15.7*	*-17.2*	*-19.0*	*-14.4*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile access

South Africa has a well-developed wireless infrastructure and a competitive wireless market dominated by Vodacom, MTN, Telkom Mobile and Cell C. In 2009, the main providers have been offering high-speed packet access (HSPA) with download speeds up to 7.2 Mbps.

In early 2010, the leading mobile providers introduced new higher-speed services. Vodacom began providing download speeds up to 14.4 Mbps in May 2010 with plans that included additional data on most of its packages at no additional cost. MTN also launched a 14.4 Mbps service.

In selected areas, Vodacom and MTN have also launched HSPA+ networks that offer download speeds of up to 21.1 Mbps. These services are available at airports, in certain high-density locations and at stadiums hosting the 2010 FIFA World Cup. Cell C is also active, spending R5 billion to expand its network coverage and rollout a high-speed mobile broadband service.

New smartphones with touchscreen capabilities, full keyboards and large screens are being introduced. Such innovations will make navigating the Internet easier and should further stimulate penetration.

There were 47.5 million mobile phone subscribers in South Africa in 2009, of which approximately 10 million had Internet access capability. By contrast, only about 8 million households had PCs that could access the Internet. Consequently, the opportunities for Internet access are actually higher through mobile devices than through wired technologies.

There were 1.3 million people, 2.7% of the mobile telephone subscriber base, who accessed the Internet through mobile devices in 2009, more than twice the number of wired broadband subscriptions. We expect this percentage to significantly increase during the next five years as new handsets with advanced Internet capabilities become the norm and as wireless download speeds increase. The iPhone is becoming very popular in South Africa as are other smartphones such as the Google Nexus 1. We project that by 2014, 20% of mobile telephone subscribers will access the Internet through their mobile devices.

We project the number of mobile Internet subscribers to increase to 10.1 million in 2014, a 50.7% compound annual increase from 2009.

We estimate that the average subscriber paid R300 per month for a mobile Internet access package in 2009. Competition in the wireless market will put downward pressure on prices. Several companies already announced significant decreases in 2010. We project average monthly spending to drop to R250 in 2010 and to fall to R125 by 2014.

In spite of the decrease in the average spending per subscriber, aggregate mobile Internet access spending is expected to rise from R4.7 billion in 2009 to R15.2 billion in 2014, a 26.5% compound annual increase. This increase will be driven by significant growth in the subscriber base from 1.3 million in 2009 to 10.1 million in 2014.

Mobile Internet access market

South Africa	2007	2008	2009	2010	2011	2012	2013	2014
Wireless telephone subscribers (millions)	42.3	45.0	47.5	48.5	49.0	49.5	50.0	50.5
Percentage accessing Internet through mobile devices (%)	1.0	1.3	2.7	4.0	6.0	9.5	14.0	20.0
Mobile Internet access subscribers (millions)	0.4	0.6	1.3	1.9	2.9	4.7	7.0	10.1
Average monthly spending (R)	330	315	300	250	205	175	150	125
Aggregate annual spending (R millions)	1,584	2,268	4,680	5,700	7,134	9,870	12,600	15,150

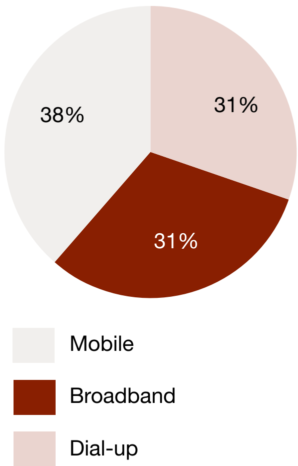
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total access spending

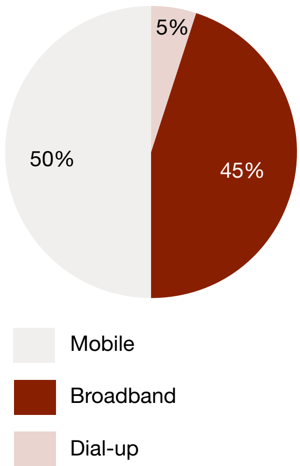
Total wired access spending is expected to grow at a 15.4% compound annual rate during the next five years from R7.5 billion in 2009 to R15.4 billion in 2014.

When mobile access is included, total Internet access spending will increase from R12.2 billion in 2009 to R30.5 billion in 2014, growing at a 20.1% compound annual rate. In 2014, mobile access will comprise nearly half of total access spending compared with 38% in 2008.

Internet access spending: 2009



Internet access spending: 2014



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Internet access spending (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-2014 CAGR
Dial-up	4,092	4,196	4,158	3,969	3,720	3,363	3,024	2,550	2,112	1,710	
% change	*-5.3*	*2.5*	*-0.9*	*-4.5*	*-6.3*	*-9.6*	*-10.1*	*-15.7*	*-17.2*	*-19.0*	*-14.4*
Broadband	1,122	2,340	2,712	3,168	3,816	4,896	6,192	8,118	10,692	13,680	
% change	*170.4*	*108.6*	*15.9*	*16.8*	*20.5*	*28.3*	*26.5*	*31.1*	*31.7*	*27.9*	*29.1*
Wired Total	5,214	6,536	6,870	7,137	7,536	8,259	9,216	10,668	12,804	15,390	
% Change	*10.1*	*25.4*	*5.1*	*3.9*	*5.6*	*9.6*	*11.6*	*15.8*	*20.0*	*20.2*	*15.4*
Mobile	–	–	1,584	2,268	4,680	5,700	7,134	9,870	12,600	15,150	
% change	–	–	–	*43.2*	*106.3*	*21.8*	*25.2*	*38.4*	*27.7*	*20.2*	*26.5*
Total access spending	**5,214**	**6,536**	**8,454**	**9,405**	**12,216**	**13,959**	**16,350**	**20,538**	**25,404**	**30,540**	
% change	***10.1***	***25.4***	***29.3***	***11.2***	***29.9***	***14.3***	***17.1***	***25.6***	***23.7***	***20.2***	***20.1***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Advertising

Wired Internet advertising

Wired Internet advertising – advertising on Websites that are intended to be accessed via computers – rose by 25.7% in 2009 to R440 million, apparently unaffected by the economic recession. The 25% increase in the number of fixed broadband households in 2009 overcame the impact of the adverse economic conditions.

Advertisers target broadband users because they spend more time online than dial-up users and visit more Web sites, making them appealing for search and online classified advertising. Consequently, the rapidly expanding broadband universe attracted increased spending by advertisers.

Search engine sites are very popular in South Africa. Google South Africa was the leading Web site in early 2010 in terms of visitors. The international Google site ranked third and Yahoo! and MSN were also among the top 20 sites visited. Of the top 20 sites visited by users in South Africa, five were South African.

Top 20 most visited sites

Site	URL
Google South Africa	google.co.za
Facebook	facebook.com
Google	google.com
YouTube	youtube.com
Yahoo!	yahoo.com
Wikipedia	wikipedia.org
Twitter	twitter.com
News24	news24.com
Gumtree	gumtree.co.za
Blogger	blogger.com
Windows Live	live.com
Standard Bank	standardbank.co.za
WordPress	wordpress.com
Absa Bank	absa.co.za
LinkedIn	linkedin.com
Microsoft	microsoft.com
Amazon	amazon.com
Independent Online	iol.co.za
Flickr	flickr.com
Microsoft Network (MSN)	msn.com

Sources: Alexa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Not surprisingly, sponsored search is the leading online advertising category at R233 million in 2009, more than half the R440 million in total spending. Google is the dominant search engine and the leader in generating search advertising. Search advertising enables advertisers to target users just when they are looking for specific information relevant to the advertiser, a feature not readily available in other media.

We expect search advertising to increase at a 25.3% compound annual rate to reach R721 million in 2014.

South Africans also use the Internet to get information, as evidenced by the high rankings for sites such as Wikipedia and News24. Online banking also is popular as two banks –Standard Bank and Absa Bank – have sites in the top 20.

Social networks are among the most visited sites in South Africa. There were five social network sites in the top 20 and three – Facebook, YouTube and Twitter – in the top 10. Facebook ranked second. YouTube fourth and Twitter seventh. LinkedIn and Flickr were also in the top ten. In addition to these sites, MXit and MySpace are also heavily visited in South Africa.

Top social networking sites in South Africa
Facebook
YouTube
Twitter
LinkedIn
Flickr
MXit
MySpace

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Social networking, as well as information and banking sites, are good platforms for display advertising, the next largest category at R141 million in 2009, up 29.4% from 2008. The Internet allows display ads to be targeted at niche audiences using specialist Web sites. It also permits demographic targeting and even time-of-day targeting. The Internet also provides a shopping environment and online commerce has been growing in conjunction with the broadband universe. Advertisers want to reach consumers when they are buying and the Internet provides a means to do that.

Because there is virtually an unlimited inventory for display advertising, ad prices are low. We expect that low prices will lead to a decline in share for display advertising. Although still growing at healthy rates, our projection of 22.7% compound annual growth for display will be slower than projected growth in other categories. We expect that display advertising will total an estimated R392 million in 2014.

The remaining portion of the market consists of classified, rich media, video and other advertising. Spending rose by 6.5% to R66 million in 2009. The Internet also provides a good platform for classified advertising because users can sort and select the categories they want, giving it an advantage over print formats. Gumtree, a classified advertising site, was the ninth most visited in early 2010 and we expect classified advertising to increasingly migrate from print to online. We also expect that as broadband penetration increases, there will be an emerging video advertising market that most households will be able to experience. We expect growth to accelerate beginning in 2010 and project these formats to be the fastest growing during the next five years, with a projected 29.1% compound annual increase to R237 million by 2014.

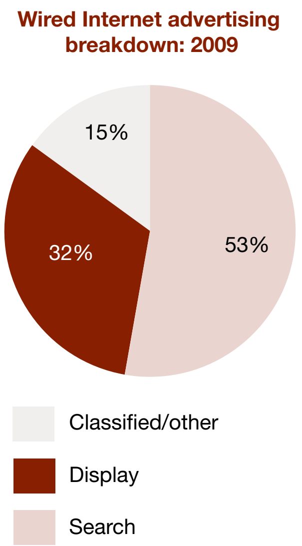
Overall online advertising will receive an incremental boost in 2010 from advertising associated with the 2010 FIFA World Cup. Although television will generate most of the advertising revenue associated with the event, a number of sponsors have also bought inventory on the Internet. We project growth to improve to 30.7% in 2010. We then look for a continuation of increases in excess of 20% annually, driven by continued broadband growth. Wired Internet advertising will reach R1.4 billion in 2014, a 25.1% increase compounded annually from 2009.

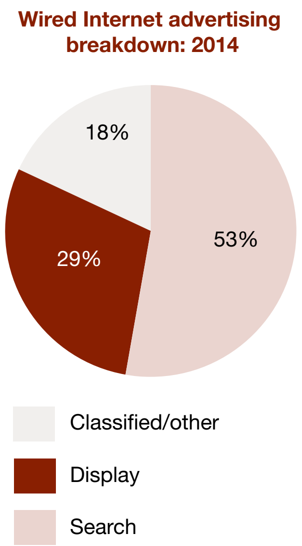
Despite these large percentage gains, online advertising in South Africa remains relatively small.

Wired Internet advertising (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Search	49	70	117	179	233	306	372	463	586	721	
% change	*53.1*	*42.9*	*67.1*	*53.0*	*30.2*	*31.3*	*21.6*	*24.5*	*26.6*	*26.8*	*25.3*
Display	42	50	77	109	141	187	224	270	330	392	
% change	*44.8*	*19.0*	*54.0*	*41.6*	*29.4*	*32.6*	*19.8*	*20.5*	*22.2*	*24.8*	*22.7*
Classified/ other	59	60	61	62	66	82	104	137	184	237	
% change	*51.3*	*1.7*	*1.7*	*1.6*	*6.5*	*24.2*	*26.8*	*31.7*	*34.3*	*24.3*	*29.1*
Total	**150**	**180**	**255**	**350**	**440**	**575**	**700**	**870**	**1,100**	**1,350**	
% change	***50.0***	***20.0***	***41.7***	***37.3***	***25.7***	***30.7***	***21.7***	***24.3***	***26.4***	***25.7***	***25.1***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates





Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile advertising

Advertising delivered to mobile phones, excluding text message ads from carriers, is a small but growing segment of the market. Spending totaled R15 million in 2009, 150% more than in 2008 and five times the level in 2007.

Growth in the number of people using their mobile devices to access the Internet is creating opportunities for advertisers. Smartphones, which are contributing to growth in mobile access because they make it easier to navigate the Internet, also provide a good platform for mobile ads because of their larger screens compared with standard handsets.

Mobile sites suitable for access by smartphones are emerging, with dedicated advertising that is incremental to wired online advertising.

With the number of mobile Internet access subscribers projected to increase from 1.3 million in 2009 to 10.1 million in 2014, growth in the potential mobile audience makes the medium attractive to advertisers. Additionally, mobile phones can reach young people who are often difficult to reach through traditional media.

Mobile television is also expected to become a presence in South Africa and we predict it will contribute to mobile advertising during the latter part of the forecast period. Mobile TV will be supported in part by advertising. A mobile broadcasting licence was awarded to local broadcaster, e.tv, in the first quarter of 2010 and to MultiChoice in September 2010. A second licence application period will commence in the third quarter of 2010.

Low mobile ad rates are beginning to attract advertisers although they are currently limiting aggregate spending. Annual advertising per mobile Internet subscriber averaged only R11.89 in 2009, compared with nearly R120 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 2014, annual advertising per mobile access subscriber will be R28.42, a 19.0% compound annual increase from 2009.

Aggregate mobile advertising will rise to a projected R287 million in 2014, an 80.5% compound annual increase from 2009.

Mobile Internet advertising

South Africa	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Mobile Internet subscribers (millions)	0.4	0.6	1.3	1.9	2.9	4.7	7.0	10.1	
% change		*50.0*	*116.7*	*46.2*	*52.6*	*62.1*	*48.9*	*44.3*	*50.7*
Annual mobile advertising per mobile subscriber (R)	7.18	9.64	11.89	15.13	17.50	20.96	25.00	28.42	
% change		*34.3*	*23.3*	*27.2*	*15.7*	*19.8*	*19.3*	*13.7*	*19.0*
Aggregate Mobile Internet advertising (R millions)	3	6	15	29	51	99	175	287	
% change		*100.0*	*150.0*	*93.3*	*75.9*	*94.1*	*76.8*	*64.0*	*80.5*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total Internet advertising

Total Internet advertising will increase from R455 million in 2009 to R1.6 billion in 2014, growing at a 29.2% compound annual rate.

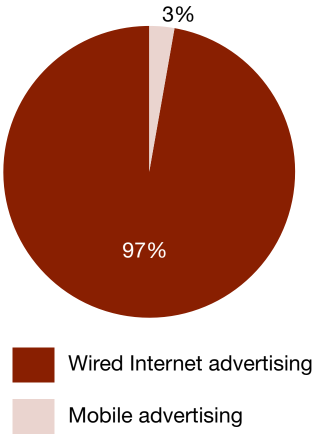
Mobile advertising will account for 17.5% of total Internet advertising in 2014, compared with 3.3% in 2009.

Internet advertising: wired and mobile (R millions)

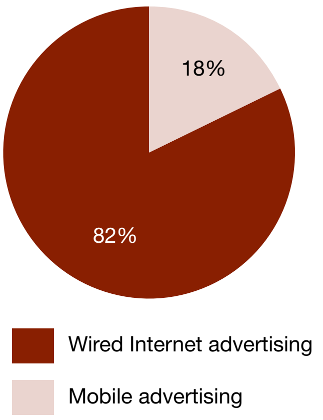
South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Wired Internet advertising	150	180	255	350	440	575	700	870	1,100	1,350	
% change	*50.0*	*20.0*	*41.7*	*37.3*	*25.7*	*30.7*	*21.7*	*24.3*	*26.4*	*22.7*	*25.1*
Mobile advertising	NA	NA	3	6	15	29	51	99	175	287	
% change	–	–	–	*100.0*	*150.0*	*93.3*	*75.9*	*94.1*	*76.8*	*64.0*	*80.5*
Total advertising	**150**	**180**	**258**	**356**	**455**	**604**	**751**	**969**	**1,275**	**1,637**	
% change	***48.5***	***20.0***	***43.3***	***38.0***	***27.8***	***32.7***	***24.3***	***29.0***	***31.6***	***28.4***	***29.2***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Internet advertising – wired and mobile: 2009



Internet advertising – wired and mobile: 2014



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer insights: Internet

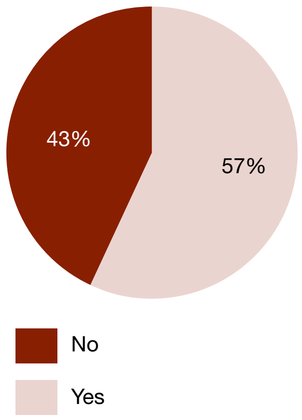
About this research

This publication aims to provide readers with useful information and to bring this to life by including real-life consumer insights. To this end, we commissioned GlobalEdge Marketing Consultants to perform consumer lifestyle research relating to the media and entertainment industry.

This research comprised face-to-face interviews with a sample of consumers that included a mix of the following demographic groups:

- *Persons between the ages of 15 and 50;*
- *A mix of racial groups;*
- *Males and females;*
- *Residing in Gauteng, the Western Cape and KwaZulu-Natal; and*
- *LSM 5-7 and LSM 8-10.*

Do you have internet access?

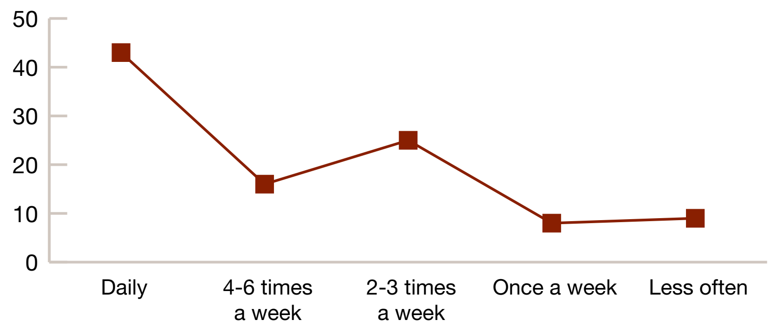


From where do you usually access the Internet?	
Only at home	30%
Only at work	17%
50% at work, 50% at home	14%
Mostly at work, but occasionally from home	11%
Mostly at home, but occasionally from work	4%
Only at school / university	6%
At school / university and home	5%

Where do you have Internet access?	
At home only	39%
At work only	24%
Both at work and home	19%
Internet café	16%
At school / university	12%
At friends	4%

At what time of day do you use the Internet?	
Early morning (06:00-07:59)	5%
Morning (08:00-09:59)	29%
Mid morning (10:00-11:59)	37%
Lunchtime (12:00-13:59)	35%
Early afternoon (14:00-15:59)	33%
Late afternoon (16:00-17:59)	32%
Evening (18:00-19:59)	29%
Night time (20:00 onwards)	15%

How often do you access the Internet? (%)

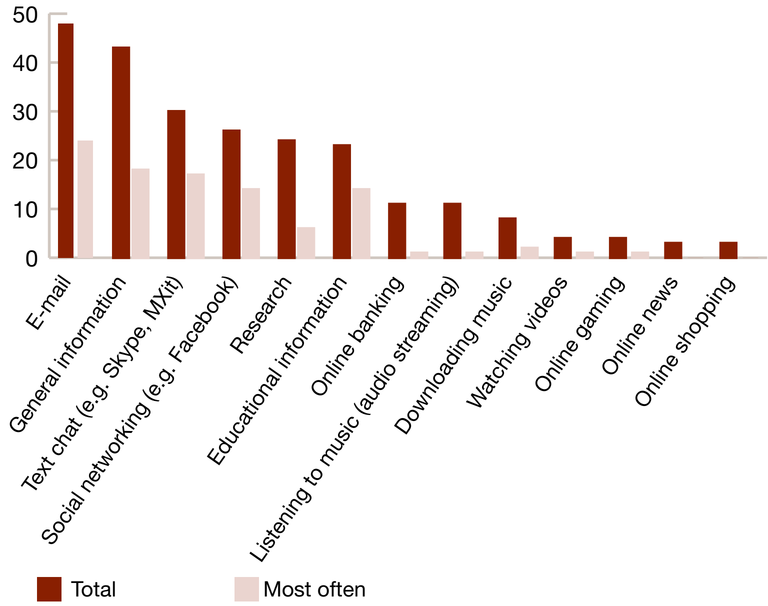


Method of access	
Cell phone	40%
ADSL	33%
3G	22%
Wireless	16%
Dial-up	8%

What do you usually access the Internet for?

The web is utilised predominantly for communication in the form of e-mails, chat and social networking / text chat as well as for general information or research. E-mail is a key tool.

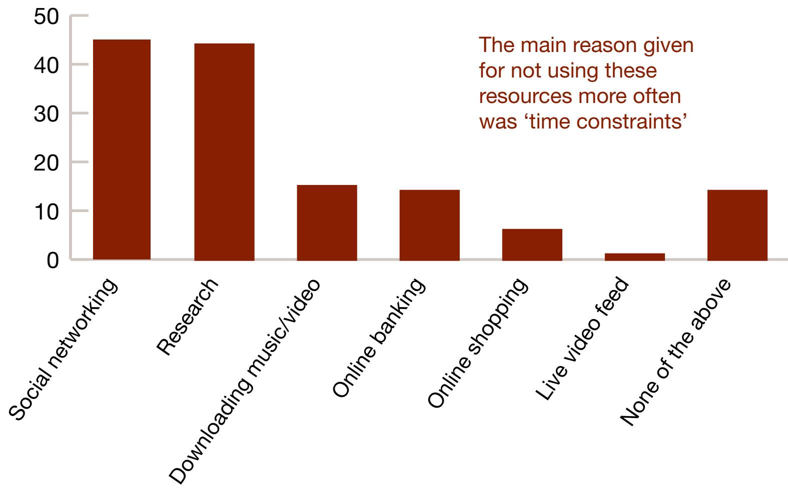
What do you usually access the Internet for? (%)



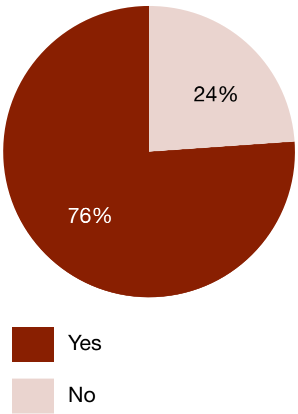
What do you most regularly use the Internet for?

Respondents were given a list of online resources and asked which they use most regularly. Social networking and research were the most popular.

What do you most regularly use the Internet for? (%)



Are you concerned about Internet privacy?



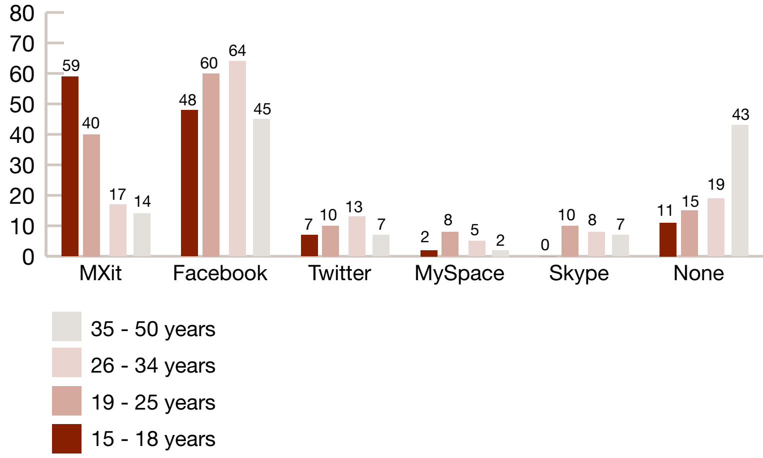
Concern about privacy on the Internet

No less than 76% of respondents are concerned about Internet privacy, which is also reflected in the fact that 75% also said they would never use their credit card online.

Main consideration when deciding on Internet provider	
Speed of connection	37%
Price	25%
Well-known brand	10%
Coverage	8%
Data limitations	6%
Variety of packages	5%
Good afters-sale service	4%
Recommended by someone	4%

As many as 72% of respondents say they do not pay as much attention to adverts on the Internet as they do to adverts in other mediums such as TV and print.

Membership of social networking sites? (%)



Membership of social networking sites

More than half of respondents that utilised social networking sites use Facebook.

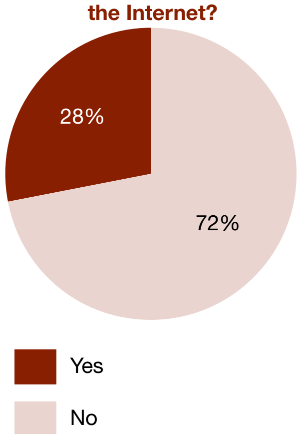
Total

MXit	32%
Facebook	54%
Twitter	9%
MySpace	4%
Skype	6%
None	22%

- MXit has a younger profile of users
- Facebook has broad appeal
- Older consumers are less likely to use social networking services

Beliefs about the Internet	Strongly agree
I am not comfortable transferring personal information over the net.	37%
Shopping online saves me time and is convenient.	18%
Internet banking is the only way I do banking these days.	12%
I don't like entering my credit card / banking details over the Internet as I am concerned about fraud.	42%
I like personal contact with the sales person when I buy things.	50%
The Internet is a great way to stay in touch with friends.	49%

Do you give as much attention to advertising on the Internet?



Global trends in Internet access and spending

Outlook

- We project that global spending on wired and mobile Internet access will increase from $228.1 billion in 2009 to $351.1 billion in 2014, a 9.0% compound annual growth rate. This will make it the third fastest-growing segment of E&M during the period, behind Internet advertising and video games. Overall, global spending on Internet advertising – both wired and mobile – will rise from $60.6 billion in 2009 to $103.8 billion in 2014, an 11.4% compound annual growth rate.
- Internet advertising will be the fastest growing E&M segment, ahead of video games at a CAGR of 10.6%.
- Global wired broadband access is the largest component of the market at $145.7 billion in 2009, and is projected to grow at a 9.7% compound annual rate to $231.2 billion in 2014.
- Dial-up access spending remains in long-term structural decline and will fall to $9.6 billion from $23.8 billion in 2009, a 16.6% compound annual decrease.
- Global mobile Internet access spending totalled $58.6 billion in 2009, with 66% of this total generated by just three countries – Japan, South Korea and China. Japan alone accounted for 53% of global mobile Internet access spending.
- In terms of wired Internet advertising, global spending on paid search advertising will overtake display, classified and other forms of advertising from 2012, and will rise to $50 billion in 2014 from $28 billion 2009, a 12.2% compound annual increase.
- Display, classified and other advertising will advance more slowly, at a compound annual rate of 8.9%, from $30.3 billion in 2009 to $46.2 billion in 2014.
- We expect that mobile access spending will increase to $110.3 billion 2014, a 13.5% compound increase. Mobile advertising will rise strongly from a low base, increasing to $7.7 billion in 2014 from $2.3 billion in 2009, a 27.7% compound annual increase.
- Total global wired Internet advertising will reach $96.2 billion in 2014 from $58.3 billion in 2009, a 10.5% compound annual increase. Despite growing more slowly than mobile advertising, wired Internet advertising will still account for almost 93% of global Internet advertising in 2014.

Key drivers

- The global economic downturn reduced growth in global Internet access spending to just 8.2% in 2009. Growth will pick up slightly from this level and remain fairly consistent over the coming five years, at between 8.5% and the 9.6% compounded annually. Internet advertising in North America declined in 2009 and the global increase was limited to 4.3%, sharply down from the 18.9% rise seen in 2008. Global Internet advertising growth will rebound to 9.3% in 2010 and the return to low double-digit compound annual increases through the rest of the forecast period to 2014.
- Penetration of broadband infrastructure into underserved areas will expand the broadband household base and lead to faster declines in dial-up. At the same time, approaching broadband saturation in many countries will lead to slower growth in broadband households. Broadband household growth will be the principal driver of wired Internet advertising.
- Broadband pricing will be affected by increased competition which will lead to lower prices as well as the proliferation of high-speed broadband options at premium fees, which will lead to higher prices. On balance, the rate of broadband price declines will be moderate.
- Paid search, a format not available in other media, will continue to attract spending to the Internet, outpacing the growth in display, classified and other wired Internet advertising throughout the forecast period.
- In the mobile market, a number of developments will stimulate demand for mobile Internet access and drive strong growth in mobile advertising from a relatively small base. These include:
- Wireless network upgrades;
- Growth in the number of mobile access subscribers as a result of the further rollout of enhanced 3G cellular wireless services;
- The launch of 4G wireless services; and
- The increasing penetration of Internet-enabled smartphones with touchscreen capabilities.
- The growth in mobile subscriptions and advertising underlines a major behavioural shift among consumers towards using Internet anytime, anyplace. However, the resulting explosion in data traffic over mobile networks will create challenges for network infrastructure operators.

Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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

Category	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Search	10,115	15,232	20,727	25,472	28,049	30,909	34,725	39,286	44,428	49,962	
% change	*64.8*	*50.6*	*36.1*	*22.9*	*10.1*	*10.2*	*12.3*	*13.1*	*13.1*	*12.5*	*12.2*
Display, classified, other	15,395	21,046	27,321	31,023	30,253	32,459	35,235	38,574	42,225	46,230	
% change	*38.7*	*36.7*	*29.8*	*13.6*	*-2.5*	*7.3*	*8.6*	*9.5*	*9.5*	*9.5*	*8.9*
Total wired Internet advertising	25,510	36,278	48,048	56,495	58,302	63,368	69,960	77,860	86,653	96,192	
% change	*48.0*	*42.2*	*32.4*	*17.6*	*3.2*	*8.7*	*10.4*	*11.3*	*11.3*	*11.0*	*10.5*
Mobile advertising	248	456	801	1,573	2,256	2,807	3,681	4,675	6,011	7,651	
% change	*293.7*	*83.9*	*75.7*	*96.4*	*43.4*	*24.4*	*31.1*	*27.0*	*28.6*	*27.3*	*27.7*
Total	**25,758**	**36,734**	**48,849**	**58,068**	**60,558**	**66,175**	**73,641**	**82,535**	**92,664**	**103,843**	
% change	***48.9***	***42.6***	***33.0***	***18.9***	***4.3***	***9.3***	***11.3***	***12.1***	***12.3***	***12.1***	***11.4***

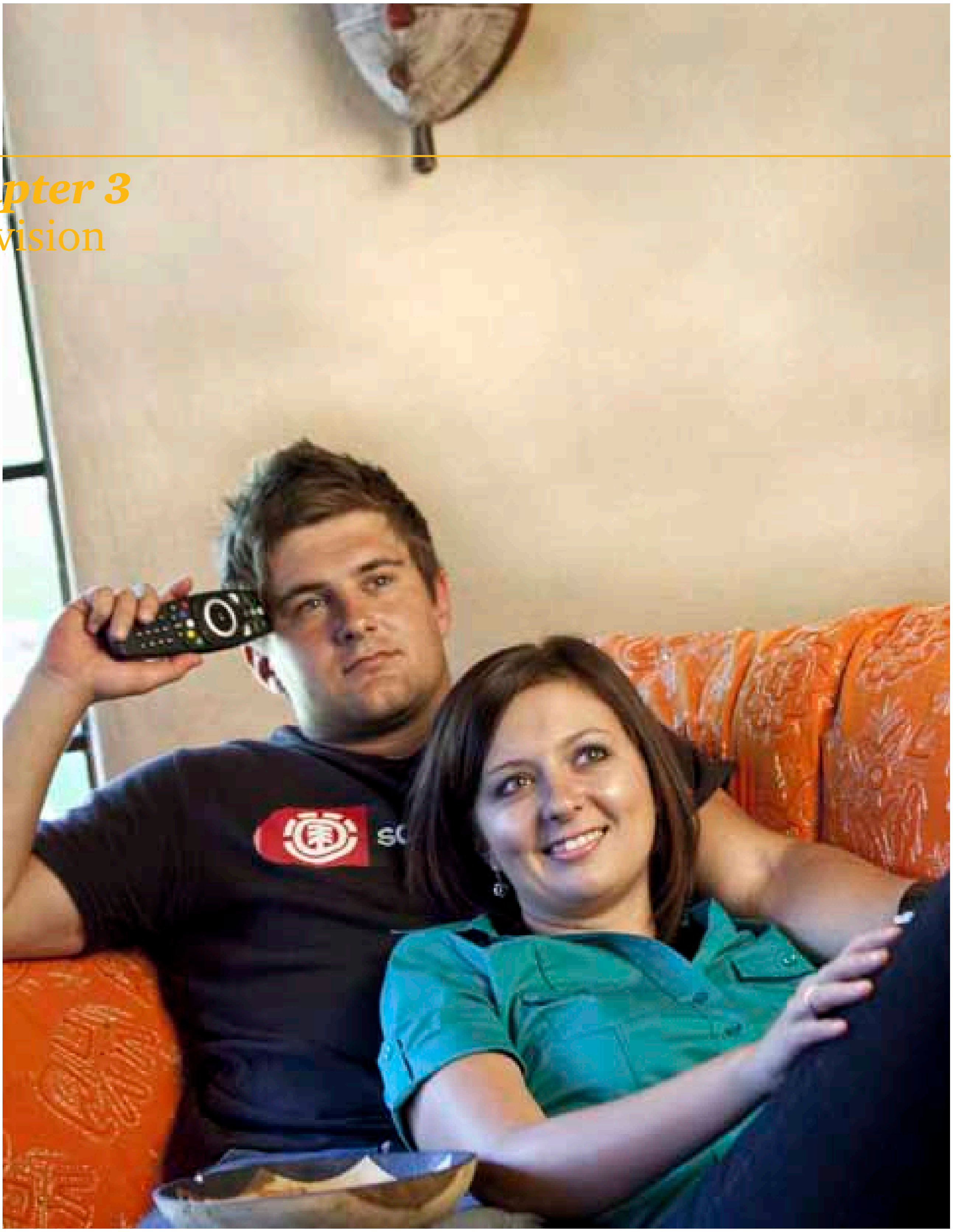
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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

	2005	2006	2007	2008	2009p	2010	2011	2012	2013	2014	2010-14 CAGR
Dial-up	37,064	30,935	28,508	26,526	23,828	20,833	17,741	14,671	11,735	9,633	
% change	*-10.2*	*-16.5*	*-7.8*	*-7.0*	*-10.2*	*-12.6*	*-14.8*	*-17.3*	*-20.0*	*-17.9*	*-16.6*
Broadband	74,896	94,952	115,245	132,020	145,667	160,244	176,838	195,119	213,947	231,154	
% change	*33.3*	*26.8*	*21.4*	*14.6*	*10.3*	*10.0*	*10.4*	*10.3*	*9.6*	*8.0*	*9.7*
Total wired Internet access	111,960	125,887	143,753	158,546	169,495	181,077	194,579	209,790	225,682	240,787	
% change	*14.9*	*12.4*	*14.2*	*10.3*	*6.9*	*6.8*	*7.5*	*7.8*	*7.6*	*6.7*	*7.3*
Mobile access	25,622	35,600	43,571	52,242	58,565	66,376	75,398	86,029	98,447	110,308	
% change	*89.6*	*38.9*	*22.4*	*19.9*	*12.1*	*13.3*	*13.6*	*14.1*	*14.4*	*12.0*	*13.5*
Total	**137,582**	**161,487**	**187,324**	**210,788**	**228,060**	**247,453**	**269,977**	**295,819**	**324,129**	**351,095**	
% change	***23.9***	***17.4***	***16.0***	***12.5***	***8.2***	***8.5***	***9.1***	***9.6***	***9.6***	***8.3***	***9.0***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Chapter 3
Television



Dawid de Jager, Associate Director, PwC Southern Africa.

Phillana Baben, Associate Director, PwC Southern Africa.

The television market consists of revenues derived from television distribution and television advertising.

The television distribution 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 television licence fees.

The television advertising market consists of advertiser spending on both terrestrial and multichannel television advertising, advertising on TV Web sites 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 and digital terrestrial television (DTT) or by other means that are not otherwise available without those 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 or DTT service.

Overview

Broadcasting in South Africa is highly regulated and outlets are limited. There are four free-to-air channels and two pay television providers that operate a terrestrial pay channel and a digital satellite network.

While most of the activity is in the subscription market, television in South Africa is still dominated by free-to-air broadcasters. The state-owned South African Broadcasting Corporation (SABC) has three free-to-air channels and e.tv, a privately-owned company, has the fourth free-to-air channel. The three SABC channels account for more than two-thirds of the television audience, and free-to-air broadcasting as a whole generates 90% of total viewing.

For the 15-year period through 2009, MultiChoice was the only provider of television subscription services. The television market in South Africa is becoming more competitive and four new pay television licences were awarded in late 2008. These licences were awarded to Super 5 Media (formerly Telkom Media), e-Sat, On Digital Media (ODM) and Walking on Water (WowTV).

ODM launched a new subscription service in May 2010, TopTV, with 55 channels.

Super 5 Media had announced that they planned to launch later in 2010. However, recent media reports indicate that Super 5 Media may be experiencing some difficulties. Super 5 Media's problems started after Telkom sold its stake to Shenzhen Media SA in 2009 after it had decided that pay TV was not its core focus. WowTV has announced that it plans to launch a satellite service within the next few months.

In addition to new services, new platforms will become available that should enhance the reach of subscription television. The Independent Communications Authority of South Africa (ICASA) approved three national digital terrestrial television (DTT) multiplexes. The new platforms will attract competing programme services.

In February 2010, ICASA published the final digital migration regulations for the transitional process to DTT in the *Government Gazette*. The countrywide switch to DTT, which was originally set for completion in November 2011, is now likely to happen by November 2013, or possibly later. The new final date is yet to be announced by ICASA. At the time of the switch, it is expected that there will be "double illumination", which is the broadcast of separate parallel analogue and digital signals by the SABC, e.tv and M-Net, but TV viewers who previously received only analogue signals will need to purchase a set-top box to receive the digital TV signals. The Government has allocated R2,5 billion to subsidise up to 70% of the cost of DTT receivers for low-income households.

ICASA has also allocated two multiplexes for mobile television. A licence was granted in May 2010 to e.tv and a second invitation to apply was subsequently announced by ICASA, with the aim of licensing one additional mobile TV operator for the remaining 60% of the first digital multiplex. The second licence on the first multiplex was awarded to Multichoice in September 2010. Each multiplex will have up to 12 channels. The first multiplex has been awarded to current broadcasters with no broadcaster being allocated more than 60% of the capacity or less than 20%, to ensure competition and diversity. The second multiplex will be allocated to broadcasters that launch on the new pay TV platforms. Licensees will be permitted to use any technology.

While subscription television in South Africa has grown rapidly over the past few years, an interesting indicator of the way television viewership habits are moving is the growth in personal video recorder (PVR) sales. More and more DStv subscribers in South Africa are switching to PVRs, a clear indication of the popularity of video on demand (VOD). In May 2010, MultiChoice, in partnership with MWeb, and later other service providers, launched VOD. They are expecting to roll out this service to the rest of Africa shortly. They are also investigating the feasibility of launching a transactional video on demand (TVOD) service, which would allow subscribers to have access to the latest movies on a pay-per-view basis, before they are screened on DStv.

In addition to increased competition and the impact of the emerging platforms, the television market in South Africa has been affected by the downturn in the economy. Advertising, which comprises approximately half of total television spending, fell by 9.6% in 2009 as a result of the recession. During 2005-07, by contrast, advertising rose at double-digit rates, propelled by a strong economy. In 2008, as economic conditions began to weaken, growth slowed to 6.4%.

Subscription spending, on the other hand, recorded gains in excess of 20% annually during the 2008-2010 period, faster increases compared to 2005–2007. The television subscription market was less affected by the recession than other segments because people tended to stay home more and relied more on television for entertainment. Many households that cut back in other areas, chose to spend money on subscription television services.

We project public TV licence fees to increase by 0.9% compounded annually from R1.02 billion in 2009 to R1.07 billion in 2014.

Broadcast advertising is expected to expand at a 9.6% compound annual rate during the next five years to R11.9 billion in 2014 from R7.5 billion in 2009.

There is a small online television advertising market that totaled R8 million in 2009, a figure we expect will triple during the next five years. We also expect that when mobile television is launched, it will generate a small advertising stream that will reach R15 million in 2014. Together, online and mobile television advertising will total an estimated R39 million in 2014.

Subscription spending is expected to rise from R8.7 billion in 2009 to R14.5 billion by 2014, a 10.8% compound annual increase.

Mobile television is projected to generate a subscription revenue stream that will total an estimated R70 million in 2014.

Overall spending on television distribution and television advertising, including public TV licence fees, rose by 4.1% in 2009, down from the double-digit increases during each of the previous four years.

We expect the market to rebound in 2010 with a 14.9% increase, fueled by advertising associated with the 2010 FIFA World Cup and subsequent increased advertising spending by companies that were restricted from advertising during the World Cup. Continued growth in TV subscriptions, boosted by new services, is also expected to drive the expected increase.

High single-digit increases through 2014 are expected as subscription spending grows more slowly, in part due to more moderate price increases stemming from increased competition. Improving economic conditions will support advertising growth although we do not project increases to match growth rates during the early part of the decade when the economy was growing at more explosive rates.

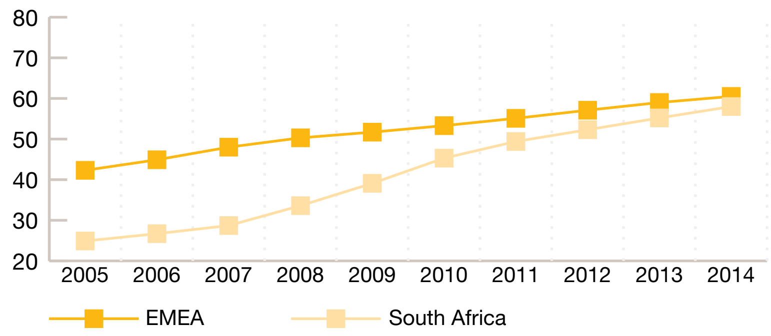
For the forecast period as a whole, growth will average 9.8% compounded annually, rising from R17.2 billion in 2009 to a projected R27.5 billion in 2014.

Television market (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Broadcast advertising	5,400	6,400	7,800	8,300	7,500	8,600	9,000	9,950	10,750	11,850	
% change	*11.3*	*18.5*	*21.9*	*6.4*	*-9.6*	*14.7*	*4.7*	*10.6*	*8.0*	*10.2*	*9.6*
Online TV advertising	–	2	3	6	8	10	12	15	19	24	
% change	–	–	*50.0*	*100.0*	*33.3*	*25.0*	*20.0*	*25.0*	*26.7*	*26.3*	*24.6*
Mobile TV advertising	–	–	–	–	–	–	2	4	8	15	
% change	–	–	–	–	–	–	–	*100.0*	*100.0*	*87.5*	–
Total online and mobile TV advertising	–	2	3	6	8	10	14	19	27	39	
% change	–	–	*50.0*	*100.0*	*33.3*	*25.0*	*40.0*	*35.7*	*42.1*	*44.4*	*37.3*
Total TV advertising	5,400	6,402	7,803	8,306	7,508	8,610	9,014	9,969	10,777	11,889	
% change	*11.3*	*18.6*	*21.9*	*6.4*	*-9.6*	*14.7*	*4.7*	*10.6*	*8.1*	*10.3*	*9.6*
Subscription spending	4,880	5,395	5,990	7,238	8,701	10,168	11,210	12,221	13,336	14,517	
% change	*14.0*	*10.6*	*11.0*	*20.8*	*20.2*	*16.9*	*10.2*	*9.0*	*9.1*	*8.9*	*10.8*
Public TV licence fees	985	992	1,004	1,012	1,024	1,031	1,044	1,051	1,064	1,071	
% change	*1.2*	*0.7*	*1.2*	*0.8*	*1.2*	*0.7*	*1.3*	*0.7*	*1.2*	*0.7*	*0.9*
Mobile TV subscriptions	–	–	–	–	–	–	9	18	38	70	
% change	–	–	–	–	–	–	–	*100.0*	*111.1*	*84.2*	–
Total television	**11,265**	**12,789**	**14,797**	**16,556**	**17,233**	**19,809**	**21,277**	**23,259**	**25,215**	**27,547**	
% change	**11.5**	**13.5**	**15.7**	**11.9**	**4.1**	**14.9**	**7.4**	**9.3**	**8.4**	**9.2**	**9.8**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Subscription household penetration of TV households (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Subscription spending

MultiChoice operates M-Net, an analogue service, and DStv, a satellite service. Satellite is the dominant platform and its share has grown during the past two years as MultiChoice has been migrating its subscribers to DStv, which is entirely digital. The number of satellite subscribers rose to 2.7 million in 2009 from 1.95 million in 2007, a 38% increase. Over the same period, the number of analogue subscribers has been steadily decreasing.

Spurred on by new pay service offerings such as VOD and TVOD, which would be satellite services, we are projecting the overall number of satellite subscribers to reach 4.15 million in 2014, a 9% compound annual increase from 2009. Satellite penetration will rise to 58.0% by 2014.

The emergence of a DTT service, which we expect will be free, will cut into subscription household growth during the latter part of the forecast period. We expect overall subscription household growth to drop to mid-single-digit levels during 2012-14.

The overall number of subscription households will increase from 2.7 million in 2009 to a projected 4.15 million by 2014, a 9.0% compound annual increase. Subscription household penetration will reach 58.0% in 2014 from 39.1% in 2009.

South Africa is behind the rest of the region in subscription household penetration but during the past two years began to narrow the gap. Nevertheless, with subscription TV household penetration in EMEA at 51.7% in 2009, South Africa was still 12.6% behind.

With new subscription services entering the market, we expect that gap to narrow significantly. Subscription penetration for EMEA as a whole will average 60.5% by 2014, leaving South Africa only 2.5% behind.

Subscription TV households

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Subscription households (millions)*	1.67	1.80	1.95	2.30	2.70	3.15	3.46	3.69	3.92	4.15	
% change	*9.9*	*7.8*	*8.3*	*17.9*	*17.4*	*16.7*	*9.8*	*6.6*	*6.2*	*5.9*	*9.0*
Subscription penetration of TV households (%)	24.9	26.7	28.7	33.6	39.1	45.3	49.4	52.3	55.2	58.0	

* Subscription figures are annual averages, not year-end totals.

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In addition to the launch of new subscription services, there will also be more free channels available, which will compete with the pay services and which will lead to slower growth in the subscription household universe.

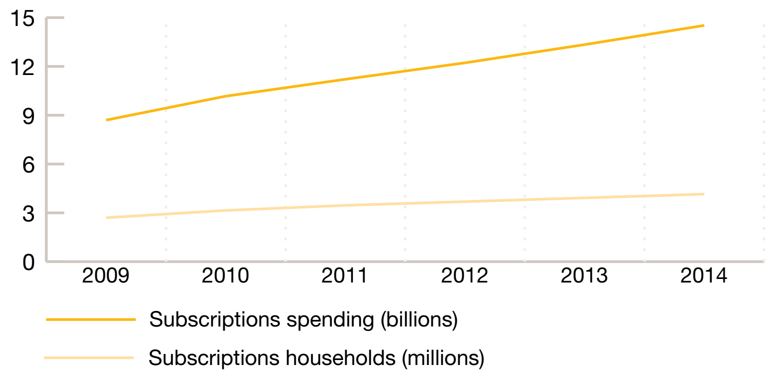
Monthly rates for DStv range from a low of R20 for DStv Easy View, a basic service, to R529 for DStv Premium, the full package. DStv Lite for R99 is a popular service, offering 25 television channels and a number of radio channels. There are also combination packages that include different selections of additional channels that range from R148 for DStv Select 1 and 2 to R232 for DStv Compact. We estimate that the average subscriber paid R268.55 per month in 2009.

New services emerging from new entrants to the broadcasting market are giving rise to healthy price competition. TopTV is targeting lower income households and hopes to bring subscription television to that portion of the market that previously was priced out. TopTV's premium package includes 52 channels and costs R249. TopTV is also offering less expensive options but they currently do not offer any high definition (HD) channels, but it may include them in the future along with VOD and PVR services. The DStv service offerings include high-definition channels, VOD, PVR services and Xtra-view, which are all targeted at the higher end of the market.

WowTV plans to launch a satellite TV service in the next few months. It plans to launch two bouquets of channels. It expects to offer ten channels on its premium bouquet which will cost R99 per month, with a smaller offering of about five channels that will cost R49 per month. Their decoder, with satellite dish and installation is expected to cost about R1,200.

Other services, such as NonStop Television, also on TopTV, will ensure even more competition in the market. We expect that increased competition will lead to discounting and will halt the steady rise in average fees. It is projected that average monthly spending will remain relatively steady in 2010 and in 2011. As new services become more established and as higher value offerings, which include more channels, HD and PVR, which demand higher fees, become more common, average monthly spending is expected to increase. We project that by 2014, the average subscriber will pay R291.50 per month, a 1.7% compound annual increase from 2009.

Subscription households and spending



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Overall subscription spending will increase at a 10.8% compound annual rate, from R8.7 billion in 2009 to R14.5 billion in 2014.

During the past two years, South Africa's share of subscription spending in EMEA began to edge up reflecting faster growth in subscription households. We expect continued share gains during the next five years as subscription household penetration approaches that of the rest of EMEA. Somewhat offsetting penetration growth is slower price increases compared with the rest of the region as the South Africa market becomes more competitive.

Subscription spending											
South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Subscription households (millions)	1.67	1.80	1.95	2.30	2.70	3.15	3.46	3.69	3.92	4.15	
% change	*9.9*	*7.8*	*8.3*	*17.9*	*17.4*	*16.7*	*9.8*	*6.6*	*6.2*	*5.9*	*9.0*
Average monthly spending (R)	243.50	249.75	256.00	262.25	268.55	269.00	270.00	276.00	283.50	291.50	
% change	*3.7*	*2.6*	*2.5*	*2.4*	*2.4*	*0.2*	*0.4*	*2.2*	*2.7*	*2.8*	*1.7*
Subscription spending (R millions)	4,880	5,395	5,990	7,238	8,701	10,168	11,210	12,221	13,336	14,517	
% change	*14.0*	*10.6*	*11.0*	*20.8*	*20.2*	*16.9*	*10.2*	*9.0*	*9.1*	*8.9*	*10.8*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile TV subscriptions

In 2007, ICASA adopted Digital Video Broadcasting – Handheld (DVB-H) as the mobile TV technology. ICASA is in the process of issuing licences on a technology-neutral basis, which means that licensees can use any technology they choose.

In May 2010, ICASA granted one licence to e.tv in an initial process. The licensees are required to provide digital broadcasting to cell phones and other mobile devices. Subsequently, in May 2010, ICASA issued a second invitation to apply, with the aim of licensing an additional mobile TV operator in the remaining 60% of the first digital "multiplex", or piece of radio frequency spectrum used to broadcast digital TV channels. In September 2010, this licence was awarded to MultiChoice. ICASA is expected to make a second multiplex available to mobile TV bidders later in 2010. Spectrum in the second multiplex is expected to be allocated to new broadcasters rather than the incumbent players.

DStv mobile has been testing mobile TV technologies during the past three years in co-operation with various wireless telephone providers and has been streaming programmes on an experimental basis under a test licence from ICASA.

Although it has yet to be determined, we expect that the business plan for mobile television will be similar to that of pay television services. People who want to watch television on their mobile devices will have to pay a subscription fee. Mobile TV providers and content providers will also have the opportunity to sell advertising.

The drive to launch mobile TV stems from investments in the wireless infrastructure to provide mobile Internet access, in the process creating an infrastructure that can accommodate mobile TV. The need for new revenues to offset the fact that the wireless market may be approaching saturation and that a lesser number of new subscribers will be added in the coming years has been another motivation for the introduction of mobile TV.

In the rest of EMEA, mobile TV was originally envisioned as a subscription service, but low take-up rates have led some providers to shift to an advertiser-supported model. In essence, people are looking to access free-to-air programming on their mobile phones. At the same time, we believe a specialised premium market exists for sports, movies and other premium programming that people would be willing to pay for.

Improved wireless networks will help a mobile TV market develop. In early 2010, the leading mobile providers introduced new higher-speed services with download speeds of up to 14.4 Mbps. In selected areas, including FIFA World Cup stadiums, Vodacom and MTN each launched HSPA+ networks that offer download speeds of up to 21.1 Mbps.

We expect the share of mobile telephone subscribers subscribing to mobile TV to average 0.05% of wireless telephone subscribers in 2011. We project that share to rise to 0.35% by 2014.

Based on these assumptions, we estimate there will be 20,000 mobile TV subscribers in 2011, rising to 180,000 by 2014.

We expect subscribers to spend R30 per month on mobile TV in the first year, with spending edging up to R33 by 2014 as mobile TV carriers provide more premium content.

By 2014, mobile TV subscription spending will total an estimated R70 million.

Having introduced mobile TV after most other countries, South Africa will have a relatively low share of the overall mobile TV market in EMEA in 2011.

Mobile TV subscription market

South Africa	2011	2012	2013	2014
Wireless telephone subscribers (millions)	49.0	49.5	50.0	50.5
% change		*1.0*	*1.0*	*1.0*
Percentage accessing mobile TV (%)	0.05	0.10	0.20	0.35
Mobile TV subscribers (millions)	0.02	0.05	0.10	0.18
% change		*102.0*	*102.0*	*76.8*
Average monthly spending (R)	30	31	32	33
% change		*3.3*	*3.2*	*3.1*
Aggregate annual spending (R millions)	9	18	38	70
% change		*100.0*	*111.1*	*84.2*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Public TV licence fees

Television households pay an annual licence fee to support public broadcasting. Licence fees for public television totaled R1.02 billion in 2009.

Growth averages approximately 1% annually, fueled by TV household growth and modest rate increases every other year.

The Public Service Broadcasting Bill released in October 2009 proposes eliminating the existing licence fee and replacing it with an income tax of up to 1% of personal taxable income to fund public broadcasting. This new system would 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.

We are not incorporating the proposed new system in our forecasts although we expect that if enacted, it would provide comparable revenues to public broadcasting.

We expect the general historical pattern to continue during the next five years and project public TV licence fees to continue to average 0.9% compound annual growth to R1.07 billion in 2014.

Public TV licence fees (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Public TV licence fees	985	992	1,004	1,012	1,024	1,031	1,044	1,051	1,064	1,071	
% change	*1.2*	*0.7*	*1.2*	*0.8*	*1.2*	*0.7*	*1.3*	*0.7*	*1.2*	*0.7*	*0.9*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Advertising

Broadcast advertising

Advertising is particularly vulnerable to the economic cycle because it is relatively easy to cut and companies tend to reduce their advertising expenditure when their sales to consumers are weak or declining. Broadcast advertising fell 9.6% in 2009, reflecting the impact of the recession. Advertising is also more cyclically sensitive than end-user spending and was affected by the economic downturn, in contrast with the TV subscription market, which flourished.

Although economic conditions remain fragile, advertising associated with the 2010 FIFA World Cup in South Africa will contribute to a projected 14.7% rebound in 2010. The SABC and MultiChoice's SuperSport, which broadcast the 2010 FIFA World Cup, will receive the biggest boost, but other broadcasters also benefited as international brands associated with the 2010 FIFA World Cup wanted to reach viewers of all programmes.

We expect improved economic conditions to support television advertising during the latter part of the forecast period. The broadcast advertising market will also benefit from the increase in the number of TV stations and the launch of new television services, many of which will carry advertising. The increase in the number of advertising outlets will expand the market.

We expect television, along with the Internet, to benefit more than print advertising from a pick up in the economy because of an expanding audience. One contributor to audience growth is growing penetration by high-definition (HD) television. HD households spend more time watching television than standard definition (SD) households do. While the novelty of HD will boost viewing levels disproportionately in the short term, even once that effect wears off, viewing levels are likely to be higher. When colour TV was introduced, colour TV households spent more time watching television than black and white households. Once the colour universe matured and the novelty wore off, the impact of an enhanced viewing experience led to ongoing increases in overall viewing levels. We expect a similar pattern for HD as HD improves the viewing experience. Larger audiences will translate into more viewers once the economy improves. The introduction of 3D TV will also have some impact, although we do not expect it to play much of a role during the next five years, since households that recently purchased HD sets will likely delay making another purchase for 3D sets.

By 2011, a portion of the advertising associated with the 2010 FIFA World Cup will have left the market, and we project a relatively modest 4.7% increase in advertising revenue.

We then project a 10.6% increase in 2012, helped by advertising associated with the London Summer Olympics, followed by an 8.0% increase in 2013 and a return to double-digit growth in 2014 as the next FIFA World Cup swells the TV advertising market.

Advertising in 2014 will total an estimated R11.9 billion compared with R7.5 billion in 2009, a 9.6% increase compounded annually.

Broadcast advertising per TV household fell from R1,212 in 2008 to R1,087 in 2009, a 10.3% decline. We expect advertisers to increase their investment in television beginning in 2010, with spending per TV household rising to a projected R1,657 by 2014, an 8.8% compound annual increase.

Broadcast advertising

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Broadcast advertising (R millions)	5,400	6,400	7,800	8,300	7,500	8,600	9,000	9,950	10,750	11,850	
% change	*11.3*	*18.5*	*21.9*	*6.4*	*-9.6*	*14.7*	*4.7*	*10.6*	*8.0*	*10.2*	*9.6*
Advertising per TV household (R)	806	948	1,147	1,212	1,087	1,237	1,286	1,411	1,514	1,657	
% change	*10.6*	*17.6*	*21.0*	*5.7*	*-10.3*	*13.8*	*4.0*	*9.7*	*7.3*	*9.4*	*8.8*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Online TV advertising

The bulk of online TV advertising currently consists of advertising on local television station Web sites that are popular destinations for local news and local television programming information. Online TV advertising on broadcasters' Web sites totaled an estimated R8 million in 2009.

The South African market is limited by relatively low broadband penetration, but growth in the broadband market will fuel growth, which has been kick-started by the introduction of unlimited broadband packages in 2010.

The emergence of new television stations, new programmes and new Web sites will further expand the market.

As broadband penetration increases, broadcasters may begin streaming programmes on their Web sites and selling incremental advertising.

Another development that will propel online television advertising is the introduction of Web-enabled television sets that provide access to the Internet without requiring complicated hookups and wiring or a special set-top box. Web-enabled sets were introduced in the US in late 2009 and within the next few years it is expected that most new sets will be Web enabled.

Viewers will be able to run Internet applications from their televisions and will be able to get more information on an advertised product by accessing an online link. Most significantly, they will be able to easily stream online shows directly to their television sets. A disadvantage of streaming currently is that for most people, it is effectively limited to the computer, which is not the ideal medium for watching television. We expect that as online streaming becomes more widely available from the television set and as broadband penetration increases, its usage will increase.

In the long run, Web-enabled television will serve as an embedded digital video recorder (DVR), in that viewers will be able to access shows online from their TV sets without having to remember to record a programme or be limited to the number of programmes that can be recorded simultaneously.

The effect of these developments will see online television viewing expand from a small base. As viewing increases, online advertising associated with this programming will increase as well.

Although we expect this market to triple during the next five years to R24 million, we do not anticipate online television advertising to become a significant revenue stream. Notwithstanding the large growth projected for broadband households, fewer than half of all households will have a broadband connection in South Africa by 2014, which will limit interest by advertisers in this market.

Online TV advertising (R millions)

South Africa	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Online TV advertising	2	3	6	8	10	12	15	19	24	
% change		*50.0*	*100.0*	*33.3*	*25.0*	*20.0*	*25.0*	*26.7*	*26.3*	*24.6*

Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile TV advertising

We expect that as mobile television develops, programmes on mobile TV will contribute to increased advertising. Mobile TV viewers represent an attractive target audience for advertisers as they are likely to be younger than the average television viewer and more affluent as demonstrated by their willingness to buy high-end handsets.

At the same time, the mobile audience is much smaller than the in-home audience and advertisers generally pay proportionally less to reach small audiences than large audiences. In addition, the potential advertising inventory for mobile television will likely remain smaller than the in-home inventory because mobile users will likely not accept as many commercials. Another factor affecting ad rates is that a TV ad has the potential to reach the entire household while a mobile ad reaches only a single viewer.

For these reasons, we expect that annual advertising per mobile viewer will be only a fraction that of annual broadcast advertising per TV household. It is expected that advertisers will pay only R64 per mobile viewer in 2011, a figure we project will rise to R83 by 2014 as the audience increases and as the medium becomes established.

Mobile TV advertising market

South Africa	2011	2012	2013	2014
Mobile TV users (millions)	0.02	0.05	0.10	0.18
Average annual advertising per mobile TV user (R)	64	71	76	83
Mobile TV advertising (R millions)	2	4	8	15

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer insights: Television

About this research

This publication aims to provide readers with useful information and to bring this to life by including real-life consumer insights. To this end, we commissioned GlobalEdge Marketing Consultants to perform consumer lifestyle research relating to the media and entertainment industry.

This research comprised face-to-face interviews with a sample of consumers that included a mix of the following demographic groups:

- *Persons between the ages of 15 and 50;*
- *A mix of racial groups;*
- *Males and females;*
- *Residing in Gauteng, the Western Cape and KwaZulu-Natal; and*
- *LSM 5-7 and LSM 8-10.*

13% of consumers claim to use the ***internet to download*** their favourite shows

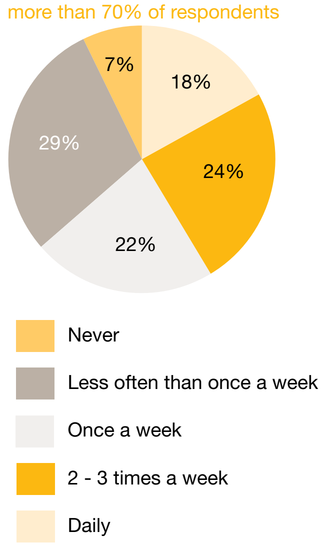
20% of consumers ***owned a PVR***, and 14% had an ***HD PVR***

45% of consumers agreed they ***skip the commercials*** on shows they have recorded (9% of all Pay TV subscribers)

90% of all consumer who have HD PVR ***watch HD content*** provided by their operator (13% of all Pay TV subscribers)

80% of all consumer who have HD PVR mentioned they would use ***video on demand*** if made available (16% of all Pay TV subscribers)

How often do you watch sport on TV?
Watching sport is important to more than 70% of respondents



- Watching sport is ***extremely important*** to ***47%*** of consumers
- Sport is generally watched between ***1 – 3 times a week*** for ***46%*** of consumers (17% watch daily)

Global trends in the television industry

Outlook

Television subscription and licence fees

- The global television subscription and licence fee market will increase from $185.9 billion in 2009 to $258.1 billion in 2014, a compound annual growth rate of 6.8%. This will outpace TV advertising, which will grow at a CAGR of 5.4%.
- Subscription spending, the biggest component of the television subscription and licence fee market at $147.1 billion in 2009 – 79% of the total – will increase at a 7.5% compound annual rate to $210.8 billion in 2014.
- Pay-per-view spending will total $4.8 billion in 2014, a 0.9% compound annual increase from $4.6 billion in 2009.
- Video on demand will rise from $4.1 billion in 2009 to $8.3 billion in 2014, a 15.4% compound annual increase.
- Public TV licence fees will grow at a modest 1.1% annually to $30.9 billion in 2014 from $29.2 billion in 2009.
- Mobile TV subscription spending will be the fastest-growing category from a small base, reaching $3.4 billion in 2014 from $992 million in 2009. Despite this rapid increase, mobile TV subscriptions will comprise only 1.3% of TV subscription and licence fee spending in 2014.

Television advertising

- The global economic and advertising downturn saw global television advertising decline by 9.5% in 2009, with each region except Latin America recording falls. But the market will rebound during 2011-2014 thanks to a strengthening economic environment.
- Terrestrial advertising – the dominant component of total television advertising – will increase to $124.6 billion in 2014 from $101.7 billion in 2009, a 4.1% compound annual increase.
- Multichannel advertising will increase at a much faster rate from a lower base, growing at a 7.9% compound annual rate to $56.9 billion by 2014 from $39 billion in 2009.
- Combined terrestrial and multichannel television advertising will rise from $145.6 billion to $187.2 billion in 2014, a 5.1% increase compounded annually.
- TV advertising on newer online and mobile television platforms will record double-digit compound annual growth throughout the forecast period, but will remain a much smaller market than traditional terrestrial and multichannel advertising.
- Online television advertising will increase at a 20.4% compound annual rate to $6.1 billion in 2014 from $2.4 billion in 2009. Mobile television advertising will increase from $554 million to $2.5 billion, a 34.7% increase compounded annually.
- As a result, total online and mobile television advertising will record growth averaging 23.6% compounded annually, increasing from $3 billion in 2009 to $8.5 billion in 2014.
- The total global television advertising market – including terrestrial, multichannel, online and mobile – will grow at a 5.7% compound annual rate, rising from $148.5 billion in 2009 to $195.7 billion in 2014.

Key drivers

Television subscription and licence fees

- Improved economic conditions in all regions and enhanced premium services will boost multichannel take-up rates and spending on premium services and VOD during 2012-14.
- The migration to digital will drive the video on demand (VOD) market, while satellite growth will sustain pay-per-view (PPV) spending.
- The increased availability of mobile TV services will boost the subscriber base, although the market will evolve principally as an advertiser-supported service that will generally be offered free to users.
- Internet protocol television (IPTV), which contributes to subscription spending, VOD, and PPV, will be the fastest-growing subscription technology in each region.
- In EMEA, the free-to-air DTT services available in many countries will limit subscription spending.

Television advertising

- A stabilising economic environment in 2010 and a recovery in 2011-14 will lead to a rebound in television advertising.
- In addition to the recovery in economic confidence, broadcast advertising will benefit from more channels coming from new or expanded multichannel platforms, and rising viewing arising from growing HD penetration, as TV broadcasters seek to differentiate themselves from standard content that is increasingly freely available online.
- The introduction of Web-enabled TV sets in North America and EMEA and the expansion of online streaming in all regions, will further blur the distinction between the Internet and TV experiences and fuel online television advertising.
- Mobile TV rollouts and the shift from subscriber to advertiser-supported services will expand the mobile television advertising market.

Global TV subscription and licence fee market by component (US$ Millions)

Component	2005	2006	2007	2008	2009p	2010	2011	2012	2013	2014	2010-14 CAGR
Subscriptions	110,060	119,217	130,684	140,585	147,097	155,210	166,881	180,973	195,318	210,796	
% change	*9.1*	*8.3*	*9.6*	*7.6*	*4.6*	*5.5*	*7.5*	*8.4*	*7.9*	*7.9*	*7.5*
Pay-per-view	3,566	3,995	4,339	4,680	4,560	4,474	4,490	4,565	4,661	4,764	
% change	*15.3*	*12.0*	*8.6*	*7.9*	*-2.6*	*-1.9*	*0.4*	*1.7*	*2.1*	*2.2*	*0.9*
Video on demand	1,734	2,380	3,258	4,059	4,085	4,557	5,450	6,499	7,417	8,343	
% change	*43.1*	*37.3*	*36.9*	*24.6*	*0.6*	*11.6*	*19.6*	*19.2*	*14.1*	*12.5*	*15.4*
Public TV licence fees	26,525	27,112	27,801	28,071	29,167	29,629	29,959	30,293	30,857	30,859	
% change	*4.1*	*2.2*	*2.5*	*1.0*	*3.9*	*1.6*	*1.1*	*1.1*	*1.9*	*0.0*	*1.1*
Mobile TV	–	268	618	925	992	1,159	1,425	1,877	2,583	3,368	
% change	–	–	*130.6*	*49.7*	*7.2*	*16.8*	*23.0*	*31.7*	*37.6*	*30.4*	*27.7*
Total television	**141,885**	**152,972**	**166,700**	**178,320**	**185,901**	**195,029**	**208,205**	**224,207**	**240,836**	**258,130**	
% change	***8.6***	***7.8***	***9.0***	***7.0***	***4.3***	***4.9***	***6.8***	***7.7***	***7.4***	***7.2***	***6.8***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Global TV advertising market by component (US$ Millions)

Component	2005	2006	2007	2008	2009p	2010	2011	2012	2013	2014	2010-14 CAGR
Terrestrial TV advertising	107,104	113,653	116,084	115,321	101,691	105,665	107,589	113,894	117,080	124,584	
% change	*-3.2*	*6.1*	*2.1*	*-0.7*	*-11.8*	*3.9*	*1.8*	*5.9*	*2.8*	*6.4*	*4.1*
Multichannel TV advertising	33,252	35,626	38,632	40,745	38,983	42,043	44,811	48,651	52,506	56,894	
% change	*10.6*	*7.1*	*8.4*	*5.5*	*-4.3*	*7.8*	*6.6*	*8.6*	*7.9*	*8.4*	*7.9*
Total broadcast TV advertising†	145,820	154,999	160,494	161,677	145,609	152,692	157,516	167,828	175,029	187,164	
% change	*3.3*	*6.3*	*3.5*	*0.7*	*-9.9*	*4.9*	*3.2*	*6.5*	*4.3*	*6.9*	*5.1*
Online TV advertising	350	852	1,446	2,161	2,397	2,838	3,399	4,100	4,976	6,070	
% change	*133.3*	*143.4*	*69.7*	*49.4*	*10.9*	*18.4*	*19.8*	*20.6*	*21.4*	*22.0*	*20.4*
Mobile TV advertising	NA	17	102	351	554	741	986	1,366	1,892	2,455	
% Change	–	–	*500.0*	*244.1*	*57.8*	*33.8*	*33.1*	*38.5*	*38.5*	*29.8*	*34.7*
Total online and mobile TV advertising	350	869	1,548	2,512	2,951	3,579	4,385	5,466	6,868	8,525	
% change	*133.3*	*148.3*	*78.1*	*62.3*	*17.5*	*21.3*	*22.5*	*24.7*	*25.6*	*24.1*	*23.6*
Total television advertising	**146,170**	**155,868**	**162,042**	**164,189**	**148,560**	**156,271**	**161,901**	**173,294**	**181,897**	**195,689**	
% change	***3.5***	***6.6***	***4.0***	***1.3***	***-9.5***	***5.2***	***3.6***	***7.0***	***5.0***	***7.6***	***5.7***

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

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Chapter 4
Filmed entertainment

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The filmed entertainment market consists of consumer spending at the box office for theatrical motion pictures, spending on rentals of videos at video stores and other retail outlets (the "in-store rental" market), purchases of home video products in retail outlets and through online stores (the "sell-through" market), online film rental subscription services, such as those in which physical DVDs are delivered via overnight mail, and streaming services whereby films are downloaded via a broadband Internet connection.

Ancillary revenues earned by cinemas, such as via cinema advertising and sales of beverages and refreshments are excluded. In addition, the figures shown in this section do not include the following, which are included in the respective content chapters:

- Music videos; and
- Video-on-demand, pay-per-view and movie distribution by cable, satellite and telephone companies.

Overview

South Africa participated in the global box office boom in 2009. Overall, filmed entertainment spending in South Africa rose by 11.7% in 2009 to R1 billion. Box office spending increased by 17.6%, more than offsetting a 1.1% decline in home video.

Popular Hollywood titles, interest in South African-themed films, new digital cinemas and a growing 3D market contributed to box office growth in 2009.

Although the popularity of releases will continue to dominate box office performance in any given year, we expect that continued growth in digital and 3D screens will propel the underlying box office market during the next five years.

The box office market has often done well during recessions as movies provide a relatively low-cost escape from daily life. This may have been the case in 2009, although it is difficult to distinguish the impact of economic conditions from the other factors affecting the market.

The home video market, by contrast, appears to have been negatively impacted by the declining economy. Sell-through spending fell 1.9% in 2009 and rental spending declined by 0.6%.

High piracy rates limit the legitimate home video market. Home video spending in 2009 was only a third of the size of box office spending in South Africa. In contrast, across all of Europe, the Middle East and Asia (EMEA), home video sell-through and rental spending was 38% higher than box office spending.

We expect the sell-through market to benefit during the latter part of the forecast period by an emerging Blu-ray market that provides high-definition (HD) DVDs that enhance the home video experience (see the Television chapter for further discussion of HD content and programming).

Filmed entertainment as a whole is projected to expand at a 5.3% compound annual rate during the next five years, rising to an estimated R1.3 billion in 2014. Box office will total an estimated R992 million, up 6.4% compounded annually from R729 million in 2009, while home video will rise from R282 million to R317 million, a 2.4% compound annual gain.

These forecasts reflect our analysis of the underlying trends. They do not take into account the performance of the slate of prospective releases, which can significantly enhance or offset box office admissions in any given year.

Filmed entertainment market (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Box office	634	634	609	620	729	765	816	869	928	992	
% change	*5.5*	*0.0*	*-3.9*	*1.8*	*17.6*	*4.9*	*6.7*	*6.5*	*6.8*	*6.9*	*6.4*
Physical sell-through	96	101	105	108	106	107	113	120	128	137	
% change	*6.7*	*5.2*	*4.0*	*2.9*	*-1.9*	*0.9*	*5.6*	*6.2*	*6.7*	*7.0*	*5.3*
In-store rentals	176	177	178	177	176	174	175	176	178	180	
% change	*0.6*	*0.6*	*0.6*	*-0.6*	*-0.6*	*-1.1*	*0.6*	*0.6*	*1.1*	*1.1*	*0.5*
Total home video	272	278	283	285	282	281	288	296	306	317	
% change	*2.6*	*2.2*	*1.8*	*0.7*	*-1.1*	*-0.4*	*2.5*	*2.8*	*3.4*	*3.6*	*2.4*
Total filmed entertainment	**906**	**912**	**892**	**905**	**1,011**	**1,046**	**1,104**	**1,165**	**1,234**	**1,309**	
% change	***4.6***	***0.7***	***-2.2***	***1.5***	***11.7***	***3.5***	***5.5***	***5.5***	***5.9***	***6.1***	***5.3***

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

Box office

Box office spending was boosted by a 14% increase in admissions and a 3.1% rise in the average price – in both cases, the largest gains during the last five years.

Admissions began to pick up in 2008 at the end of a price war between the two dominant exhibitors in South Africa, Ster-Kinekor and Nu Metro. This led to an increase in the average ticket price in 2009. The increase in box office revenues is now leading exhibitors to invest in cinemas.

During the past few years, Ster-Kinekor converted approximately 100 screens to digital, including 18 3D screens.

In 2009, Nu Metro opened new cinemas in Amanzimtoti (The Galleria) and at the Emperors Palace casino (Emporium). The Emporium is the first all-digital cinema in South Africa. By the end of 2009, Nu Metro had 14 3D screens. Both exhibitors plan to significantly expand the number of 3D screens during the next five years.

The 3D format became a more significant factor in 2009 and may possibly represent the third major technological advance after the introduction of talking pictures in the 1920s and colour in the 1950s. Although 3D has been a novelty technology for more than 50 years, the new version is much more advanced and is being used less for special effects than as an integral technological feature of films, like colour and Dolby sound.

In addition to the novelty appeal of renovated cinemas and digital and 3D screens, Hollywood releases such as *Ice Age: Dawn of the Dinosaurs*, *The Proposal*, *Transformers: Revenge of the Fallen*, *2012* and *Avatar* were very popular in 2009. *Ice Age*, *Avatar* and more recently *Shrek: Forever After* benefited from 3D screenings in selected theatres that allowed them to charge premium prices compared with standard films.

Avatar, the highly-anticipated 3D release, opened in the US in December 2009 and by early 2010 had surpassed *Titanic* to become the largest box office draw in history. The 3D versions of *Avatar* and other 3D films significantly outperformed 2D versions with respect to attendance per screen, while commanding higher ticket prices compared with the 2D versions. *Monsters vs Aliens*, for example, generated 43% of its global box office receipts from 3D screens, even though the 3D screens represented only 20% of its exhibition.

The success of 3D at the box office is leading producers to convert existing films to 3D and to produce more future releases in 3D. The next two *Harry Potter* films will have 3D versions. *Titanic*, *Toy Story*, *Toy Story 2* and all of the *Star Wars* films are being reissued in 3D. The costs of converting a major motion picture have come down significantly, dropping to an average of $5 million in 2009 from $12 million in 2008, thereby making it feasible to reissue more films in 3D.

In South Africa, despite being in release for only two weeks in 2009, *Avatar* generated the fifth-highest box office gross of all films in South Africa in 2009. *Avatar* went on to become the top film in box office gross of all 2009 releases, generating more than R40 million in total but most of that revenue was generated in 2010. *Ice Age* was the leading film in South Africa in 2009, helped by its 3D screenings.

The Hangover, *Up*, *Couples Retreat*, *Fast & Furious* and *Harry Potter and the Half-Blood Prince* were the top grossing films in 2009. *Invictus* and *District 9*, two Hollywood releases shot in South Africa with South African themes, were also popular and were among the top 20 films in South Africa in 2009.

Top 10 films in South Africa: 2009*
Ice Age: Dawn of the Dinosaurs
The Proposal
Transformers: Revenge of the Fallen
2012
Avatar
The Hangover
Up
Couples Retreat
Fast & Furious
Harry Potter and the Half-Blood Prince

*Rankings based on box office receipts during 2009 only.

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Seven of the top-ranking films in South Africa and in Africa and the Middle East were also among the top 10 globally. The exceptions were *The Twilight Saga: New Moon*, *Angels & Demons* and *Night at the Museum: Battle of the Smithsonian*, which were in the top 10 globally, replacing *The Proposal*, *Fast & Furious* and *Couples Retreat*.

Harry Potter and the Half-Blood Prince was the top film globally, in large part because of its strong showing in the United States and Western Europe. *Avatar* ranked second globally, helped by the large number of 3D screens in the USA, which allowed for a wide 3D release that boosted its initial box office receipts during its first two weeks in release. *Ice Age*, which was the top film in Africa and the Middle East, ranked third globally.

Top 10 films of 2009*	
Africa and the Middle East	**Global**
Ice Age: Dawn of the Dinosaurs	*Harry Potter and the Half-Blood Prince*
2012	*Avatar*
The Proposal	*Ice Age: Dawn of the Dinosaurs*
Avatar	*Transformers: Revenge of the Fallen*
Transformers: Revenge of the Fallen	*2012*
The Hangover	*Up*
Harry Potter and the Half-Blood Prince	*The Twilight Saga: New Moon*
Fast & Furious	*Angels & Demons*
Up	*The Hangover*
Couples Retreat	*Night at the Museum: Battle of the Smithsonian*

*Rankings based on box office receipts during 2009 only.

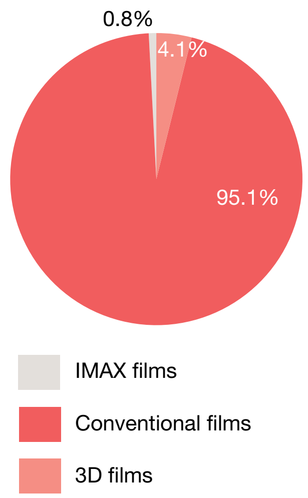
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In 2009, 3D films generated an estimated R30 million at the box office, which was approximately 4% of total box office spending. With a number of 3D screens opening late in 2009, this share will increase in 2010. 3D films are appealing to both exhibitors and studios because they generate higher-than-average admissions at higher-than-average prices. They also offer an experience that cannot be duplicated at home and cannot be easily pirated. At a cost of approximately R1 million to convert a cinema to 3D, exhibitors are finding it is worth the investment. For these reasons, we expect substantial growth in the number of 3D screens during the next five years and substantial growth in the box office share for 3D.

The other specialty format in South Africa has been IMAX. However, the two remaining IMAX theatres, at Menlyn Park in Pretoria and at Gateway in Umhlanga, were closed during the year. Old Mutual Investment Group Property Investments (OMIGPI) issued a statement saying that in its capacity as managing agent on behalf of OMLACSA (Old Mutual Life Assurance Company of South Africa), it had an agreement with IMAX Corporation to operate two IMAX Theatres in South Africa, that terminated on 30 June 2010. The statement said that the equipment was now outdated in relation to the latest specification IMAX theatres around the world and that attendance levels and uptake by customers was not sufficient to sustain ongoing IMAX business and justify the additional costs of upgrades. As all IMAX theatres are now closed, we expect that most of the future growth in speciality cinemas will be in 3D.

The box office market in South Africa continued to be dominated by standard films in traditional formats, which accounted for nearly 95% of total box office spending in 2009. We expect this share to decline as 3D expands.

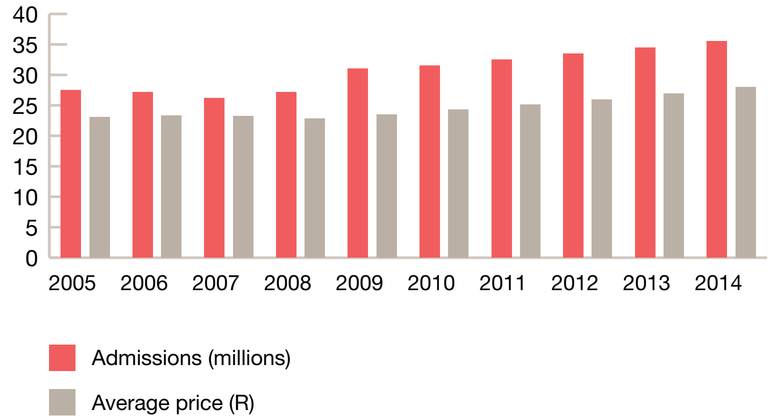
Revenue split by film format: 2009



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In 2007, Ster-Kinekor was the first exhibitor to launch 3D cinemas in South Africa, introducing two in Johannesburg (The Zone and Sandton City), one in Cape Town (Cavendish Square), one in Pretoria (Brooklyn), and one in Durban (Gateway). Ster-Kinekor is also the largest exhibition chain in South Africa with more than 400 screens.

Box office admissions and average price



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Nu Metro is the next-largest chain with approximately 200 screens, including more than 60 digital screens. Nu Metro has been aggressive in opening new cinemas and in installing digital and 3D screens.

CineCentre 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 just 5% of box office spending in 2009. There are also a number of independent exhibitors not affiliated to a national chain.

Although the box office market thrived in 2009, the recession had an adverse effect on film production in South Africa. Hollywood studios and European producers cut back on the number of films they shot, which limited production in many countries, including South Africa. At the same time, the steep decline in advertising led to a freeze in spending at the South African Broadcasting Corporation (SABC), which resulted in a steep decline in its production.

We expect that as the cinema industry becomes digital and as more 3D screens become available, the appeal of going to the movies will increase, which will have a positive impact on admissions. At the same time, the novelty of 3D, which contributed to growth in 2009, will eventually begin to diminish as films are increasingly released in this format. Consequently, we do not expect gains in admissions during the next five years to match the increases in 2009. Nevertheless, 3D helps distinguish theatrical exhibition from the numerous competitive and less-expensive outlets for films. We believe 3D will lead to ongoing growth in admissions.

We expect admissions to rise at a projected 2.7% compound annual rate during the next five years to reach 35.5 million in 2014 from 31 million in 2009. These estimates do not take into account the appeal of individual film releases, which can significantly enhance or reduce admissions in any given year.

With the price war now over and new cinemas opening, we expect admission prices to continue to rise, boosted by the growing share of premium-priced 3D movies. By 2014, the average price of a cinema admission will reach R27.95 from R23.50 in 2009, a 3.5% compound annual increase.

Overall box office spending will rise to R992 million in 2014, a 6.4% increase compounded annually from 2009.

Home video

Sell-through

Piracy is a major problem as bootlegged DVDs selling at a fraction of the price of legitimate products limit legitimate sell-through spending.

Nevertheless, legitimate unit sales were expanding at healthy rates through 2008, reflecting an expanding economy. Between 2005 and 2008, unit sales rose by a cumulative 32%. In 2009, the recession led to a cutback in spending and unit sales fell 2.4% to 810,000.

With the economy now showing signs of stabilising, we expect unit sales to follow suit in 2010. We then expect accelerating growth beginning in 2011, helped by improving economic conditions and the emergence of Blu-ray, a new HD home video format.

In countries where Blu-ray has become a presence, unit sales for the HD format have been growing despite the recession. This pattern suggests that the home video market will be shifting from DVDs to Blu-ray in the same way it shifted from the VHS to DVD in the late 1990s.

Although there are a number of similarities between the DVD-to-Blu-ray transition and the VHS-to-DVD transition, there are also several differences. In addition to a Blu-ray player, the Blu-ray market requires a household to have a high-definition television (HDTV) set. While the VHS-to-DVD shift required a DVD player, it did not require a new TV set.

The need for both a Blu-ray player and an HDTV set will limit the Blu-ray market in the near term in South Africa. As economic conditions improve and as hardware prices for both HDTVs and Blu-ray players come down, the typical pattern for emerging technologies, penetration will increase.

We expect Blu-ray to begin to become a significant presence in South Africa in 2011. The entrance of Blu-ray will boost the overall sell-through market and we expect unit sales to grow at progressively faster rates to reach 960,000 in 2014, a 3.5% compound annual increase from 2009.

The average DVD cost R131 in 2009, up from R130 in 2008 but well below the R152 average price in 2005. We expect prices to continue to rise in 2010 as higher-priced Blu-ray discs become a more meaningful component of the overall sell-through market. By 2014, the average DVD will cost an estimated R143, up 1.8% compounded annually from 2009.

Spending in 2014 will total an estimated R137 million, a 5.3% compound annual increase from R106 million in 2009.

In addition to the impact of the shift from DVDs to Blu-ray discs, the shortening of the window between theatrical exhibition and home video release will benefit sell-through. In some cases, films are now entering the video market within 13 weeks of their box office release, instead of 16 weeks, which had been the industry average. A decade ago, the average was more than 20 weeks. The earlier release enables films to benefit from the initial marketing efforts.

The in-store rental market

Rental spending has been relatively steady during the past five years, fluctuating between R176 million and R178 million. Spending edged down by 0.6% to R176 million in 2009. The number of rental transactions was flat at 4.6 million.

There has been an emergence of kiosks that offer inexpensive DVD rentals. The impact of this on the rental market will be negligible. Technovideo, Teljoy and 24 Self Video are among the companies providing DVD rental machines. There are also discount outlets such as DVD Shack that offer rentals for as low as R16.

As lower-cost transactions gain share, the overall average price will decline. We expect the average rental to cost R36 in 2014, down 1.2% on a compound annual basis from R38.26 in 2009.

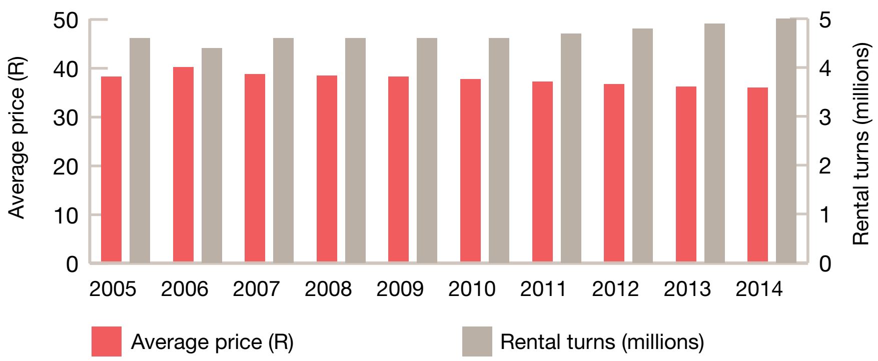
Declining prices will stimulate rental transactions. We project the number of rental turns to increase to 5 million in 2014, a 1.7% compound annual increase from 2009.

Rental spending will rise to a projected R180 million by 2014, growing at a 0.5% compound annual rate.

Physical sell-through market for DVDs

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In-store rental market for DVDs



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In-store rental market											
South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Rental spending (R millions)	176	177	178	177	176	174	175	176	178	180	
% change	*0.6*	*0.6*	*0.6*	*-0.6*	*-0.6*	*-1.1*	*0.6*	*0.6*	*1.1*	*1.1*	*0.5*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Overall home video market

The overall home video market fell by 1.1% in 2009. We expect spending to fall by 0.4% in 2010 with a continuous growth trend for the five-year period to 2014.

Spending in 2014 will total an estimated R317 million, up 2.4% on a compound annual basis from 2009.

Home video market (R millions)											
South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Sell-through	96	101	105	108	106	107	113	120	128	137	
% change	*6.7*	*5.2*	*4.0*	*2.9*	*-1.9*	*0.9*	*5.6*	*6.2*	*6.7*	*7.0*	*5.3*
In-store rentals	176	177	178	177	176	174	175	176	178	180	
% change	*0.6*	*0.6*	*0.6*	*-0.6*	*-0.6*	*-1.1*	*0.6*	*0.6*	*1.1*	*1.1*	*0.5*
Total home video	**272**	**278**	**283**	**285**	**282**	**281**	**288**	**296**	**306**	**317**	
% change	***2.6***	***2.2***	***1.8***	***0.7***	***-1.1***	***-0.4***	***2.5***	***2.8***	***3.4***	***3.6***	***2.4***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Piracy

South Africa's relatively high per capita GDP, in African terms, sophisticated infrastructure and financial systems, coupled with high penetration levels of western media, technology and lifestyles presents a lucrative market for counterfeit goods. At the same time, unemployment remains the most critical economic challenge in South Africa, resulting in many people resorting to crime.

The counterfeit goods network benefits from South Africa's long, porous borders, under-resourced law enforcement agencies, improved and expanding international transport and communication links and the lack of a harmonised legislative environment in the region.

As with South Africa's dominance of the economy of sub-Saharan Africa, Gauteng dominates the South African economy and as a result provides the most lucrative market for counterfeit goods, followed by Cape Town and Durban. The major gateway for inbound counterfeit goods is Oliver Tambo International Airport in Johannesburg.

The potential for increased market share of pirated products is high, particularly as a result of improvements in quality, pre-release availability, price and distribution channels, increased downloading capacity and access to web-based DVD film and interactive game sale sites.

The Counterfeit Goods Act (No. 37 of 1997) aims to protect against trading in falsifications of merchandise and products. To constitute an act of dealing in counterfeit goods (those that unlawfully bear or embody a trademark or mimic the appearance of other goods), the act must also infringe on an intellectual property right. The legislation complements the Trade Marks Act (No. 194 of 1993), the Copyright Act (No. 98 of 1978) and Section 15 of the Merchandise Marks Act (No. 17 of 1941).

(source: www.safact.co.za)

Consumer insights: Filmed entertainment

About this research

This publication aims to provide readers with useful information and to bring this to life by including real-life consumer insights. To this end, we commissioned GlobalEdge Marketing Consultants to perform consumer lifestyle research relating to the media and entertainment industry.

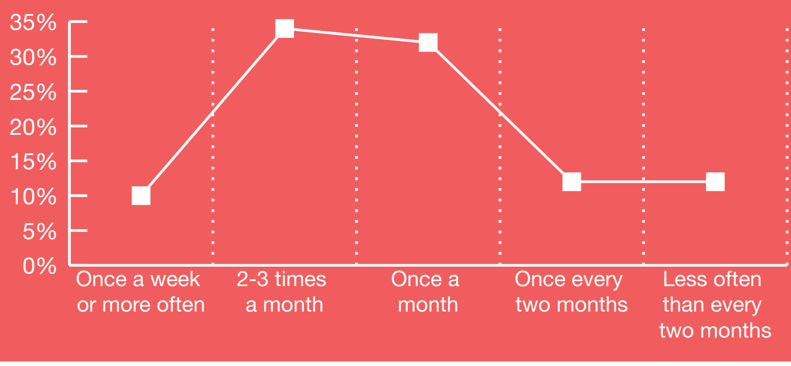
This research comprised face-to-face interviews with a sample of consumers that included a mix of the following demographic groups:

- *Persons between the ages of 15 and 50;*
- *A mix of racial groups;*
- *Males and females;*
- *Residing in Gauteng, the Western Cape and KwaZulu-Natal; and*
- *LSM 5-7 and LSM 8-10.*

How often do you go to the movies?

Consumers generally visited the movies 2-3 times a month or once a month. Avid moviegoers who go once a week or more only account for 10% of consumers

How often do you go to the movies?



Movie goers generally frequent the movies over the weekend (Friday-Sunday)

88% on weekends

20% during the week

3D movies

36% said they have watched a 3D movie

94% said they thought it was better than a 2D movie

85% thought it was worth paying more to see a 3D movie

Favourite movie genre

Action and comedy were consumers favourite movie genres

Action: 32%

Comedy: 25%

Romance: 16%

Do you go to the movies?

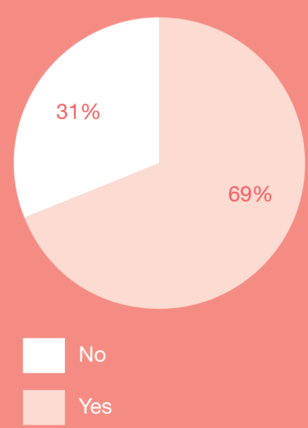
69% of consumers go to the movies

Going to the movies was higher amongst ***15-18 year olds (73%)*** and ***26-34 year olds (78%)***, and less likely particularly amongst 3***5-50 year olds (59%)***.

White consumers were also more likely (85%) to attend, while only 58% of black consumers said they went to movies.

Students and full-time workers were also more likely to go to movies.

Do you go to the movies?



Global trends in the filmed entertainment industry

Outlook

- We project that global spending on filmed entertainment will rise at a 4.8% compound annual rate, reaching $107.5 billion in 2014 from $85.1 billion in 2009.
- Global box office spending will increase from $30.7 billion in 2009 to $41.7 billion in 2014, a 6.3% compound annual increase.
- Box office will outpace overall home video spending, which will expand at a projected 3.9% compound annual rate to $65.9 billion from $54.5 billion in 2009.
- Physical sell-through spending will decline by 1.5% in 2010 and will then rebound, buoyed up by sales of Blu-ray discs, which will help to drive mid-single-digit growth in 2012-14. Sell-through spending will total $37.9 billion in 2014 from $32.6 billion in 2009, a 3.1% increase compounded annually, taking it back above its level in 2005.
- In-store rental spending will increase to $19.8 billion in 2014 from $17.9 billion in 2009, a 2.0% compound annual advance.
- Online rental subscriptions will expand at an 11.1% compound annual rate to $6 billion from $3.6 billion in 2009.
- Digital downloads will rise to $2.1 billion in 2014 from only $433 million in 2009, a 37.3% compound annual increase from a small base.

Key drivers

- New, differentiated consumer experiences will help to boost revenues. Box office spending will be enhanced by growth in 3D screens and 3D releases, which are proving to be very popular.
- Growth in Blu-ray will begin to offset declines in DVDs and assist the sell-through market. Growing penetration of HDTV sets will fuel demand for HD DVDs, impacting physical sell-through.
- Growth in kiosks and low-cost rentals will boost rental spending in each region except EMEA. However, rental growth will ultimately moderate as competition from video-on-demand and online distribution increases.
- The convenience of online rental services will boost spending on them.
- Faster broadband speeds, rising broadband penetration and devices that allow TV viewing will propel a small digital download market. We expect moderate growth in digital downloads during the next two years, and then a pickup in growth in 2012, reflecting the movement in the market from early adopters to mainstream use, which significantly expands the market. While countries are at different stages in their development, on average we expect the transition from early adopters to mainstream to begin in 2012.
- Piracy will continue to hold down spending, particularly in the Asia-Pacific region and Latin America as well as a number of countries in EMEA.
- A key factor affecting the market in any given year is the quality of releases and their appeal to consumers, a development we cannot predict.

Global filmed entertainment market by component (US$ millions)

Component	2005	2006	2007	2008	2009p	2010	2011	2012	2013	2014	2010-14 CAGR
Box office	23,888	25,390	26,410	27,377	30,656	32,097	34,226	36,432	39,062	41,665	
% change	*-4.2*	*6.3*	*4.0*	*3.7*	*12.0*	*4.7*	*6.6*	*6.4*	*7.2*	*6.7*	*6.3*
Physical sell-through	36,843	36,685	36,530	34,583	32,559	32,065	32,803	34,109	35,928	37,892	
% change	*-1.8*	*-0.4*	*-0.4*	*-5.3*	*-5.9*	*-1.5*	*2.3*	*4.0*	*5.3*	*5.5*	*3.1*
In-store rentals	17,774	17,855	18,013	17,547	17,939	18,425	18,799	19,154	19,502	19,849	
% change	*-4.6*	*0.5*	*0.9*	*-2.6*	*2.2*	*2.7*	*2.0*	*1.9*	*1.8*	*1.8*	*2.0*
Online rental subscriptions	1,210	1,510	2,196	2,822	3,550	4,205	4,788	5,277	5,686	6,014	
% change	*46.1*	*24.8*	*45.4*	*28.5*	*25.8*	*18.5*	*13.9*	*10.2*	*7.8*	*5.8*	*11.1*
Digital downloads	2	30	133	290	433	593	809	1,199	1,651	2,111	
% change	–	*1400.0*	*343.3*	*118.0*	*49.3*	*37.0*	*36.4*	*48.2*	*37.7*	*27.9*	*37.3*
Total home video	55,829	56,080	56,872	55,242	54,481	55,288	57,199	59,739	62,767	65,866	
% change	*-2.0*	*0.4*	*1.4*	*-2.9*	*-1.4*	*1.5*	*3.5*	*4.4*	*5.1*	*4.9*	*3.9*
Total filmed entertainment	**79,717**	**81,470**	**83,282**	**82,619**	**85,137**	**87,385**	**91,425**	**96,171**	**101,829**	**107,531**	
% change	***-2.7***	***2.2***	***2.2***	***-0.8***	***3.0***	***2.6***	***4.6***	***5.2***	***5.9***	***5.6***	***4.8***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Chapter 5
Radio

Charles Stuart, Senior Manager, PwC Southern Africa.

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

Overview

Radio is the most popular form of media in South Africa as it is cheap, portable and requires no electricity or literacy. Adding to radio's appeal is its non-intrusive nature: you can engage with radio nearly anywhere you go while performing other tasks. There are more than 10 million households with radios and approximately 28 million people who tune in each week.

Advertising was the dominant source of revenue accounting for 82% of the radio market in 2009. Radio advertising has been negatively impacted by the recession. In fact, radio advertising's decline of 9.1% in 2009 was its first decline in recent years and the first time in five years that advertising has not grown by double digits.

In 2010, the economic recovery as well as spending associated with the FIFA World Cup boosted advertising with revenues for the six months ended June 2010 achieving a level of R1.24 billion, compared to R1.05 billion in the same period in 2009.

Advertising growth is expected to be fuelled by the addition of three new commercial stations, most likely in 2011.

Growth in the number and reach of community stations has marginally added to advertising spend.

Overall, radio advertising is projected to increase by 9.4% on a compound annual rate from R2.0 billion in 2009 to R3.1 billion in 2014.

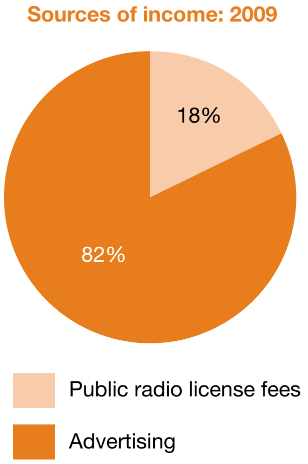
Public funding, which excludes advertising revenue earned by public stations, rose by 1.2% in 2009, continuing its pattern of growth fluctuating around 1.0% annually.

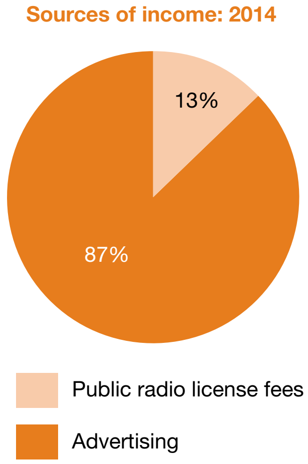
Public funding is projected to expand at a 0.9% compound annual rate resulting in an 8.1% compound annual growth rate for the period 2009 to 2014.

Radio market (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Advertising	1,550	1,750	1,960	2,200	2,000	2,090	2,300	2,520	2,800	3,140	
% change	*38.4*	*12.9*	*12.0*	*12.2*	*–9.1*	*4.5*	*10.0*	*9.6*	*11.1*	*12.1*	*9.4*
Public funding	422	425	430	434	439	442	447	450	456	459	
% change	*1.2*	*0.7*	*1.2*	*0.9*	*1.2*	*0.7*	*1.1*	*0.7*	*1.3*	*0.7*	*0.9*
Total radio	**1,972**	**2,175**	**2,390**	**2,634**	**2,439**	**2,532**	**2,747**	**2,970**	**3,256**	**3,599**	
% change	***28.3***	***10.3***	***9.9***	***10.2***	***–7.4***	***3.8***	***8.5***	***8.1***	***9.6***	***10.5***	***8.1***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



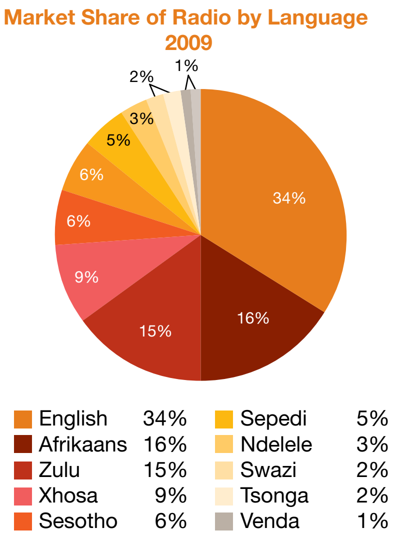


Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

A snapshot of the radio industry

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, amongst others.

English is the dominant broadcast language in South African radio, accounting for over a third of programming. The next two languages, Afrikaans and Zulu combined, account for slightly less than a third of programming.



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

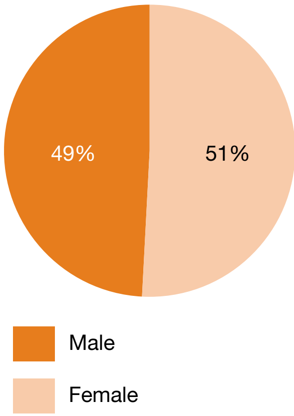
The South-African market is made up of an almost even split between male and female listeners, but displays a diverse listenership according to age, with people of all ages tuning in.

Music is by far the most popular format on the major stations, while some of the stations air talk and local information formats.

The radio industry comprises three categories: a public service broadcasting sector, a commercial sector and community radio stations.

The South African Broadcasting Corporation (SABC), the public broadcaster, is owned by the state and receives its financing through advertising and public funding in the form of government grants. 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 by far the most popular station in the country, with more than six million listeners tuning in each week. Additionally, the SABC operates three commercial stations with the allowance for these commercial stations to help subsidise the public service stations. The commercial stations include Metro FM, the largest national commercial station, which programmes contemporary music geared to black urban youth; 5FM, a national trendy music station geared to youth in major metropolitan areas; and Good Hope FM, a Cape Town-based radio station geared to young adults. The SABC operates 18 stations reaching a daily audience of 19 million.

Sex of listenership: 2009

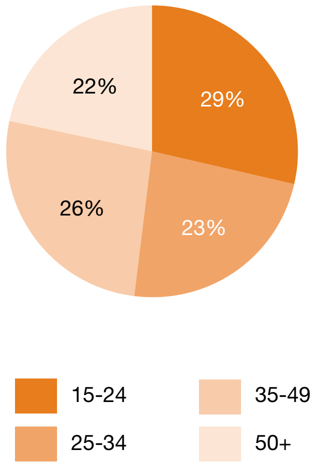


Source: South-African Advertising Research Foundation
June 2010 RAMS

During the apartheid era, there were only two privately-owned commercial radio stations, Radio 702 and Capital Radio. The number of commercial stations grew in the late 1990s when six regional SABC stations were privatised in 1996, yielding over R500 million for the government. Additionally, in 1997, eight new commercial licences were granted in South Africa's largest cities of Johannesburg, Cape Town and Durban. Jacaranda FM 94.2 broadcasting in Gauteng is the largest independent commercial station, reaching two million listeners weekly.

Community radio began in 1994 when the broadcasting authority began granting licences to small community groups nationwide. There are more than 100 community radio stations that provide diverse programming in different languages for local communities. These stations range from small stations in remote areas and college stations reaching a thousand listeners to Jozi FM in Johannesburg, which reaches half a million listeners. In general, these stations, which are controlled by non-profit entities, struggle to get advertising and often require private donations and government support to stay afloat. Community station listenership continues to increase with over seven million people tuning in each week.

Average age of listenership



Source: South-African Advertising Research Foundation
June 2010 RAMS

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

In March 2009, ICASA issued invitations to apply for three new FM commercial radio licences in the primary markets of Gauteng, Durban and Cape Town. Since there are licence regulations that limit the number of stations a company can own in a market, the new licences will foster competition. There have been 42 applications for these licences, with many of the applicants vying for all three of the licences. It is possible that at least one of the applications will be for a talk radio station as Talk Radio 702 is currently the only commercial FM station in South Africa that follows this format. Hearings on the applications are expected in the last quarter of 2010.

Advertising

Radio is a ubiquitous medium in South Africa, reaching almost 90% of the population on a weekly basis. There is a wide variety of stations available in most areas. In Johannesburg, for example, listeners can choose from approximately 40 stations.

Ukhozi FM, the SABC Zulu-language station, was the top-rated station by audience size in 2009. 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 speakers.

Top 10 radio stations by listenership: 2009
Ukhozi FM
Metro FM
Umhlobo Wenene FM
Lesedi FM
Motsweding FM
Thobela FM
5FM
Gagasi 99.5
Jacaranda FM 94.2
East Coast Radio

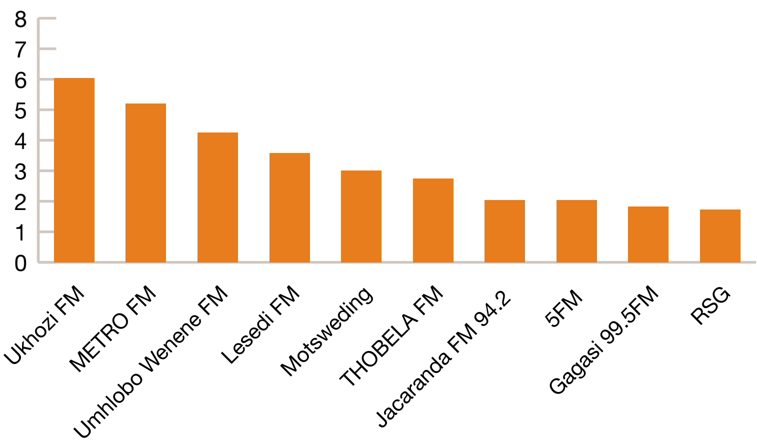
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, South African Advertising Research Foundation

According to the June 2010 Radio Audience Measurement Survey (RAMS), time spent listening to radio was 26,5 hours per week. Metro FM continues to be the most popular national station with five million listeners per week above the age of 15, followed by 5FM with two million listeners.

Among the regional non-African-language stations, Jacaranda FM 94.2 is the leader with two million listeners per week. As a group, the African language stations operated by the SABC have the largest audiences. Ukhozi FM, a Zulu-language station, is the most popular station overall, with six million listeners per week. Umhlobo Wenene FM, broadcasting in Xhosa, is next with more than four million listeners, followed by Lesedi FM, a Sesotho-language station with more than three million listeners. Motsweding and Thobela FM, broadcasting in the Setswana and Sepedi languages respectively, each attract around three million listeners.

Community radio stations attract much smaller audiences than the commercial or public stations. Overall, community stations attract more than seven million listeners per week, with Jozi FM leading with about 500,000 listeners, followed by Unitra Community Radio and Alfred Nzo Community Radio, with about 300,000 listeners each.

Listenership: June 2010 (millions)



Source: South African Advertising Research Foundation

The Radio Advertising Bureau (RAB) was launched in 2008 as the association to promote the use of radio as an advertising platform. Unlike a similar association in the USA, which focuses on radio stations, the RAB in South Africa is focused on educating advertising agencies as to the strengths of the media and how to use radio more effectively. Among the services RAB provides are research and seminars that explain the value of the medium.

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, the listening experience would be enriched by the improvement in sound quality as a result of less interference. Digital radio also enables enhanced services as it provides a data stream, which can be used to display information about the songs being played.

ICASA has approved two digital technologies for digital radio in South Africa: Digital Audio Broadcasting (DAB) and Digital Radio Mondiale (DRM). DAB, meant as a replacement for FM, does not operate on the same frequency as FM, but uses frequencies traditionally used by television. DAB does not require the immediate migration of the FM stations, but could coexist with them. The other technology that has been approved for use in South Africa is DRM, which offers sound quality similar to FM, but operates in the short wave and medium wave bands. Medium wave is not common in South Africa, with only two commercial stations and a number of community stations using it. While this technology could be implemented immediately, it would require new receivers, which are expensive. DRM is being tested in a number of countries including France, India, and Brazil.

Although it has been running a digital audio broadcasting (DAB) pilot test for some time, South Africa does not have a digital broadcasting system for commercial radio. Currently, the spectrum available for DAB is being used by analog television stations. The country is hoping to move from analog television to digital in the next five years, at which time the spectrum should become available for the introduction of digital radio.

It is unlikely that digital radio broadcasting will take off in South Africa anytime soon as there are currently no plans to replace FM services with digital services. 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. A major stumbling block to the implementation of digital radio is that new radio receivers would be required both at home and in cars. As a result, we do not expect digital radio to have a significant impact on revenues in the near future.

Another new technology that could have an impact on radio in the future is the Internet. Station Web sites can be used to market radio programmes. DJs can also communicate and develop a bond with listeners using social media like blogs, Facebook and Twitter. Many of South Africa's most popular stations are available online via live streaming. Internet radio eliminates the geographic boundaries of traditional radio in that it can be listened to anywhere, including outside the broadcast area. In addition to simultaneously streaming the regular broadcast, it is possible to develop Internet-only niche stations, thereby increasing the advertising potential. However, since broadband penetration is relatively low in South Africa, listening to radio online is not as prevalent as in many Western European countries.

Advertising in general has been negatively impacted by the recession and radio advertising has been no different. In fact, radio advertising declined almost every month in 2009 versus the comparable month in the previous year.

Challenges facing the radio industry

The National Association of Broadcasters (NAB) is currently in a dispute with the South African Music Performance Rights Association (SAMPRA) regarding needletime royalties payable for the broadcast of sound recordings. It has been suggested by SAMPRA that radio stations be required to pay between 0.8% and 6.2% of their net broadcasting revenue to song writers based on a formula proposed by SAMPRA. This will have a significant impact on the overall profitability of radio stations in South Africa once formally implemented.

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 and as a result impacts profit margins.

Revenues for public stations include both advertising and public funding. From a purely advertising perspective, in 2009 94.7 Highveld Stereo attracted the most revenue followed by Metro FM. Overall, there were five private radio stations and five public stations in the top 10.

Top 10 radio stations by advertising revenue: 2009

94.7 Highveld Stereo
Metro FM *
Jacaranda FM 94.2
East Coast Radio
KFM
5FM *
Ukhozi FM *
Talk Radio 702
Umhlobo Wenene FM *
Lesedi FM *

* Public radio station

Source: PricewaterhouseCoopers LLP

In 2010, radio advertising is expected to reverse its 2009 decline and this has been the case so far, with advertising revenues for the six months ended June 2010 up 18% on the comparative period in 2009. The 2010 figure has been aided by advertising associated with the FIFA World Cup as well as improved economic conditions, which are expected to continue to spur advertising growth in 2011, despite the loss of the World Cup advertising.

Gains of approximately 10% are expected in 2011 and 2012, but as the economy gains momentum in 2013-14, we expect radio advertising to accelerate with an 11.1% increase in 2013 and a 12.1% advance in 2014.

For the five-year forecast period as a whole, we anticipate radio advertising to rise from R2.0 billion in 2009 to R3.1 billion in 2014, a 9.4% increase compounded annually.

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 in major markets. The growth in the number of stations helps account for the above-average growth rates of radio compared to most other media.

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 radio stations. In Europe, many FM stations provide an additional unencrypted satellite feed. There are also numerous channels, mainly in the USA, that only offer subscription-based digital packages and which do not broadcast terrestrially at all. Mobile services, such as Sirius, XM and Worldspace allow listeners to roam across an entire continent, listening to the same audio programming anywhere they go. In South Africa, satellite radio is still in its infancy and while Worldspace is considering relaunching its satellite radio services in South Africa, the market is currently insignificant and no financial information has therefore been included in this publication.

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 2009, public radio received an estimated R439 million in allocated public funding.

Modest rate hikes every alternate year and ongoing growth in the TV household universe have expanded funding for public broadcasting.

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 license 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.

Between 2005 and 2009, growth in public funding averaged 1.0% on a compound annual basis. We expect this pattern to continue during the next five years and project public funding to increase at a similar 0.9% compound annual growth to R459 million in 2014.

Total radio market

We project the radio market, as a whole, to increase to an estimated R3.6 billion in 2014 from R2.4 billion in 2009, an 8.1% compound annual increase.

Consumer insights: Radio

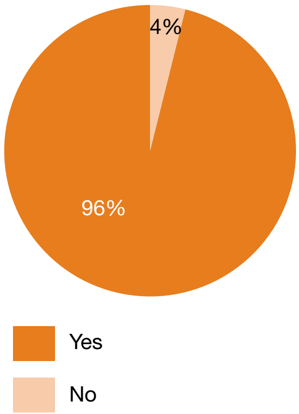
About this research

This publication aims to provide readers with useful information and to bring this to life by including real-life consumer insights. To this end, we commissioned GlobalEdge Marketing Consultants to perform consumer lifestyle research relating to the media and entertainment industry.

This research comprised face-to-face interviews with a sample of consumers that included a mix of the following demographic groups:

- *Persons between the ages of 15 and 50;*
- *A mix of racial groups;*
- *Males and females;*
- *Residing in Gauteng, the Western Cape and KwaZulu-Natal; and*
- *LSM 5-7 and LSM 8-10.*

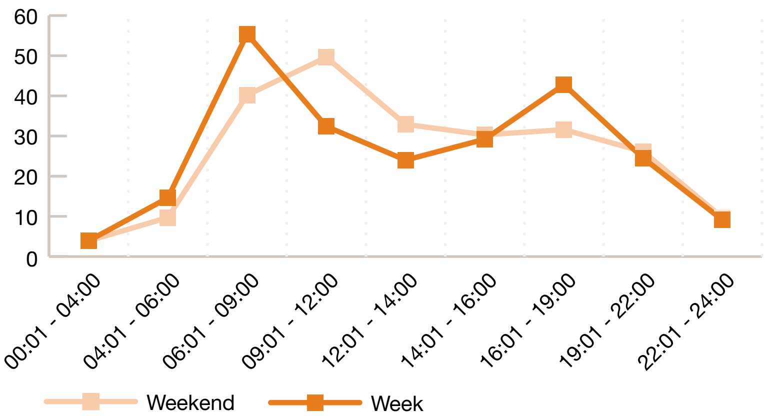
Do you listen to the radio?



Just under half of consumers listen to just one radio station, however listening patterns differ.

LSM 8-10 and white consumers are more likely to listen to one station, whereas LSM 5-7, black consumers and younger consumers will listen to 2-3 or more stations.

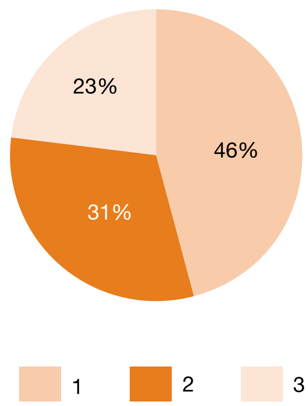
When do you listen to the radio? (%)



Listening to the radio in the car is far more prevalent amongst white consumers (71% vs. 12% for black consumers) and whites have a higher listenership at work.

What do you use to listen to the radio?	
Traditional radio	61%
Car radio	25%
Cell phone	9%
Other	3%
Audio streaming (via the internet)	2%

How many radio stations do you listen to?



What radio stations do you listen to and which one most often?	Listen to	Most often
Metro FM	38%	18%
5FM	22%	13%
Highveld 94.7	17%	10%
Jacaranda FM 94.2	16%	9%
YFM	13%	5%
East Coast Radio	13%	8%
Kaya FM	11%	6%
KFM 94.5	10%	7%
Good Hope FM	4%	1%
Classic FM	2%	2%
Other	29%	21%

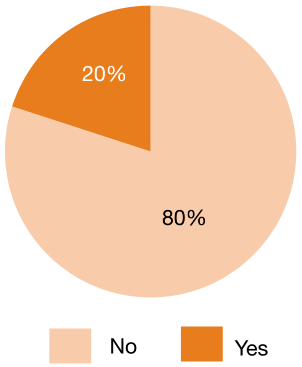
Where do you listen to the radio?	
At home	81%
In the car	36%
At work	19%
Other	3%

What do you listen to most often on the most popular radio stations?

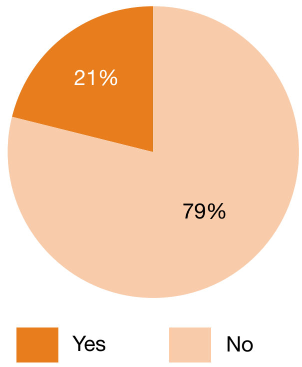
	Metro FM	5FM	Highveld 94.7	Jacaranda FM 94.2	YFM
Music	86%	86%	85%	93%	73%
News	58%	45%	49%	71%	60%
Talk	50%	30%	49%	56%	54%
Sport	25%	28%	21%	33%	29%
Traffic	21%	22%	42%	51%	21%

Reason(s) why you visit radio Web sites?	
Events information	44%
News	35%
Competitions	33%
DJ information	31%
Weather	24%
Loyalty programmes	13%
To listen to streaming audio	9%
Other	6%

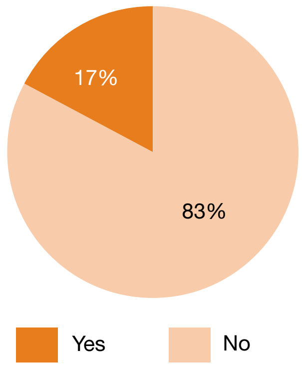
Do you belong to any loyalty programmes?



Do you enter competitions on the radio?



Have you visited the Web sites of radio stations?



Global trends in the radio industry

Outlook

- The radio market will rebound from a 9.0% decline to resume growth in 2010.It will expand by 3.5% compounded annually to $51.4 billion in 2014 from $43.2 billion in 2009.
- Global radio advertising, which slumped by 14.3% in 2009, will increase by 3.9% compounded annually to $33.7 billion in 2014 from $27.9 billion in 2009, as revenues recover from the effects of the economic downturn.
- Public funding (public radio licence fees) will rise at a modest 1.2% annual rate from $12.7 billion in 2009 to $13.5 billion in 2014.
- Satellite radio subscriptions will be the fastest-growing component, averaging 10.0% compounded annually to $4.1 billion from $2.5 billion in 2009.

Key drivers

- Weak economic conditions worldwide lowered spending on radio significantly in 2009.
- We expect a modest rebound in 2010 followed by faster growth beginning in 2011 as economic conditions improve.
- Many broadcasters are exploring ways to expand their exposure through digital radio and Internet radio, but these alternatives are not expected to be major sources of revenue for some years.
- Satellite radio, which was hurt by poor auto sales in North America in 2009, will boost spending in North America.
- Modest increases in public funding (public radio licence fees) will help maintain the radio markets in the EMEA and Asia–Pacific regions.

Global radio market by component (US$ millions)

Component	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Radio advertising	32,924	33,878	34,123	32,582	27,925	28,440	29,419	30,660	32,131	33,740	
% change	*3.0*	*2.9*	*0.7*	*-4.5*	*-14.3*	*1.8*	*3.4*	*4.2*	*4.8*	*5.0*	*3.9*
Public funding (public radio licence fees)	11,804	12,022	12,329	12,490	12,726	12,903	13,028	13,169	13,459	13,527	
% change	*3.6*	*1.8*	*2.6*	*1.3*	*1.9*	*1.4*	*1.0*	*1.1*	*2.2*	*0.5*	*1.2*
Satellite radio subscriptions	759	1,360	1,913	2,415	2,539	2,869	3,190	3,486	3,781	4,093	
% change	*157.3*	*79.2*	*40.7*	*26.2*	*5.1*	*13.0*	*11.2*	*9.3*	*8.5*	*8.3*	*10.0*
Total radio	**45,487**	**47,260**	**48,365**	**47,487**	**43,190**	**44,212**	**45,637**	**47,315**	**49,371**	**51,360**	
% change	***4.2***	***3.9***	***2.3***	***-1.8***	***-9.0***	***2.4***	***3.2***	***3.7***	***4.3***	***4.0***	***3.5***

Source: Global Entertainment & Media Outlook 2010-2014 (PwC, 2010)

Chapter 6
Recorded music

Sharon Horsten, Associate Director, PwC Southern Africa.

Candace van Binsbergen, Manager, PwC Southern Africa.

The recorded music market consists of consumer spending on physical formats – albums, single sound recordings and music videos – as well as digital distribution. Digital distribution consists of music distributed to mobile phones and music downloaded from the Internet through licensed services. The recorded music market does not include music-publishing, live-performance, or merchandising revenues. Spending is measured at retail, which can be substantially higher than wholesale or trade value revenues that are often reported.

Overview

The recorded music market in South Africa has reached the point that most other countries had reached at the beginning of the century, with spending now shifting from physical to digital distribution. The physical market had been increasing until 2007, but during the past two years began to decline. In 2009, the decrease accelerated to 17.3%.

The digital market is centred on mobile phones and has been buoyed by the entrance of new services. Although digital spending rose by 25% in 2009, the digital market in South Africa is still behind other countries. Licensed digital spending accounted for 8.5% of the recorded music market in South Africa in 2009.

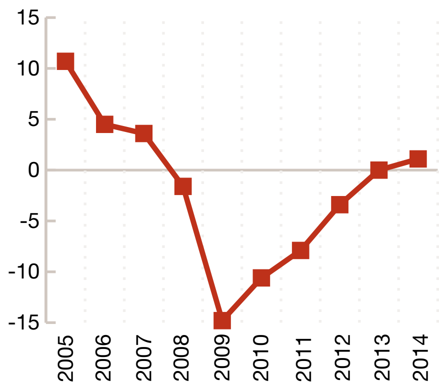
Because prices for digital formats are much lower than those for physical formats, a shift in consumption from physical to digital results in a decrease in overall spending as long as the digital market remains a small component of the overall market. South Africa is now in that phase of the cycle where the emergence of licensed digital services is leading to a drop in overall spending.

We believe there is a core segment of consumers – primarily in the over-45 demographic – that will continue to prefer music in physical formats. As the core market is converted, we expect moderate declines in physical spending.

The drivers now in place will lead to the next turning point, which we expect will be reached in 2013, when the digital market becomes large enough so that gains in digital sales will begin to offset declines in spending on physical formats.

The transition from physical to digital formats initially leads to a shift from positive to negative growth and then produces a rebound with a return to positive growth. The wide swings in growth rates during the 2005-14 period are characteristic of this transition.

Recorded music spending growth (%)



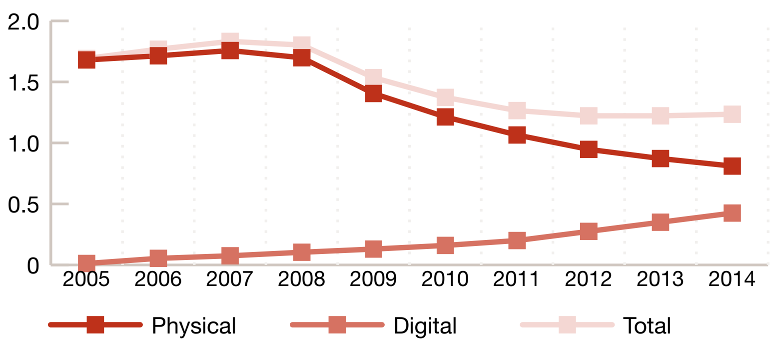
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We project that the physical format market will continue to decline at double-digit annual rates through 2012 before moderating to single-digit decreases during 2013-14. Spending will fall to R810 million in 2014 from R1.4 billion in 2009, a 10.4% compound annual decline.

The relatively small digital market has been growing at rates in excess of 20% annually, a trend we expect will continue during the next five years. Spending will more than triple from R130 million in 2009 to R425 million in 2014, with an average compound annual growth of 26.7%.

Although spending on digital formats will not overtake spending on physical formats during the next five years, the gap will narrow. By 2014, digital spending will be more than half that of physical spending.

Recorded music spending by component (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Overall, recorded music spending fell by 14.8% in 2009. We expect another double-digit decline in 2010 and a cumulative decrease of 21.9% through 2012. We expect spending to stabilise in 2013 and to expand by 1.1% in 2014. For the forecast period as a whole, we expect that spending will fall at a 4.3% compound annual rate to R1.2 billion in 2014 from R1.5 billion in 2009.

Despite the expected recovery, recorded music spending in 2014 will remain nearly 33% lower than its peak in 2007.

Recorded music market (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Physical distribution	1,680	1,714	1,757	1,698	1,405	1,213	1,065	947	872	810	
% change	*9.9*	*2.0*	*2.5*	*-3.4*	*-17.3*	*-13.7*	*-12.2*	*-11.1*	*-7.9*	*-7.1*	*-10.4*
Digital distribution	12	54	75	104	130	160	200	275	350	425	
% change	–	*350.0*	*38.9*	*38.7*	*25.0*	*23.1*	*25.0*	*37.5*	*27.3*	*21.4*	*26.7*
Total recorded music	**1,692**	**1,768**	**1,832**	**1,802**	**1,535**	**1,373**	**1,265**	**1,222**	**1,222**	**1,235**	
% change	***10.7***	***4.5***	***3.6***	***-1.6***	***-14.8***	***-10.6***	***-7.9***	***-3.4***	***0.0***	***1.1***	***-4.3***

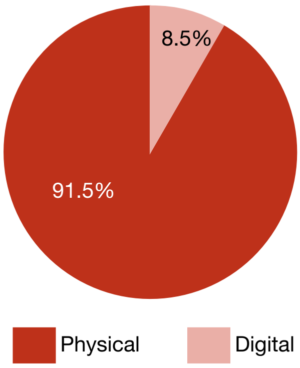
Sources: IFPI, Recording Industry of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

"Our aim is not simply to be digitally savvy – our aim is to be consumer savvy. We know that people want to consume music digitally, so we need to be digitally aware, have digital capabilities and marketing ability."

– Elio Leoni-Sceti, Chief Executive, EMI Music.

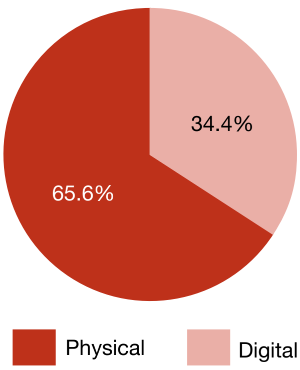
Source: IFPI Digital Music Report (IFPI, 2010)

% Physical vs digital 2009



Sources: IFPI, Recording Industry of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

% Physical vs digital 2014



Licensed digital distribution

The licensed digital market has been relatively slow to develop in South Africa, principally because Internet distribution is not significant. Low broadband penetration has hampered Internet distribution because downloading music to a home computer is difficult and time consuming without a broadband connection. Apple's iTunes Music Store has been a major driver of digital spending in other countries, but there is no local iTunes Music Store in South Africa.

The digital music market in South Africa consists primarily of music downloads to mobile phones. In contrast with broadband, virtually everyone in South Africa has a mobile phone.

Most of the licensed services that operate in South Africa, including online music stores, focus their efforts on the mobile market. A number of new services have entered the market during the past two years and there are now approximately a dozen licensed digital services available.

In the digital era, music companies are diversifying their business models and their revenue streams by offering new ways for consumers to buy and access music. These include: subscription services, music services bundled with devices and broadband subscriptions; streaming services with applications for mobile devices; advertising-supported services that offer premium services; and online music video services.

Music companies have licensed advertising-supported services to attract non payers and file sharers, struck groundbreaking deals with major ISPs, developed partnerships with device manufacturers and established a new platform for high-quality music videos aimed at mass audiences. All these initiatives are predicated on the principle of meeting the needs of the music fan.

A music service model that is growing in popularity worldwide is a subscription model, in which a user pays a small monthly fee to gain access to a vast music library, such as Ovi Music Unlimited in South Africa and Spotify, which is not available in South Africa at the time of writing. Subscribers can choose songs to listen to at will. The popularity of this model can be attributed to:

- 'Disruptive' trends and technologies such as social networking and the Internet being used as the new 'radio';
- Movements to relax/change levels of digital rights management (DRM);
- Increased availability and speed of broadband services; and
- The constant battle against music piracy.

One successful subscription model is the Swedish music streaming service, Spotify, which has more than seven million users across six European countries. Users can either listen to free music (funded by advertising) or pay a small monthly fee for a premium service with faster bitrates and no advertisements.

Source: *IFPI Digital Music Report* (2010)

Turning tradition on its head

One service that is turning tradition on its head is Guvera.com, which gives registered users an opportunity to "search for and download music at no cost without fear of falling foul of Internet piracy watchdogs". The business is funded solely by advertisers, who pay the record companies and in turn receive market data from users who download music from the site. Under Guvera's model, consumers can obtain ownership of the music and use it across mediums. The trade-off is that consumers agree to share information for the purpose of receiving targeted advertising. Though the advertisements may not be disruptive, the model's success depends on whether a consumer is willing to give up certain information for the benefit of free and legal music. Another positive for Guvera is that it addresses concerns about the bandwidth required for streaming. Guvera works in a similar way to iTunes and a consumer needs to download the music only once and in a smaller, less bandwidth-demanding format than that used for streaming media.

Source: Australian Entertainment and Media Outlook 2010-2014 (PwC, 2010)

A service that may be unique to South Africa is the 94.7 Music Shop, which is a partnership between a radio station, 94.7 Highveld Stereo, and eXactmobile, a music aggregator that has a catalogue of more than 500 000 songs. Songs can be purchased from the Highveld Website and downloaded to mobile phones. The service builds on the relationship listeners have with the radio station, although purchases are not limited to songs that are played on the station. The station promotes purchases through weekly Top 10 lists. Payment can be made by credit card or via text messaging. The introduction of text messaging as a method to buy music led to a surge in downloads, even though the charge for a text order is R16.99, compared with a R9.99 fee for a credit card order.

In 2010, MTN Loaded launched MTN Xploaded, which provides access to artists that do not have recording contracts. The service is a platform for unsigned artists to release their music digitally. The music is downloaded for a small fee and is delivered to the consumer's mobile device. Once the song has been downloaded, music fans are able to transfer it to a computer or any other device for playback. The service expands on the original MTN Loaded service, which features local talent.

Nokia Comes With Music (now renamed Ovi Music Unlimited) devices enable consumers to download an unlimited number of digital tracks from a library of almost 6 million available on the South African Nokia Music Store (now called Ovi Music Store) for a one-year period. In addition, consumers can keep all their downloaded music from the diverse catalogue of international and local artists – even when the service period of one year is over – on their Ovi Music Unlimited device. Selected Nokia handsets have songs preloaded and offer access to tracks from the Ovi Music Store. With the recent rebranding of the online store, any tracks purchased from the site from a computer will be free of digital music rights. Consumers will be able to copy their downloaded tunes and listen to their purchases on any device of their choosing.

Vodacom's online service, Vodafone Live also offers music to its subscribers.

Rhythm Online, Pick 'n Play, Just Music, Jamster, DJs Only, GETMO, and Music Station are other licensed digital services that operate in South Africa. Musica, a retailer, has also introduced a download store.

A factor inhibiting growth in the legitimate digital market is growing digital piracy. In a number of countries, Internet service providers (ISPs) have been enlisted to help thwart digital piracy by requiring or permitting ISPs to provide information on subscribers who use illegal sites. In some countries, graduated response measures have been introduced that provide for a series of warnings to be sent to suspected infringers that culminate in the loss of Internet access privileges and fines.

At least in the near term, it does not appear that ISPs will be participating in anti-piracy measures in South Africa. In 2009, the Internet Service Providers Association (ISPA) withdrew its support for a programme that would deny access to infringing sites because it would be too expensive and would violate the privacy rights of Internet users.

In a separate development in 2009, the Recording Industry of South Africa (RiSA) requested that ISPA block access to two international sites that were selling music tracks for a fraction of the cost that local sites charge, citing the Electronic Communications and Transactions Act (ECT Act). ISPA chose not to comply with that request because the ECT Act can only be used to remove content hosted on a local ISP network. As the sites in question were hosted outside of South Africa, ISPA claimed the ECT Act did not apply.

In the absence of new legislation or a change in policy by the ISPA, we expect digital piracy to increase in South Africa, which will continue to limit growth in licensed digital services.

Of course digital piracy is not unique to South Africa. Other countries have experienced substantial growth in licensed digital spending even as digital piracy has increased and we expect a similar experience in South Africa.

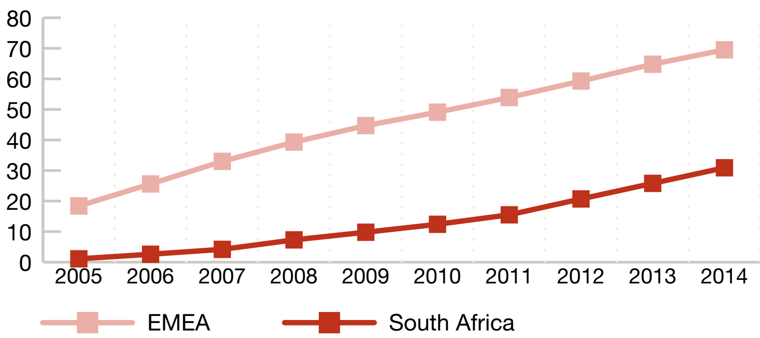
We also expect that a viable Internet distribution market may develop as broadband penetration increases. Only about 10% of households in South Africa had a broadband connection in 2009, compared with 45% in Europe, the Middle East and Africa (EMEA) as a whole. The pace of broadband penetration picked up in South Africa during the past two years and we expect that it will accelerate during the latter part of the forecast period, reflecting increased investment in digital infrastructure.

By 2014, we project that nearly a third of all households in South Africa will have a broadband connection. As broadband penetration grows, the potential for Internet music distribution will increase. Existing services will likely expand their focus to include downloads to home computers and new services may enter the market.

"Downloading singles creates declining margins which ultimately leaves less to reinvest into the industry."

– Raphael Domalik, CEO of South African independent record label, Sovereign Entertainment

Broadband household penetration (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The other principal driver of digital spending is behavioural. People are changing the way they purchase and listen to music. People are becoming accustomed to listening to music on their mobile devices and it is a short step to purchasing music digitally. We expect that licensed digital distribution will become a significant portion of the overall recorded music market.

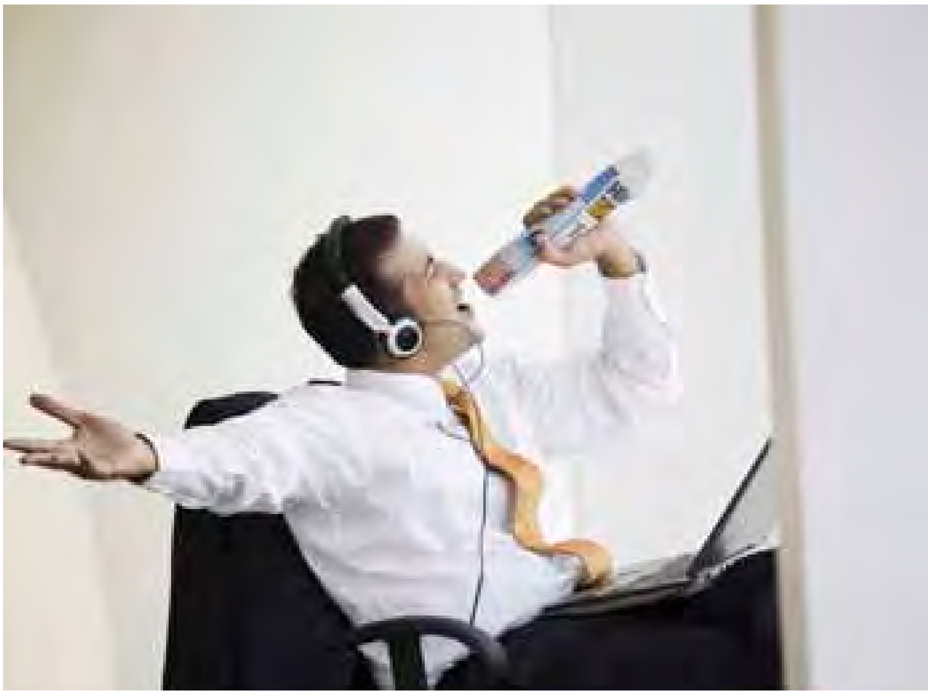
By 2014, an estimated 34.4% of South Africa's licensed recorded music sales will be generated via digital channels. This represents a significant increase from the 8.5% share in 2009.

We project licensed digital spending will increase to a projected R425 million in 2014, a 26.7% compound annual increase from R130 million in 2009.

Physical distribution

Physical piracy is also a major problem for the physical distribution market, but in contrast with digital piracy, efforts to contain physical piracy have yielded positive results. In 2004, RiSA established its Anti Piracy Enforcement Unit that works with other organisations to control physical piracy. RiSA, in collaboration with information obtained from music retailers and other entities, identifies locations where counterfeit music is sold and works with the police to confiscate pirate products.

A substantial quantity of infringing products was confiscated in 2009, including product with a retail value of R6 billion in Johannesburg in October 2009. As a result of these efforts, RiSA now estimates that industry losses from piracy amount to R350 million annually, down from the previous estimate of R500 million.



Despite the reduction in physical piracy, physical sales plummeted in 2009. Unit sales fell by 17.2% and spending declined 17.3%. These decreases to some degree reflect the economic recession, but in larger part represent the first material shift in the market from physical to digital purchasing.

Album unit sales fell 16.7% in 2009 to 17.5 million units; music videos declined by 21.7% to 1.8 million units and sales of singles declined by 50% to just 20,000 units.

With economic conditions improving, we expect the adverse impact of the economy to play a declining role during the next few years. At the same time, we expect the shift from physical purchases to digital purchases to gain momentum.

We also believe that while digital distribution offers convenience and lower prices, there is a sizeable component of the population that still prefers physical formats. As less-avid physical buyers shift to digital purchases, the remaining physical market will consist of consumers who are more likely to continue to buy physical music. Although we expect physical sales to continue to decline, we project that the rate of decrease will moderate during the latter part of the forecast period.

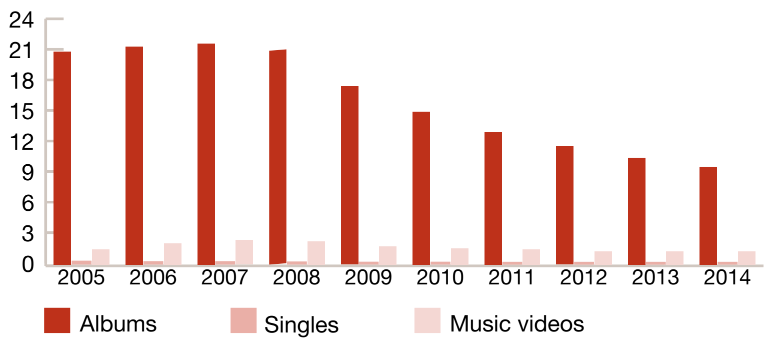
Taking these various factors into account, we project album unit sales to fall at double-digit annual rates during the next three years and then to decline at high single-digit rates during 2013-14. For the forecast period as a whole, we expect album unit sales to fall at an 11.3% compound annual rate to 9.6 million in 2014.

The physical market has largely abandoned singles because they are not economical. Relatively few songs are now released as singles. We expect unit sales of singles to drop to 10,000 by 2011 and to stabilise at that level.

We also expect a decline in music video sales, with unit sales falling to 1.3 million by 2012 and stabilising at that level.

Total physical unit sales will fall to 10.9 million in 2014 from 19.3 million in 2009, a 10.8% compound annual decrease.

Physical recorded music unit sales (millions)



Sources: Recording Industry of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

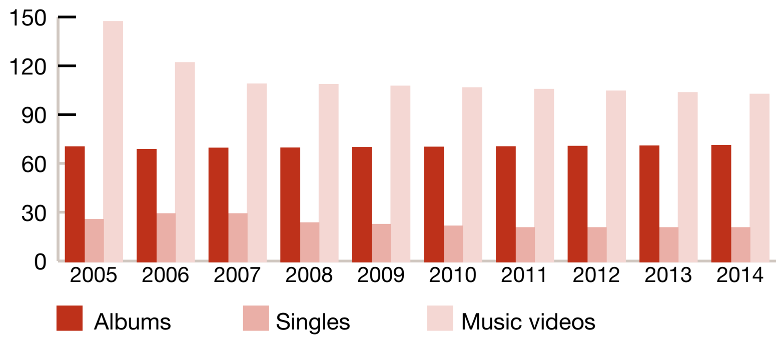
The average album cost for the consumer was R69.25 in 2009, edging up at modest rates from R68.08 in 2006. We expect modest increases to continue during the next five years as sellers seek to hold prices in the face of declining unit sales in order to support revenue. We project the average album price to rise at a 0.4% compound annual rate to R70.50 in 2014.

In the music video and singles markets, by contrast, average prices have generally been declining. The average music video sold for R107 in 2009, well below the R146.67 average in 2005. We expect continued declines in the average price during the next five years although at a more moderate rate. We project that an average music video will cost R102 in 2014, a 1.0% compound annual decline from 2009.

A single cost on average R22 in 2009. This is down from prices of over R28 in the 2006-07 period. We anticipate the average price will fall to R20 in 2011 and to stabilise at that level.

The overall average price for all physical configurations will increase from R72.72 in 2009 to R74.24 in 2014, a 0.4% increase on a compound annual basis.

Physical recorded music average prices (R)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Spending on physical albums will decline at a projected 11.0% compound annual rate to R677 million in 2014 from R1.2 billion in 2009. We project that music video sales will drop from R193 million in 2009 to R133 million in 2014, a 7.2% decrease compounded annually. Spending on the singles market fell to less than R500,000 in 2009 and we do not expect a rebound.

We project overall physical spending to decline at a 10.4% compound annual rate during the next five years, falling to an estimated R810 million in 2014 from R1.4 billion in 2009.

Physical recorded music market (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Albums	1,457	1,457	1,495	1,449	1,212	1,043	907	812	738	677	
% change	*4.7*	*0.0*	*2.6*	*-3.1*	*-16.4*	*-13.9*	*-13.0*	*-10.5*	*-9.1*	*-8.3*	*-11.0*
Singles	3	2	2	1	†	†	†	†	†	†	
% change	*0.0*	*-33.3*	*0.0*	*-50.0*	–	–	–	–	–	–	–
Music videos	220	255	260	248	193	170	158	135	134	133	
% change	*64.2*	*15.9*	*2.0*	*-4.6*	*-22.2*	*-11.9*	*-7.1*	*-14.6*	*-0.7*	*-0.7*	*-7.2*
Total physical distribution	**1,680**	**1,714**	**1,757**	**1,698**	**1,405**	**1,213**	**1,065**	**947**	**872**	**810**	
% change	***9.9***	***2.0***	***2.5***	***-3.4***	***-17.3***	***-13.7***	***-12.2***	***-11.1***	***-7.9***	***-7.1***	***-10.4***

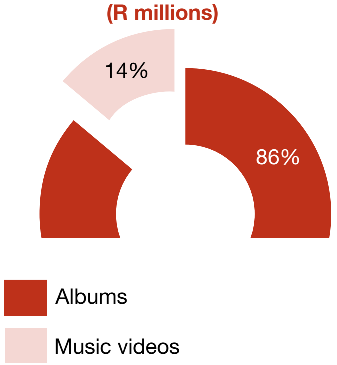
†Less than R500,000.

Sources: Recording Industry of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We spoke to Kahn Morbee, lead singer of the South African band, The Parlotones, to get his views on the future of physical albums:

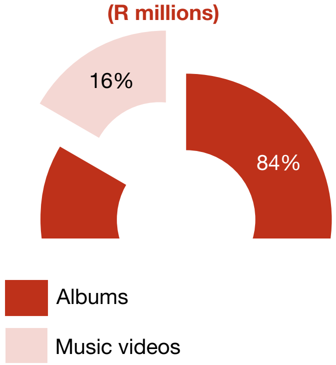
"The industry cheated its consumers for just over two decades by producing albums that had one or two good songs and an album of 'fillers'. If artists wish to prosper and continue selling albums and not just downloadable singles, they will need to return to creating full quality albums. The physical form will become more of a collector's item where it is almost like a book, complete with stories and images of the making of the album. The key is to make the consumer feel that, however he purchases the album, he feels satisfied. The consumer will otherwise continue to copy and not pay for b-grade material. I am not talking about b-grade if it falls outside your preference in style as music will always be subjective."

Physical recorded music market 2009 (R millions)



Sources: IFPI, Recording Industry of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Physical recorded music market 2014 (R millions)



Sources: IFPI, Recording Industry of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Global trends in the recorded music industry

Outlook

- The global recorded music market is approaching a turning point. Spending will fall in 2010 and then begin to rebound as increases in the digital market offset ongoing declines in physical spending. Low single-digit gains are projected for 2011-14.
- Spending for the forecast period as a whole will increase at a 1.1% compound annual rate to $27.9 billion in 2014 from $26.4 billion in 2009. However, despite this advance, the market in 2014 will remain 19% below its level in 2005.
- Physical distribution will continue its long-term decline, falling at a 9.8% compound annual rate to $10.9 billion in 2014 from $18.3 billion in 2009.
- Globally, physical distribution will fall behind digital distribution in 2012. Spending on physical distribution will have fallen by a cumulative 66.4% between 2005 and 2014.
- Digital distribution will increase from $8.1 billion in 2009 to $17 billion in 2014, a 16.0% compound annual advance. However, it is growing more slowly as its scale increases and the market matures. In 2014, digital distribution will grow by only 12.2%, compared to 29.3% in 2009.

Key drivers

- Physical distribution will decline in each region because of competition from legitimate digital services and piracy. However, declines will moderate as the physical market begins to approach a core level, as many people – principally in the expanding over-45 demographic – still prefer music in physical formats.
- The digital market will be fueled by new services. In EMEA, streaming services will become important drivers of growth. Streaming services will also contribute to growth in North America, although online downloads will continue to be the principal driver.
- In Asia-Pacific and Latin America, new digital stores and online and mobile streaming services will expand the market.
- Smartphones are driving growth in all regions as users purchase music through app stores and through online digital stores.
- Broadband growth is also expanding the potential digital market. Distinctions between online and mobile distribution are blurring as services are becoming accessible to all digital devices.
- The adoption of graduated response systems in which ISPs issue warnings to file sharers that escalate in severity with the ultimate threat of disconnecting a person's Internet access are proving to be a significant deterrent to piracy in the countries in which such measures have been implemented. Success in combating online piracy through graduated response programmes will help stabilise the industry.

Source: Global Entertainment & Media Outlook 2010-2014 (PwC, 2010)

Global recorded music market by component (US$ millions)

Component	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Physical distribution	32,398	29,480	25,367	20,971	18,269	16,119	14,371	12,987	11,824	10,885	
% change	*-6.0*	*-9.0*	*-14.0*	*-17.3*	*-12.9*	*-11.8*	*-10.8*	*-9.6*	*-9.0*	*-7.9*	*-9.8*
Digital distribution	2,127	3,610	5,212	6,269	8,103	9,800	11,670	13,366	15,141	16,988	
% change	*96.9*	*69.7*	*44.4*	*20.3*	*29.3*	*20.9*	*19.1*	*14.5*	*13.3*	*12.2*	*16.0*
Total recorded music	**34,525**	**33,090**	**30,579**	**27,240**	**26,372**	**25,919**	**26,041**	**26,353**	**26,965**	**27,873**	
% change	***-2.9***	***-4.2***	***-7.6***	***-10.9***	***-3.2***	***-1.7***	***0.5***	***1.2***	***2.3***	***3.4***	***1.1***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Chapter 7
Consumer magazine publishing

Dirk Höll, Associate Director, PwC Southern Africa.

The consumer magazine publishing market takes account of spending by advertisers in consumer print magazines and on magazine Web sites and magazine mobile sites. Consumer magazine publishing includes spending by readers to purchase magazines via subscriptions or at retail outlets as well as paid online subscriptions. Magazines published under contract, known as customer magazines or custom publishing (collectively named "custom magazines"), also are included. Figures do not include licensing, or other ancillary revenues. Trade magazines are covered in chapter 10 of this publication.

Overview

Consumer magazines are often luxuries that thrive when the economy is growing, but suffer when economic conditions are difficult. The recession in 2009 led to a sharp decline in the South African consumer magazine market with spending falling by 15.1% from R4.2 billion in 2008 to R3.5 billion in 2009 and a further decline is also projected for 2011. We then anticipate a modest 3.6% expansion from 2010 to 2014. Spending will reach an estimated R4.2 billion in 2014, which places it at the same levels as in 2008. During 2005 to 2007, by contrast, the industry benefited from a healthy economic environment and grew at double-digit and high single-digit rates.

Circulation spending fell by 2.9% from R1.9 billion in 2008 to R1.8 billion in 2009 and will continue to grow at low rates during the next three years. We anticipate a modest 2.4% cumulative increase during 2013 to 2014. Spending in 2014 will total R1.9 billion, which will place it at the same level as in 2008.

Print advertising plunged by 25.2% from R2.3 billion in 2008 to R1.7 billion in 2009. We project a further decrease in 2011. As the economy recovers, we expect that print advertising will turn around from 2012 to 2014 and expand by 6.1% over the 2010 to 2014 period to R2.3 billion.

Digital advertising has also been affected by the recession and fell by 16.7% in 2009. We expect a rebound in 2010 and a return to double-digit annual growth, with spending rising to R25 million by 2014, a 38% compound annual increase from R5 million in 2009.

Total consumer magazine advertising is expected to rise at a 6.2% compound annual rate from R1.7 billion in 2009 to R2.3 billion in 2014.

Key developments in the South African consumer magazine industry

The declining economy led to a drop in advertising in most media, which was exacerbated for consumer magazines because of declines in unit circulation, which further cut into the advertising rate base in 2009.

With respect to unit circulation, consumer magazines are now dominated by custom magazines, which are magazines published under contract by an advertiser and distributed, generally for free, to that advertiser's customer base. Unit circulation for custom magazines reached approximately 11 million in 2010, compared with approximately 6.5 million for standard consumer magazines.

Circulation for custom magazines fell more steeply than for traditional consumer magazines in 2009, the result of fewer publications and a decline in distribution for ongoing titles. Overall unit circulation fell by 8.3% and circulation for the same titles was down 7.2% in 2009. The decline in custom magazine circulation contributed to the decrease in advertising.

While falling unit circulation and the plunge in advertising have hurt revenues, paper, which is generally purchased in Euros or US dollars, has been rising in cost because of the appreciation of those currencies against the rand. As a result, publishers are being squeezed and are quick to discontinue titles if they are not showing potential. For example, Ndalo Media closed *SportsTeen* in early 2010 after only its sixth issue and Media24 recently closed *Femina*, which it acquired in 2006.

Publishers also face the prospect of the loss of liquor advertising revenues as the government is planning to ban liquor advertising in 2010, with the full effect beginning to occur in 2011. Liquor manufacturers spend approximately R700 million annually in all media, with consumer magazines attracting a significant portion of that total.

In 2010, the magazine industry benefitted from the FIFA World Cup as it has attracted an abundance of advertisers. We project spending to rebound by 6.0% as a result of this. When spending associated with the FIFA World Cup leaves the market in 2011, and the full impact of the loss of liquor advertising is felt, we expect a 3.0% decline, which will be mitigated by an improving economy.

By 2012, the economic recovery should be in full swing and we expect growth in total spending to return to mid-single-digit rates averaging 5.0% compounded annually between 2011 and 2014.

For the five-year forecast period as a whole, total spending on consumer magazines is expected to grow at a projected 3.6% compound annual rate, rising to R4.2 billion in 2014 from R3.5 billion in 2009.

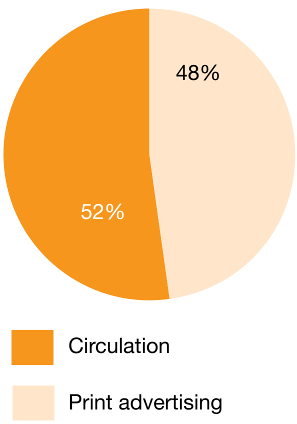
Print advertising will increase at a 6.1% compound annual rate. A tiny Web site advertising market is anticipated to lift overall advertising growth to a projected 6.2% compounded annually, while circulation spending will increase during the next five years at a 0.8% compound annual rate.

After increasing from 1.1% in 2005 to 1.4% in 2008, South Africa's share of the EMEA consumer magazine market fell to 1.3% in 2009 as it suffered a steeper downturn compared with other countries. This is in large part because South Africa is more reliant on volatile print advertising than other countries. In 2009, print advertising comprised 48% of total consumer magazine spending in South Africa.

When the economy recovers, consumer magazines will benefit and South Africa's print advertising market will lead the recovery. With less competition from the Internet than in other countries, we expect print advertising to grow faster when the economy is expanding. Print advertising is projected to account for 52% of the projected growth in consumer magazines during the next five years.

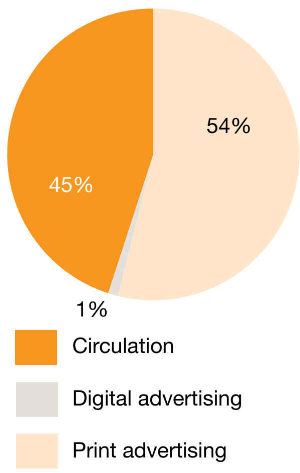
The global publishing industry is going through a period of turmoil, as broadband penetration rises and new devices for delivering digital content arrive on the scene. Consumers are increasingly switching from traditional print media to digital media, although the manner in which they are making the transition varies with age, gender and nationality. In this study, we have examined the outlook for consumer magazine publishers and media buyers as they adapt to the digital revolution.

Consumer magazine publishing market: 2009



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer magazine publishing market: 2014



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer magazine publishing market (R millions)										
South Africa	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Print advertising	1,759	1,985	2,176	2,265	1,695	1,900	1,775	1,925	2,090	2,275
Digital advertising	NA	2	3	6	5	7	9	13	19	25
Total advertising	1,759	1,987	2,179	2,271	1,700	1,907	1,784	1,938	2,109	2,300
Circulation	1,490	1,620	1,750	1,880	1,825	1,830	1,840	1,855	1,875	1,900
Total	**3,249**	**3,607**	**3,929**	**4,151**	**3,525**	**3,737**	**3,624**	**3,793**	**3,984**	**4,200**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer magazine publishing market growth (%)											
South Africa	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2010–14 CAGR**
Print advertising	10.1	12.8	9.6	4.1	-25.2	12.1	-6.6	8.5	8.6	8.9	6.1
Digital advertising	–	–	50.0	100.0	-16.7	40.0	28.6	44.4	46.2	31.6	38.0
Total advertising	10.1	13.0	9.7	4.2	-25.1	12.2	-6.4	8.6	8.8	9.1	6.2
Circulation	6.4	8.7	8.0	7.4	-2.9	0.3	0.5	0.8	1.1	1.3	0.8
Total	**8.4**	**11.0**	**8.9**	**5.7**	**-15.1**	**6.0**	**-3.0**	**4.7**	**5.0**	**5.4**	**3.6**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Circulation spending

In general, end-user spending is less sensitive to the state of the economy than advertising and that has proved to be the case with consumer magazines. Circulation spending fell by only 2.9% in 2009 even though nearly three-quarters of copies are distributed on a single-copy basis at newsstands. Single copy purchases at newsstands are discretionary purchases that tend to be more affected by economic considerations than subscriptions. The recession contributed to declines in single-copy unit sales, although they were relatively modest compared with the drop in advertising.

Circulation spending will be affected by a number of concurrent trends. Adverse demographic trends will limit growth during the next five years as will a shift in readers to the Internet as broadband penetration increases. However, we expect this trend to be much less pronounced in South Africa than in other countries.

Mobile devices could represent a potential new outlet for paid circulation. The iPhone and other smartphones are becoming very popular in South Africa and users of these devices will be able to buy digital versions of magazines from app stores. The iPad is the first electronic reader in colour, making it particularly suitable for magazines since high-quality colour is a critical element for many titles. Also, its touchscreen capabilities, which facilitate flipping through a digital edition as one would a printed magazine, makes it a user-friendly device for magazine readers. As other devices geared to reading magazines enter the market, and as the overall electronic reader universe increases, the potential for a paid digital distribution market will expand. We expect that by the latter part of the forecast period, sales generated through mobile devices will provide a meaningful incremental boost to the market. Kindle users have shown a propensity to buy books and it is hoped that users of Kindles, iPads and comparable devices will be similarly willing to pay for magazines delivered instantaneously to their mobile devices.

On balance, we expect circulation spending to again expand during the next five years, but at a much slower rate compared to increases during 2005 to 2008, when annual growth averaged nearly 8%.

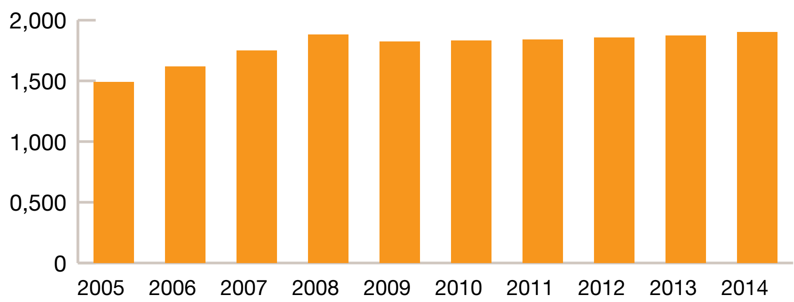
E-readers: Transforming the magazine experience

While it is early days, we believe the electronic reader, or e-reader, promises a better magazine viewing experience than mobile devices such as phones and laptops. At least initially, publishers will likely just have digital editions containing similar content to the print titles. But software is expected to evolve to allow users to customise content and create a 'living magazine' using e-readers' larger colour screens, touch technology and Internet connectivity. The user's experience will be transformed as they follow links, take deeper dives into stories of interest, view photo and video galleries, share information with friends and make purchases after having seen a 360-degree view of a product.

The growth in e-readers and hence e-reader magazines will be slow over the forecast period, but it presents an exciting new opportunity. Pricing, format and distribution remain hot topics. Unlike most of the existing Internet sites, the new magazine sites created for e-reader format are expected to use a paid subscription model. US publishers Time, News Corp., Conde Nast, Hearst and Meredith formed a consortium in late 2009 to develop a format suitable for digital magazine distribution. The goal is to develop a digital newsstand where people can buy and download titles directly to their devices. Publishers will watch these developments as they plan their strategies for this market.

Source : *Australian entertainment and media outlook 2010-2014* (PwC, 2010)

Consumer magazine circulation market (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We project increases of 0.3% in 2010 and 0.5% in 2011 with gains in excess of 1% annually during 2013 to 2014 as incremental sales from mobile devices provide a modest boost. Improved economic conditions will be the principal driver offsetting adverse demographic trends.

For the forecast period as a whole, we expect circulation spending to increase at a 0.8% compound annual rate, from R1.8 billion in 2009 to R1.9 billion in 2014.

Print advertising

Print advertising revenues plunged by 25.2% in 2009, falling below R1.7 billion for the first time in five years. That drop reflects the high cyclicality of consumer magazine advertising. Consumer magazines tend to attract advertisers of upscale products more so than other media because the high-quality glossy paper and rich colours make them a good platform to display high-quality products.

High-end products generally experience greater fluctuations in sales related to the economy than do staples such as food or services such as mobile phones. Large fluctuations in sales generally lead to large fluctuations in advertising. For this reason, print advertising in consumer magazines tends to be more cyclical than most other media. Consequently, the 2009 recession led to a steep decline in print advertising.

Although some publishers are discontinuing some magazines, new titles are also being launched. Launches in 2010 include *Triathlon Plus* from Future International Licensing, *Capital Life Magazine* from Chapel Lane Media, *SARIE KOS vir mans*, a stand-alone version of *SARIE KOS* targeted at men from *SARIE* and *Women's Health* from Touchline Media. In 2009, RamsayMedia (formerly Ramsay, Son & Parker) established a custom magazine division.

Just as consumer magazines suffer disproportionately when the economy is declining, they tend to do particularly well during periods of economic growth. This is because high-end goods usually experience sharper sales increases and increased advertising spend when the economy is expanding compared with staples, whose sales and advertising generally show less variation with the economic cycle.

Consumer magazines also target niche interests more effectively than do mass media such as television, radio and newspapers. For special-interest categories, circulation and advertising tend to hold up better during downturns and we expect advertising to rebound strongly in these categories as the economy improves.

Demographic trends that benefited consumer magazines during the past five years will work against the industry during the next five years. Magazines are generally read by people in the 15-to-44 year-old age groups. Advertisers generally prefer reaching younger people, which makes consumer magazines particularly attractive. Between 2004 and 2009, the 15-to-44 component of the population grew by 2.6%. During the next five years, however, the 15-to-44 segment of the population will decrease by 2.9%, which will eliminate one of the drivers of growth. Consequently, we expect print advertising to grow somewhat more slowly when the economy is expanding during the next five years than it did during the previous period of expansion.

Population (thousands)

South Africa	2004	2009	2014
15-44	24,024	24,655	23,938
% change		*2.6*	*-2.9*
45+	9,951	10,243	10,763
% change		*2.9*	*5.1*

Sources: US Census Bureau International Database, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Nevertheless, South Africa has a favourable demographic profile for consumer magazines compared with other countries. The 15-to-44 age group comprises 50% of the total population in South Africa compared with 44% for EMEA as a whole. Favourable demographics will contribute to faster growth for South Africa compared with the rest of EMEA.

In addition to the underlying impact of the economy and demographics, print advertising in consumer magazines will be affected by other developments – most notably the expected loss of liquor advertising whose impact will be most profound in the print media.

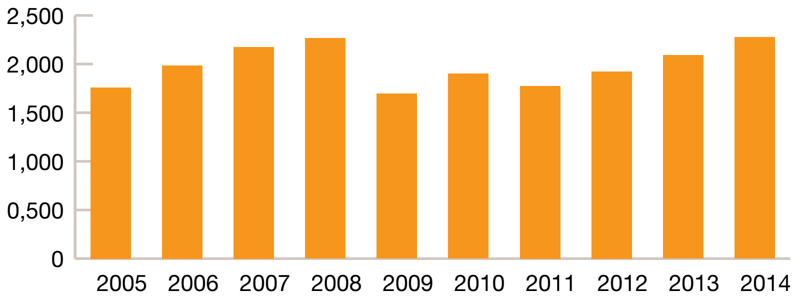
In 2010, however, magazines have benefitted from advertising associated with the FIFA World Cup. We project print advertising in consumer magazines will increase by 12.1% in 2010 and then fall by 6.6% in 2011, in part because advertising associated with the FIFA World Cup in 2010 will leave the market in 2011 and in part because of the loss of liquor advertising.

Thereafter, with the economic recovery expected to be gaining momentum during 2012 to 2014, we look for print advertising to grow at high single-digit rates. For the forecast period as a whole, growth will average 6.1% on a compound annual basis. Spending will rise to R2.3 billion in 2014 from R1.7 billion in 2009.

Despite these increases, it will be 2014 before print advertising surpasses the level it reached in 2008.

In contrast with other countries where the migration of readers and advertisers from the print media to the Internet will play a large role, because of South Africa's relatively low broadband penetration, that migration will be less significant.

Consumer magazine print advertising (R millions)



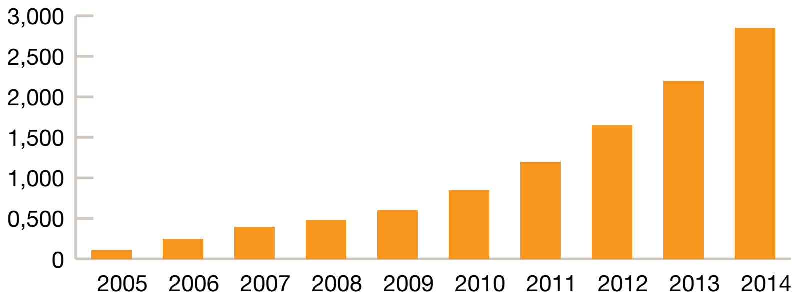
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Digital advertising

Digital advertising in South Africa is not yet significant because of low broadband household penetration. Online advertising tends to follow broadband household growth because broadband users can easily download the graphics and high-resolution photos that are central to the appeal of consumer magazines. Fixed broadband household penetration in South Africa was only 6.2% in 2009, just a fraction of the 44.7% average penetration for EMEA as a whole. Low broadband penetration limits the potential audience for digital advertising. We estimate digital advertising in 2009 to have been only R5 million.

The broadband market in South Africa is now taking off, buoyed by the landing of new undersea cables that are improving connectivity with the rest of the world and lowering prices. The number of broadband households rose by 50% during the past two years and we expect it will rise by nearly five times during the next five years, reaching 2.9 million in 2014 from 600,000 in 2009. Growth in the broadband household base will lead to more traffic on magazine Web sites and an expanding audience. Larger audiences will attract more advertising.

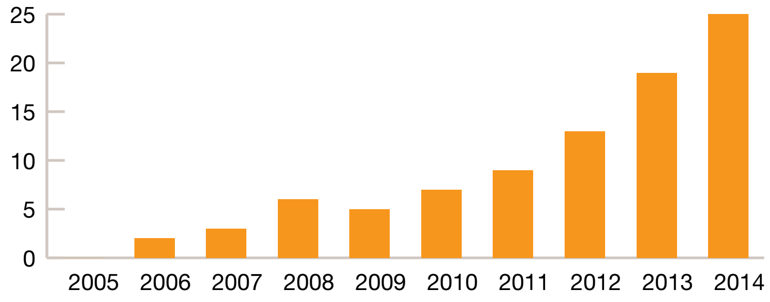
Broadband subscribers (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We project digital magazine advertising to increase to R25 million in 2014, five times the 2009 level and a 38.0% compound annual increase.

Digital consumer magazine advertising (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total consumer magazine advertising

Total consumer magazine advertising, including digital consumer magazine advertising, will increase at a 6.2% compound annual rate during the next five years.

Digital advertising will comprise 1.1% of total consumer magazine advertising in 2014 compared with only 0.3% in 2009.

Global trends in the consumer magazine industry

Outlook

- Total global spending on consumer magazines fell by 10.6% in 2009 under the impact of the economic downturn. We project an additional 2.7% decrease in 2010, a flat market in 2011, and modest growth during 2012–14.
- As a result, spending will total $74 billion in 2014, up 0.7% compounded annually from $71.5 billion in 2009.
- Global print advertising in consumer magazines fell by 20% in 2009 following a 4.5% decrease in 2008. We expect two additional years of moderating declines in 2010 and 2011, giving a cumulative four-year drop of 27.6%. Print advertising will then advance by a cumulative 6.1% between 2011 and 2014.
- As a result, global spending on print advertising in consumer magazines in 2014 will be $26.4 billion, up by 0.1% on a compound annual basis from $26.3 billion in 2009.
- Digital advertising on magazine Web sites and mobile sites totalled an estimated $1.3 billion in 2009 and will rise to $3 billion in 2014, an 18.5% compound annual increase from a small base.
- This means that in 2014, digital advertising will account for 10.4% of total consumer magazine advertising, compared with just 4.7% in 2009.
- Total consumer magazine advertising will increase from $27.6 billion in 2009 to $29.4 billion in 2014, a 1.3% compound annual advance.
- Global circulation spending fell by 4.1% in 2009 and will decline for an additional two years before recovering between 2011 and 2014. Circulation spending at $44.5 billion in 2014 will be 0.3% higher on a compound annual basis from $43.9 billion in 2009.

Key drivers

- As in 2009, when the downturn drove declines in all regions, the economic environment will remain the principal driver of consumer magazine publishing, leading to a modest recovery in the market during 2012-14 supported by improving economic conditions.
- Magazines are losing advertising share to television and the Internet. Migration of readers to the Internet will continue to hurt print advertising, particularly in news and gossip titles where real-time information available online reduces demand for print. Special-interest titles will be less vulnerable to online competition.
- While print advertising will stage a modest recovery in 2012-14, the ongoing shift of readers and advertisers to the Internet means it will not approach its prior pre-downturn levels during the forecast period.
- Electronic readers and the establishment of digital newsstands will generate incremental circulation revenue during the latter part of the forecast period.
- Broadband household growth and an expanding mobile access market will fuel digital advertising, which will rise strongly from a low base.
- Rising discretionary income during the latter part of the forecast period will lead to a rebound in circulation spending.

Source: *Global entertainment and media outlook 2010-2014* (PwC, 2010)

Global consumer magazine publishing market by component (US$ millions)

Component	2005	2006	2007	2008	2009p	2010	2011	2012	2013	2014	2010–14 CAGR
Print advertising	32,306	33,205	34,374	32,834	26,268	25,067	24,870	25,121	25,639	26,381	
% change	*6.2*	*2.8*	*3.5*	*-4.5*	*-20.0*	*-4.6*	*-0.8*	*1.0*	*2.1*	*2.9*	*0.1*
Digital advertising	128	377	681	1,308	1,305	1,454	1,738	2,143	2,578	3,048	
% change	–	*194.5*	*80.6*	*92.1*	*-0.2*	*11.4*	*19.5*	*23.3*	*20.3*	*18.2*	*18.5*
Total advertising	32,434	33,582	35,055	34,142	27,573	26,521	26,608	27,264	28,217	29,429	
% change	*6.6*	*3.5*	*4.4*	*-2.6*	*-19.2*	*-3.8*	*0.3*	*2.5*	*3.5*	*4.3*	*1.3*
Circulation	46,171	46,159	46,569	45,789	43,902	43,027	42,914	43,260	43,839	44,546	
% change	*2.9*	*0.0*	*0.9*	*-1.7*	*-4.1*	*-2.0*	*-0.3*	*0.8*	*1.3*	*1.6*	*0.3*
Total consumer magazines	**78,605**	**79,741**	**81,624**	**79,931**	**71,475**	**69,548**	**69,522**	**70,524**	**72,056**	**73,975**	
% change	***4.4***	***1.4***	***2.4***	***-2.1***	***-10.6***	***-2.7***	***0.0***	***1.4***	***2.2***	***2.7***	***0.7***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Outlook for magazine publishing in the digital age

The global publishing industry is undergoing major changes. A growing number of people are migrating from the printed page to the Internet for information and entertainment. So what should consumer magazine publishers and media buyers do to succeed in the digital age? We have looked at how the behaviour of consumers is shifting, and how the industry leaders are responding.

Our research shows that:

- Most consumers still prefer to read hard copies of magazines, but many are also interested in reading digital content (by which we mean interactive materials, not PDFs or other static formats which can be viewed online) – and younger consumers would rather access content digitally.
- A significant number of consumers also express interest in using new digital devices to read digital content, once these devices are commercially available.
- However, consumers expect to pay more for printed content than for content distributed electronically. Indeed, our research suggests that they are not prepared to pay more than half the sum they would pay for a printed magazine.
- Moreover, many consumers see digital-only content as a substitute for printed content. So any magazine publisher that launches digital content connected to its brands risks cannibalising subscription and circulation revenues from its traditional print magazines. However, there is no evidence thus far that consumer magazine print products have been cannibalised by the presence of digital versions of the magazine on the title's website. This fear may therefore be groundless.
- A number of magazine publishers have responded to the digital revolution by reshuffling their portfolios through acquisitions, disposals and new launches, or by forming strategic alliances to get access to the skills they need. As progress in developing digital media is being made in mainland Europe, Britain and in North America, we see Eastern European publishers continuing to build up their print portfolios, as this relatively new industry develops.
- British and North American magazine publishers expect to generate as much as 20% of their total revenues from digital platforms within the next five years, whereas mainland European publishers expect to generate only 10% of their revenues from online activities. This reflects consumers' willingness to pay for digital content in these markets. According to third-party research, smaller publishers in Britain and in North America are far ahead of their mainland European counterparts in digital investment and development.
- The magazine publishers that have proved most successful in entering the digital media are those that have been able to leverage strong brands across multiple media platforms and generate revenues from online advertising, search-engine marketing and e-commerce. In short, they have recognised that digital media require different business models to those they have developed to support their traditional print operations.
- However, only a few magazine publishers seem to have developed business models which make these activities self-supporting. If they are to ensure that they are ready to accommodate the changing preferences of consumers, they will need to consider their future investment plans (and the potential impact on their financial situation) very carefully.
- Most magazine publishers may also have to make major organisational changes. Traditional publishers typically organise their operations around different media types, whereas consumers use multiple channels. If these publishers are to stay close to their readers, they may need to integrate their operations and hire employees with the right blend of creative and technological skills.
- The digital age could have equally significant consequences for advertising agencies. The traditional agencies have already acquired new skills, but many still need to build truly multi-functional teams capable of offering multimedia solutions rather than focusing on a particular medium.
- Both magazine publishers and media buyers will also have to invest in developing effective consumer-tracking and measurement systems. Lack of robust consumer metrics has exposed companies in both sectors to competition from new entrants, some of which (like auFeminin.com and Google) have been very successful.

Source: Outlook for magazine publishing in the digital age (PwC, 2008)

Chapter 8
Newspaper publishing

Dirk Höll, Associate Director, PwC Southern Africa.

The newspaper publishing market consists of spending on daily print newspapers by advertisers and readers and advertising on newspaper Web sites and mobile phone sites. Spending by readers includes newsstand purchases and subscriptions as well as payments for newspapers delivered to mobile devices and fees to access online content. Weekend editions issued by publishers of daily papers are included in the daily paper totals, as is advertising in free daily newspapers. However, free weeklies and other weekly papers are not included.

Overview

The newspaper market in South Africa fell by 15.9% from R11.5 billion in 2008 to R9.7 billion in 2009 and a further 1.2% decrease is expected in 2010, followed by low single-digit increases to R11.2 billion in 2014.

Print advertising revenues fell 21.8% from R7.9 billion in 2008 to R6.2 billion in 2009, with a further 0.4% decrease expected for 2010. However, improved economic conditions and a stabilised free daily market will lead to a modest rebound in print advertising beginning in 2011. Spending is expected to reach R7.7 billion in 2014, a 4.5% compound annual increase from R6.2 billion in 2009, although spending will remain nearly 2.5% below its 2008 level.

Newspaper Web sites will benefit from the migration of readers and advertisers to the Internet. We anticipate that digital advertising on newspaper Web sites will total an estimated R231 million in 2014, a 23.6% compound annual increase from R80 million in 2009.

Total newspaper advertising is projected to rise at a 4.9% compound annual rate to R7.9 billion in 2014 from R6.3 billion in 2009.

Online content that is paid for and distribution to mobile devices will lead to an expansion in overall circulation spending beginning in 2011, but this is expected to be offset by reduced traditional circulation spending. Circulation spending is expected to decrease from R3.4 billion in 2009 to R3.2 billion in 2014, a 1.2% compound annual decrease.

Key developments in the South African newspaper publishing industry

The newspaper industry in South Africa is dominated by four major groups— CTP/Caxton, Independent Newspapers, Johnnic Communications (Avusa), and Naspers (Media24).

CTP/Caxton publishes *The Citizen*, which has a circulation of about 62,000 and nearly 450,000 readers. During the current year CTP/Caxton entered into a joint venture with the Capital Media Group, a black-owned media and publishing company based in Pietermaritzburg with a combined weekly circulation of 105,000 copies between its three weekly titles.

Independent Newspapers publishes *The Star*, *Cape Argus*, and *Isolezwe* among many others. *The Star* has a daily circulation of nearly 150,000 and nearly 800,000 daily readers.

Johnnic Communications (Avusa) publishes the *Sunday Times*, *Sunday World*, *Sowetan*, *the Daily Dispatch*, and *The Herald*, among many others. *The Sunday Times* has a circulation of 464,000 and nearly 4 million readers, *Sunday World* sells 160,000 papers and is read by 1.9 million people. *Sowetan* also has a daily circulation in excess of 100,000 (123,000) and readership of 1.5 million.

Naspers (Media24) publishes *The Daily Sun*, the largest newspaper in South Africa with a circulation of 492,000 and 4.4 million readers. It also publishes *Die Burger*, *Beeld*, *Volksblad*, *Rapport*, *City Press* and *The Natal Witness*.

The recession led to a 15.9% decline in the newspaper market in South Africa in 2009. Print advertising plunged by 21.8% and there was even an 8.0% decrease in newspaper Web site advertising, while circulation spending also fell by 2.6%.

These decreases are a sharp turnaround from the 8.0% increase in 2008 and double-digit gains from 2005 to 2007. In fact, the decline in South Africa was even steeper than in the rest of EMEA.

Although not immune to the recession, because of low broadband penetration, the newspaper market in South Africa has generally been shielded from competition from the Internet that has affected newspaper publishing in the rest of EMEA.

With broadband now taking off in South Africa, we expect newspapers to face greater competition than in the past and we anticipate that readers and advertisers will move from print to online at a faster rate.

Newspapers will benefit from an expanding economy during the latter part of the forecast period, but because of growing broadband penetration, we do not anticipate a return to double-digit growth. Unit circulation may continue to decline, which will negatively impact both circulation spending and print advertising as newspapers provide fewer readers to advertisers.

Even when the economy is healthy, the shift in advertising toward the Internet leads to slower growth in print newspaper advertising. Although newspaper Web sites do attract visitors and advertising, they do not compensate for print advertising declines because Internet ad rates are only a fraction of the ad rates that print commands. Consequently, we expect only mid-single-digit increases in 2013 to 2014 when the economy is expected to be more robust. In the past, healthy economic growth was accompanied by double-digit increases for newspapers.

With economic conditions remaining fragile, we expect print advertising to decline by an additional 0.4% in 2010. As the economy strengthens, we anticipate that print advertising will begin to pick up in 2011 and continue to expand through 2014, with high single-digit gains projected for 2013 to 2014. Growth for the entire forecast period will average 4.5% on a compound annual basis.

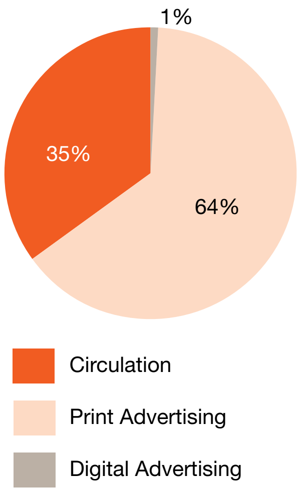
Digital advertising had been growing at double-digit rates from a small base through 2008 before declining in 2009. We expect a return to double-digit growth in 2010 and a 23.6% compound annual increase through 2014.

While newspapers will recapture a portion of the advertising share that print loses to the Internet, those gains will not provide a material boost. Overall newspaper advertising will expand at a 4.9% compound annual rate.

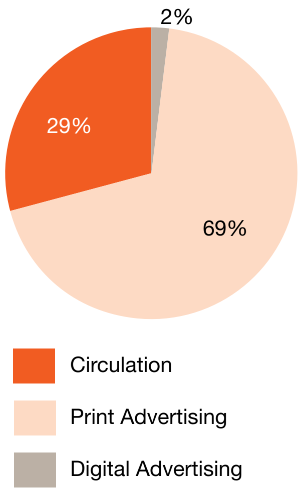
Circulation spending will continue to decline during the next three years before stabilising in 2013-14. Spending in 2014 will be 1.2% lower on a compound annual basis than in 2009.

The market as a whole will expand at a 2.9% compound annual rate to R11.2 billion in 2014 from R9.7 billion in 2009.

Newspaper publishing market 2009



Newspaper publishing market: 2014



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Newspaper publishing market (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Print advertising	5,135	6,115	7,050	7,900	6,175	6,150	6,275	6,600	7,100	7,700
Digital advertising	26	43	63	87	80	92	113	139	178	231
Total advertising	5,161	6,158	7,113	7,987	6,255	6,242	6,388	6,739	7,278	7,931
Circulation	3,285	3,404	3,540	3,519	3,427	3,328	3,224	3,216	3,219	3,220
Total	**8,446**	**9,562**	**10,653**	**11,506**	**9,682**	**9,570**	**9,612**	**9,955**	**10,497**	**11,151**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Newspaper publishing market growth (%)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Print advertising	24.9	19.1	15.3	12.1	-21.8	-0.4	2.0	5.2	7.6	8.5	4.5
Digital advertising	–	65.4	46.5	38.1	-8.0	15.0	22.8	23.0	28.1	29.8	23.6
Total advertising	25.6	19.3	15.5	12.3	-21.7	-0.2	2.3	5.5	8.0	9.0	4.9
Circulation	3.2	3.6	4.0	-0.6	-2.6	-2.9	-3.1	-0.2	0.1	0.0	-1.2
Total	**15.8**	**13.2**	**11.4**	**8.0**	**-15.9**	**-1.2**	**0.4**	**3.6**	**5.4**	**6.2**	**2.9**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Circulation spending

Paid unit circulation fell by 3.9% in 2009, the second consecutive decrease. The adverse economic climate contributed to the decline in unit circulation as a reduction in discretionary income led consumers to cut back on certain non-essential items, including newspapers.

The circulation picture in early 2010 is mixed. *The Citizen*, which cut its cover price from R4.50 to R3.00, experienced a 21% increase in unit circulation in the first quarter. *The Citizen* also re-launched *The Citizen Super Saturday*, a weekend edition targeted to sports fans that is proving to be popular.

Die Son and *Isolezwe* also recorded increases as did several weekend editions, notably the *Sunday Sun*, the *Sunday Independent*, the *Saturday Dispatch* and *Volksblad Saterdag*. Other papers such as *The Star*, *Sowetan* and *Beeld*, however, recorded declines. Overall, we expect a more modest 2.2% decrease in unit circulation for 2010 as a whole.

We expect a sharper decline in unit circulation of 3.4% in 2011 as the impact of price cuts generally provides only a one-time boost.

Over the longer run, circulation will be affected by a number of developments. Improved economic conditions will lead to growth in discretionary income and increases in discretionary purchases, which should benefit newspapers.

Newspapers may also benefit from favourable demographic trends as the largest newspaper-reading demographic – people of 45 and older – will be increasing. The number of people in this age group will rise by 5.1% during the next five years to 10.8 million.

Offsetting these positive developments will be growing broadband penetration, which will lead some readers to get their news online and discontinue reading print editions.

Paid digital content

Charging readers for access to online content is an inevitable solution to declining circulation and advertising revenue. Newspapers have been slow to introduce paid content due to publishers' limited success to date in persuading readers to pay. The key risk is that the income generated may not offset any reduction in advertising revenues arising from a potential decline in reader numbers.

The specialist offerings of publications such as the Wall Street Journal and the Financial Times in the UK have worked well under a subscription model, but readers are reluctant to pay for general news that can be freely sourced elsewhere online. Research conducted by PwC in 2009 revealed that there was a willingness to pay for online content in the content verticals of finance and sport, as long as the equivalent quality content was not freely available elsewhere.

There are two payment models that could be used: either a subscription model with content stored behind a 'pay wall' or a micro-payments model similar to that used in pay-per-view applications. Both can be metered, giving users a limited amount of free content before payment is requested. The New York Times will adopt a metered 'pay wall' approach when it starts to charge readers in 2011.

There is more to be gained than just subscription revenue however – the registration process required in order to charge readers provides important user profile data. Supplemented by records of user activity, this generates a valuable proposition for targeted advertising and will help increase online advertising yields in a market in which supply significantly exceeds demand. Newspapers will also use the data they collect to tailor their content offering to readers' needs, thereby encouraging an increased willingness to pay.

Source: *Australian entertainment & media outlook 2010-2014* (PwC, 2010)

On balance, we expect unit circulation to continue to decrease but at a more moderate annual rate of 1.2% during the 2012 to 2014 period.

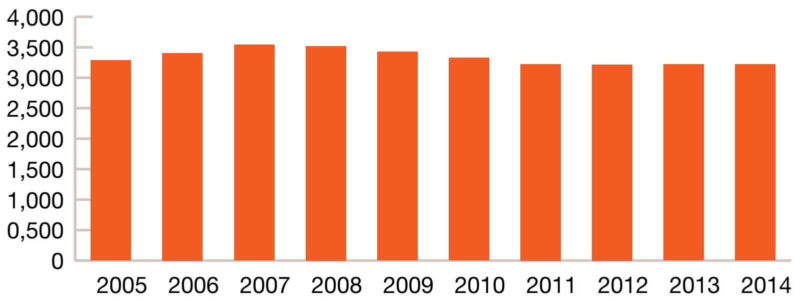
For the forecast period as a whole, paid unit circulation will decrease to an estimated 2.03 million in 2014 from 2.23 million in 2009, a 1.9% compound annual decline.

Annual spending per unit averaged R1,54 in 2009, up 1.3% from 2008. With *The Citizen* and other papers reducing prices, we expect overall annual spending to dip by 0.6% in 2010.

We expect average spending to edge up by 0.3% in 2011 as the impact of the one-time price cuts wanes. As economic conditions improve during the latter part of the forecast period, we expect a return to the historic rate of price growth. By 2014, average spending per unit will be an estimated R1,59, an increase of 0.6% compounded annually from 2009.

We project aggregate circulation spending to decrease during the next three years and then flatten in 2013 to 2014. Total spending in 2014 is estimated to be R3.22 billion, down 1.2% compounded annually from R3.43 billion in 2009.

Daily newspaper circulation market (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Print advertising

Rising readership and an expanding economy contributed to double-digit annual growth in print advertising through 2008. Advertising budgets in general were increasing during that period and the growth in readership attracted funds to newspapers.

In 2009, however, print advertising fell by 21.8%. The recession was the principal cause of the decline as companies reduced their advertising as their sales declined.

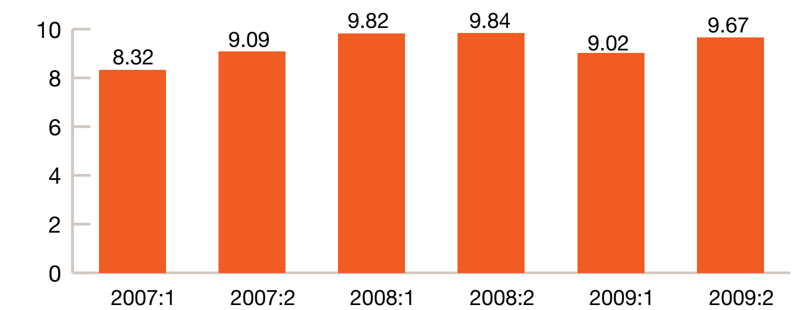
Classified advertising, which relies on recruitment, real estate, and automotive ads, was especially hurt. Companies do not seek new employees when they are reducing staff, the real estate market suffered from falling values, and auto sales were weak. In general, these categories, and classified advertising in general, are more affected by the economy than other advertising categories.

The advertising market also was adversely affected by a drop in readership. Readership for most papers fell sharply during the first half of the year. Although readership did pick up in the latter part of 2009, that gain was due in part to a price cut at *The Citizen*, which led to a large increase in circulation and readership for that publication. Nevertheless, readership in 2009 remained below its 2008 level.

The migration of readers and advertisers to the Internet will pick up as broadband penetration increases. The number of fixed broadband subscribers will more than quadruple during the next five years and by 2014, nearly 29.5% of all households in South Africa will have a broadband connection. The mobile broadband market will grow even faster as more people in South Africa will access the Internet through a mobile broadband connection than through fixed broadband. Further declines in unit circulation and readership will have an adverse impact on print advertising in newspapers during the next five years.

At the same time, the expected economic recovery will have a positive effect on newspaper advertising. In particular, classified advertising, which suffered disproportionately in 2009, should benefit once the economy begins to expand. Even though classified advertising is moving to the Internet, an overall increase in classified spending should lead to an increase in print classifieds for newspapers.

Average daily readership* (millions)



*At annual rates.

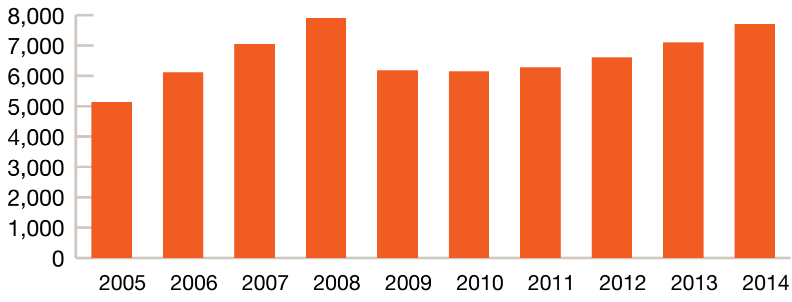
Sources: AMPS, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

With the economy still weak, we expect a further 0.4% decline in print advertising in 2010. We then anticipate that print advertising will begin to recover in 2011 with a 2.0% advance, followed by progressively faster increases as the economy improves.

For the five-year forecast period as a whole, print advertising will rise from R6.2 billion in 2009 to R7.7 billion in 2014, a 4.5% compound annual increase. Despite that projected gain, print advertising in 2014 will remain lower than its 2008 peak.

Although the Internet will play a larger role in the newspaper market during the next five years, its impact will still be less than in other countries where broadband is more prevalent.

Print newspaper advertising (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Digital advertising

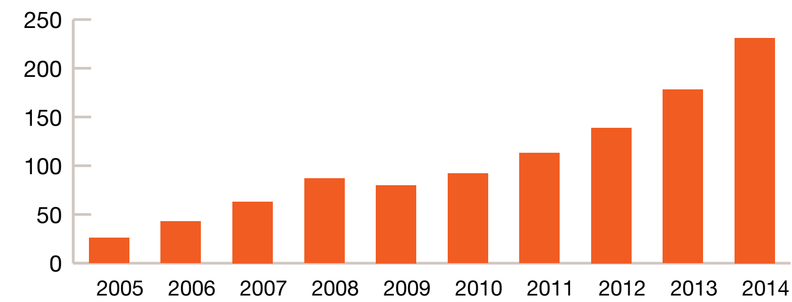
Newspaper Web sites in South Africa are proliferating. *Die Burger*, *Beeld*, *Rapport*, *Mail & Guardian*, *The Times*, and *Business Day* are among the papers with news Web sites that are attracting visitors and advertisers.

As broadband penetration grows, Internet traffic will grow, and newspaper Web sites will capture a portion of that traffic. In general, broadband users visit more Web sites than dial-up users, including newspaper Web sites. An expanding online audience for newspapers will attract more advertising.

Growth in broadband was not sufficient to offset the impact of the recession in 2009 and newspaper Web site advertising fell by 8.0% to R80 million.

With the impact of the recession diminishing, and broadband accelerating, we expect spending to grow by 15.0% in 2010. Then, as economic conditions improve, we expect a return to annual increases in excess of 20% during the 2011 to 2014 period. We project Web site advertising during the next five years to increase at a 23.6% compound annual rate to R231 million in 2014.

Digital newspaper advertising (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total newspaper advertising

When digital advertising is included, total newspaper advertising growth will improve to 4.9% on a compound annual basis during the next five years, rising to R7.9 billion in 2014 from R6.3 billion in 2009.

Digital advertising will comprise 2.9% of total newspaper advertising revenue in 2014, more than twice the 1.3% share in 2009.

Global trends in newspaper publishing

Outlook

- The global newspaper market declined by 11.4% in 2009 and we expect a further 3.6% decrease in 2010 followed by a flat market in 2011. There will then be an increase to $160.6 billion in 2014. This represents a 0.7% compound annual rate of growth from $154.9 billion in 2009.
- Print advertising is the largest revenue source for the newspaper industry, amounting to $79.7 billion in 2009, which is 51% of the total income.
- Global print advertising fell by 19.1% in 2009 and will decline by an additional 7.4% during the next two years. Spending in 2014 will total $80.2 billion, a 0.1% compound annual increase from 2009.
- Digital advertising on newspaper Web sites will increase at a 7.6% compound annual rate to reach $7.9 billion in 2014 from $5.5 billion in 2009, increasing its share of total newspaper advertising revenue to 9.0% from 6.4% in 2009.
- Total newspaper advertising revenue will rise from $85.2 billion in 2009 to $88.1 billion in 2014, a 0.7% compound annual increase.
- Global circulation spending will increase to $72.5 billion in 2014 from $69.7 billion in 2009, a 0.8% compound annual increase.

Key drivers

- Migration of readers to the Internet will cut into advertising and circulation growth even when the economy improves. Newspapers will continue to lose classified advertising share to the Internet.
- Declines in paid circulation in North America and EMEA will adversely affect circulation spending, while rising circulation in Latin America and the Asia-Pacific region will boost paid circulation spending.
- Paid online content and distribution to mobile devices will generate modest incremental revenue streams in North America, EMEA, and the Asia-Pacific region, while rising Web site traffic will boost digital advertising.
- Latin America will outperform other regions because newspapers face less competition from the Internet, although rising broadband penetration will increase the degree of competition from the Internet over time.
- All regions will benefit from growth in the number of people over the age of 45, the primary newspaper reading demographic group. Growth in that segment will be largest in the Asia-Pacific region and Latin America.
- Increasing broadband penetration will also be a driver of digital advertising because countries with the most-developed broadband markets generally have the most-developed digital advertising markets. Each region will experience broadband growth during the next five years, with Latin America, the Asia-Pacific region and to a lesser extent EMEA, generating the largest increases. Broadband penetration in North America is approaching saturation and broadband growth will play less of a role in that region.
- Free sheets are a major presence in EMEA; in Australia, Hong Kong, and several other countries in the Asia-Pacific region, in Latin America; and in Canada. Except for Latin America, circulation of free sheets has been falling in most countries, which is hurting the market. An expected rebound in the circulation of free sheets will provide a boost during the latter part of the forecast period.
- New portable reading devices will provide an expanded platform for newspapers in North America, EMEA, and a number of countries in the Asia-Pacific region. However, high price points will limit their penetration in the near term. Growing penetration by smartphones, which can access newspaper content, will buttress circulation during the latter part of the forecast period in North America, EMEA and the Asia-Pacific region.

- Print readership levels in North America and EMEA have been declining, which negatively impacts both circulation spending and advertising. We expect this trend to moderate because of favourable demographic developments. In the Asia-Pacific region and Latin America, by contrast, newspaper readership has held up and is increasing, which accounts for their stronger performance in recent years and anticipated faster growth rates compared with North America and EMEA during the next five years.
- Although the long-term potential for online growth is huge, print remains the main revenue driver for newspaper publishers. The stakeholder groups that are the main contributors of revenue are print and online advertisers, subscribers and single copy purchasers of printed newspapers and online visitors.
- The percentage of total revenue generated through either print or online varies per country and is highly dependent on the penetration level of new technologies. On average, about 96% of revenue was still being generated from print sales and advertising in 2009, down from 98% in 2005, with the balance being generated online. The forecast is that as much as 95% of revenues will still be generated from print sales and advertising by 2014, only 1% down from 2009. Both technological and market developments influence the outlook for the newspaper publishing market. The rapid adoption of the Internet and mobile technology have both facilitated the introduction of new online business models and created a large market for mobile devices. The penetration rate of the Internet and mobile telephony is a key factor that leads to differences in opportunities for newspaper publishers as they depend on different technology platforms to deliver content.

Global newspaper publishing market by component (US$ millions)

Component	2005	2006	2007	2008	2009p	2010	2011	2012	2013	2014	2010-14 CAGR
Print advertising	108,690	110,194	107,851	98,503	79,671	74,419	73,743	74,973	77,331	80,213	
% change	*2.5*	*1.4*	*-2.1*	*-8.7*	*-19.1*	*-6.6*	*-0.9*	*1.7*	*3.1*	*3.7*	*0.1*
Digital advertising	2,944	4,166	5,354	5,804	5,479	5,605	5,957	6,449	7,046	7,892	
% change	*91.0*	*41.5*	*28.5*	*8.4*	*-5.6*	*2.3*	*6.3*	*8.3*	*9.3*	*12.0*	*7.6*
Total advertising	111,634	114,360	113,205	104,307	85,150	80,024	79,700	81,422	84,377	88,105	
% change	*3.8*	*2.4*	*-1.0*	*-7.9*	*-18.4*	*-6.0*	*-0.4*	*2.2*	*3.6*	*4.4*	*0.7*
Circulation	67,785	68,275	69,263	70,416	69,737	69,293	69,652	70,409	71,372	72,528	
% change	*1.3*	*0.7*	*1.4*	*1.7*	*-1.0*	*-0.6*	*0.5*	*1.1*	*1.4*	*1.6*	*0.8*
Total newspaper publishing	**179,419**	**182,635**	**182,468**	**174,723**	**154,887**	**149,317**	**149,352**	**151,831**	**155,749**	**160,633**	
% change	**2.8**	**1.8**	**-0.1**	**-4.2**	**-11.4**	**-3.6**	**0.0**	**1.7**	**2.6**	**3.1**	**0.7**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Outlook for newspaper publishing in the digital age

The newspaper publishing industry is facing a structural challenge in which paid titles have seen a long-term decline in circulation volume and advertisers have been moving from newspapers to online channels and into new formats. These trends are forecast to continue, and structural changes are now being exacerbated and accelerated by the global economic downturn. How can newspaper publishers successfully address these challenges? In this section, we look at consumer and advertiser trends, and at how industry leaders in a number of countries are responding.

Our research shows that:

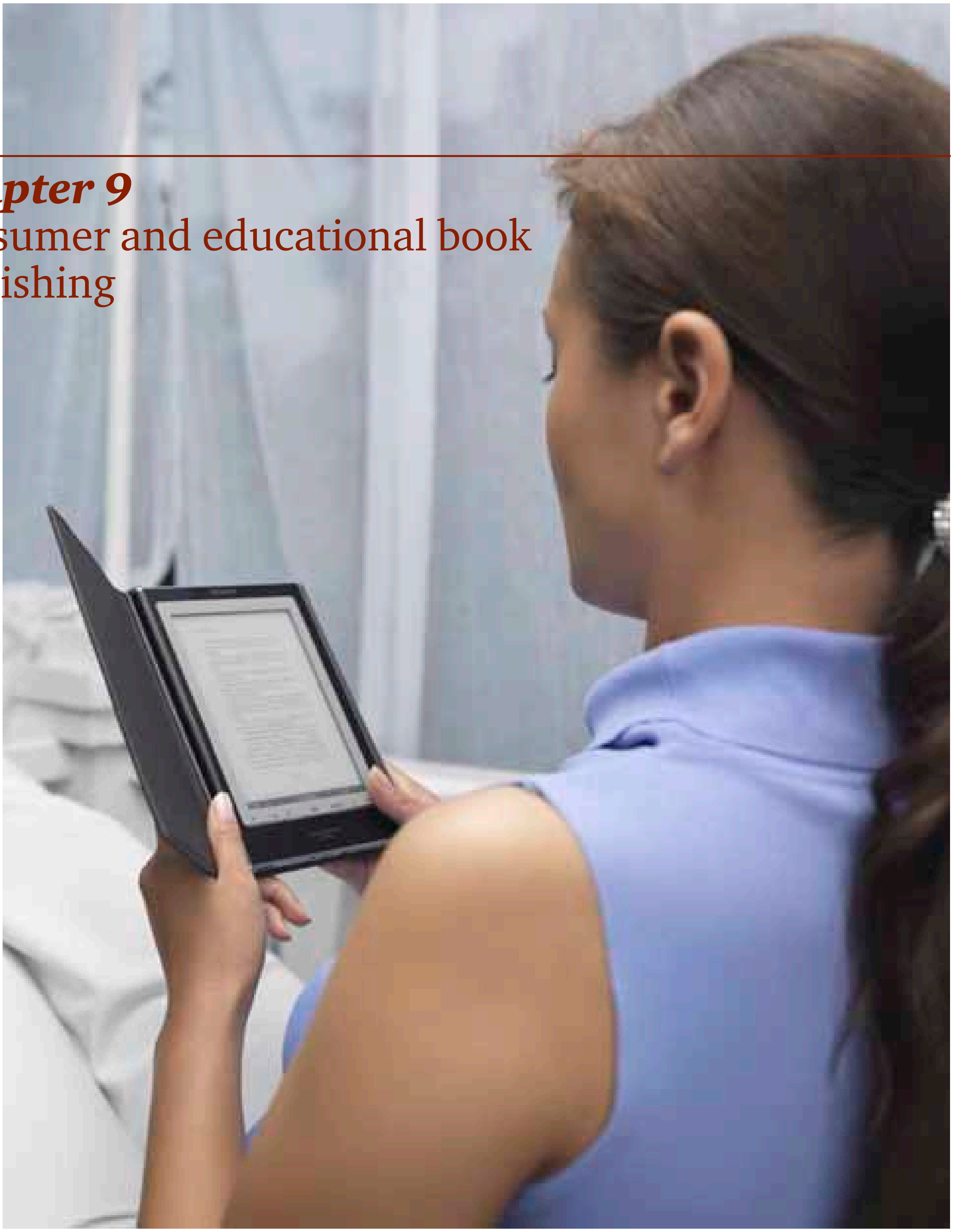
- Although there is a huge potential for growth online, print remains the largest source of revenue generation for newspaper publishers and will continue to be so for some time.
- Newspapers have a long-term future and will coexist with other media. However, this is unlikely to be either in the formats or volumes seen today and there will some casualties and losses of well-known titles along the way.
- Consumers place high value on the deep insight and analysis provided by journalists over and above general or breaking news stories.
- Consumers see breaking news and general interest news as commodities, but there is always a market for high-value online content covering specific topics. Our consumer research indicates that consumers are willing to pay for this content, but newspapers need to develop strategies for monetising their content and intellectual capital.
- Newspapers have been able to earn their readers' trust and loyalty, giving them the opportunity to both lead and follow audiences as they migrate online and into the use of portable electronic media. Indeed, with the core principles of deep analysis and trusted editorial, the medium is secondary to the brand.
- Use of video in online news sites gives the feel of a 'TV-like' experience (consumers' favourite medium for news) and gives newspaper brands the opportunity to secure online audiences beyond their print readership and to capture the television audience more generally.
- Newspaper publishers have responded to the economic downturn by increasing their focus on cost reduction. Many are also using multiple platforms and new technologies as channels for content distribution in order to reach their audiences. However, many have still to fully review their existing business models to take full advantage of the innovation in the marketplace and the demands of consumers.
- The rapid adoption of the Internet and mobile technology has created a market for mobile devices – particularly for the 'net generation', those under 35. Though the devices give immediate access to breaking news and information, they are low on the list of preferences for accessing information due to the difficulty of reading content on the devices.
- Sustainability has increased in importance both for newspaper publishers and for readers, who attach high values to a publishing company using sustainable production methods. Some newspapers have addressed this issue, but many have not.
- For advertisers, access to mass markets remains key, hence major newspaper brands with large loyal customer bases will remain a priority for advertisers. However, the overall shift from print to online will continue and newspaper publishers will need to continue to develop innovative advertising packages combining both print and online to secure the advertising spend for their brands.
- Niche audiences continue to demand specialised, targeted and relevant information. This creates both an opportunity for advertisers to reach their consumers and for newspapers to develop 'hyper-local' or 'local-local' sites addressing content at the neighbourhood and suburban level. This is particularly prevalent in the USA.

Some key questions facing the industry:

- Is your brand identity clear – both internally and externally – and focused on what differentiates you from your competitors?
- Are print and new media run as separate operations or as simply two different distribution mechanisms for the same core activity?
- Do you have an integrated paper and online advertising sales team?
- Are you using online to extend your core audience beyond the traditional print readership?
- Will video journalism and print journalism co-exist online?
- What does your audience want from you – and do you know what they will pay for?
- Can areas of non-differentiation be outsourced?
- Have you identified non-core activities that should be downsized or stopped?
- Are you investing today with a clear view of the payback on that capital allocation?
- How will you deal with the cultural aspects of change so as to maximise quality and minimise inefficiencies?
- Have you maximised the mass-market nature of your total readership (print and online) in discussions with advertisers?
- What sort of business will you be running in five years time?

Source: Outlook for newspaper publishing in the digital age (PwC, 2009)

Chapter 9
Consumer and educational book publishing



Dirk Höll, Associate Director, 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 or electronic books or e-books.

Spending includes library and institutional subscriptions to electronic book databases. Print sales include audio books. Educational books do not include supplemental educational spending, administrative software or testing materials. Professional books are covered in the next chapter on business-to-business publishing.

Overview

Spending on consumer and educational books in South Africa increased by 1.7% from R4.3 billion in 2008 to R4.4 billion in 2009. Ongoing economic weakness will maintain pressure on growth potential, with modest single-digit increases expected during the forecast period.

Spending on consumer and educational books totalled R4.4 billion in 2009, of which educational books accounted for R2.8 billion, or 64% of the total. Differences in the relative size of the consumer and educational market reflect differences in the potential audience. The school-age population is about 14 million, while the consumer market is limited to approximately 500,000 people who are regular book buyers.

The consumer market is further limited by high prices, because of short print runs and the fact that the majority of books are imported, and the lack of books in African languages, as virtually no books are published in the African languages. Approximately nine million people, or 18% of the population, are illiterate, which further cuts into the potential consumer book market. More than half of all households in South Africa do not own a book.

Through the Department of Education, the Government is undertaking a R6.1 billion programme during the next five years to eliminate illiteracy. The goal is to reduce the number of illiterate people by half by 2012 and to eliminate illiteracy by 2020. The Department of Arts and Culture will be investing R1 billion during the next three years in community libraries.

Because the consumer market is relatively small, the performance of key titles can affect overall sales. In 2007, for example, the market was bolstered by sales of *Harry Potter and the Deathly Hallows*, the final instalment in JK Rowling's *Harry Potter* series. *In Black and White* by Jake White and two titles in the *Spud* series by John van de Ruit, also boosted sales in 2007. The absence of a new *Harry Potter* title in 2008 contributed to the 2.9% decline in overall consumer book sales. In 2009, however, four instalments of the *Twilight* vampire series by Stephenie Meyer contributed to the 5.5% increase in overall consumer book sales.

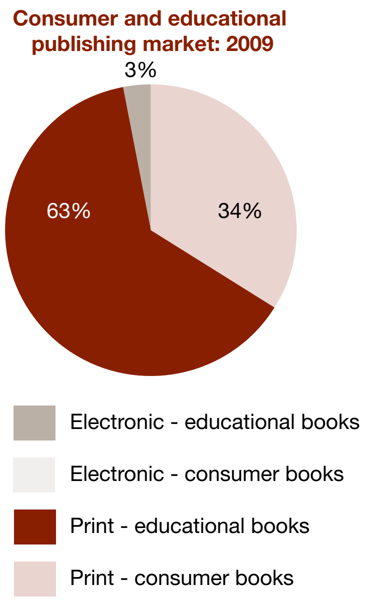
In addition to increased literacy, the consumer book market will benefit from an expanding electronic book market. At the same time, the continued absence of significant publishing in the African languages will limit growth. On balance, we expect increases comparable to the gain in 2009 and project the consumer books market as a whole to expand at a 5.6% compound annual rate to R2 billion in 2014 from R1.5 billion in 2009.

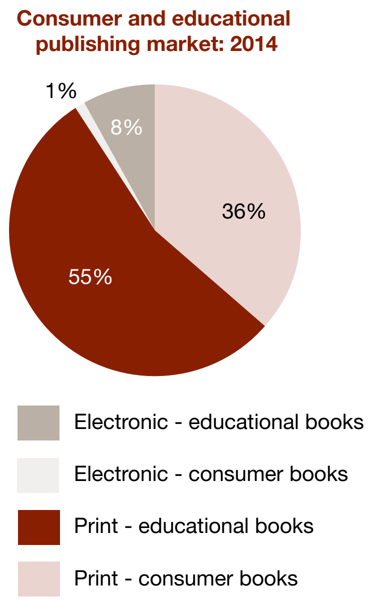
The educational book market is experiencing a decline in the school-age population and is vulnerable to the downturn in the economy. The start of the recession in 2009 put pressure on school budgets, including budgets for textbooks, and led to a 2.1% decrease in spending on print books.

We expect print educational books to decline by an additional 0.6% in 2010 and to remain weak in 2011 with a 0.2% increase. We then anticipate faster growth from 2012 to 2014, although increases will be dampened by the impact of a declining school-age population and increased competition from electronic books at the university/college level.

Educational electronic books will increase to an estimated R407 million by 2014 and the overall educational book market will total R3.3 billion in 2014, a 3.1% compound annual increase from 2009.

We expect overall print sales during the next five years to expand at a 2.7% compound annual rate to R4.9 billion in 2014 from R4.2 billion in 2009. When we add electronic books, which will comprise 8.7% of the overall market in 2014, total spending on books will rise at a 4.0% compound annual rate to R5.3 billion in 2014. Electronic books will account for 35% of projected growth during the next five years.



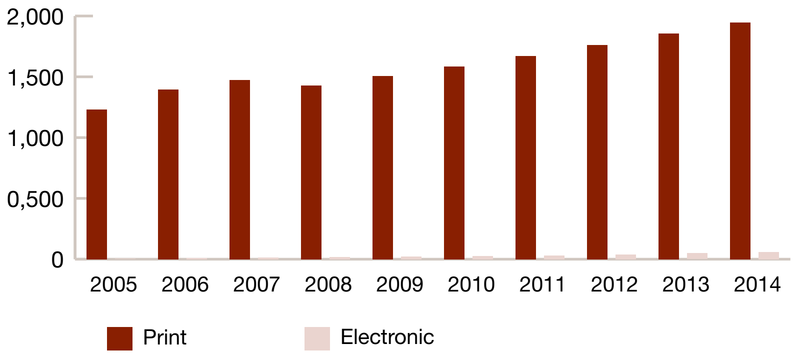


Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer and educational publishing market (R millions)										
South Africa	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Consumer books – print	1,230	1,395	1,475	1,430	1,505	1,585	1,670	1,760	1,855	1,945
Educational books – print	1,990	2,480	2,560	2,795	2,735	2,720	2,725	2,760	2,825	2,910
Total print	3,220	3,875	4,035	4,225	4,240	4,305	4,395	4,520	4,680	4,855
Consumer books – electronic	4	11	15	17	21	25	32	40	49	58
Educational books – electronic	1	7	26	56	109	163	218	276	339	407
Total electronic	5	18	41	73	130	188	250	316	388	465
Total consumer	1,234	1,406	1,490	1,447	1,526	1,610	1,702	1,800	1,904	2,003
Total educational	1,991	2,487	2,586	2,851	2,844	2,883	2,943	3,036	3,164	3,317
Total	**3,225**	**3,893**	**4,076**	**4,298**	**4,370**	**4,493**	**4,645**	**4,836**	**5,068**	**5,320**

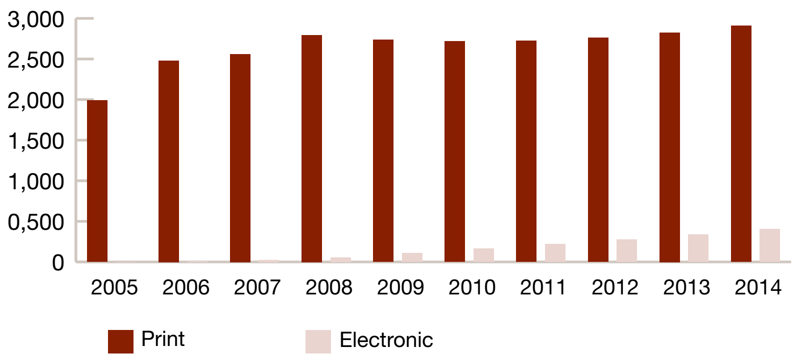
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer publishing market (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Educational publishing market (R millions)



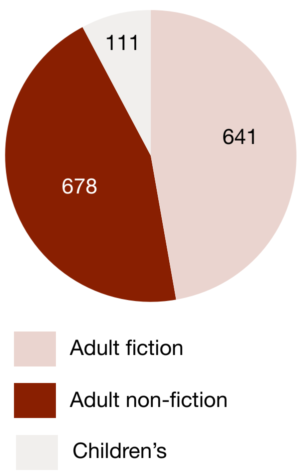
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer books

Print

Among consumer books, adult non-fiction had been the dominant category, but it was overtaken by adult fiction in 2009. Adult fiction rose by 7.6% to an estimated R690 million, while adult non-fiction dipped to R676 million from R678 million in 2008. Children's titles were the fastest-growing category with a 25.2% increase to R139 million.

Consumer book print sales by category (R millions): 2008



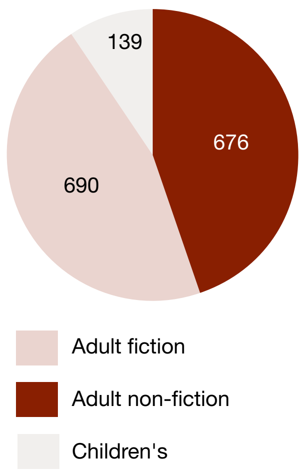
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Spud by John van de Ruit was the leading seller in 2009, as the *Spud* series built interest and momentum. *The Lost Symbol* by Dan Brown and *Assegai* by Wilbur Smith were other leading adult fiction titles in 2009.

Fantasy books were once again a very popular genre in 2009 and the trend is expected to continue in 2010. The children's category was fuelled by the *Twilight* series, which became very popular in South Africa in 2009. Four titles by Stephenie Meyer (*Eclipse, New Moon, Breaking Dawn* and *Twilight)* were the next leading sellers after *Spud – Learning to Fly*. The *Twilight* series has sold more than 100 million copies worldwide and Meyer's new book, *The Short Second Life of Bree Tanner,* released in June 2010, will undoubtedly be another success. The *Twilight* series is a crossover hit, selling well to both children and adults, as did the *Harry Potter* series. It is estimated that 40% of *Twilight* sales were to people 25 years and older.

The top adult non-fiction title, *Captain in the Cauldron*, the autobiography of Springbok Rugby captain, John Smit by Mike Greenaway, ranked seventh among consumer books in 2009. Two self-help titles by Stephen Kendrick and Alex Kendrick were also in the top 10.

Consumer book print sales by category (R millions): 2009



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The consumer book market will be helped by new resources to search books online. Google has opened operations in Johannesburg and there are now a number of South African titles on Google's Book Search, with the total expected to expand. Digitisation of books allows readers to browse books electronically in a manner that attempts to duplicate physical browsing in a bookstore. Digitisation also allows books to be included in online searches through the use of key words, which will make potential consumers aware of information contained in books, which could lead to increased sales.

Favourable demographic trends will also benefit the adult consumer book market. The size of the 45-and-older population, the segment that does the most reading, grew by a cumulative 2.9% between 2004 and 2009, a factor that contributed to growth in spending on consumer books. This segment of the population will expand by 5.1% during the next five years, rising to 10.8 million in 2014 from 10.2 million in 2009. Continued growth in this demographic group will benefit the consumer book market.

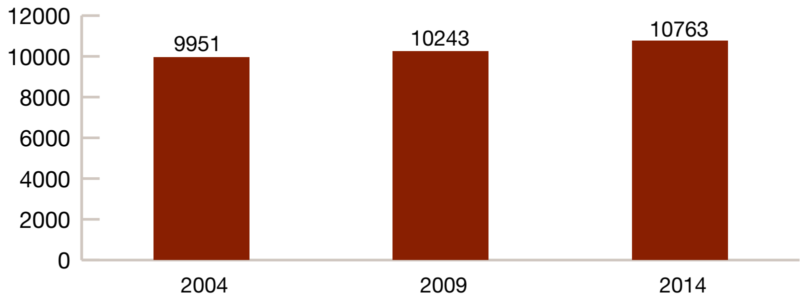
Efforts to increase literacy, if successful, will expand the potential market for consumer books. In addition, we expect digitisation and favourable demographic trends to have a positive impact on print sales during the next five years. We look for spending on print books to increase at a 5.3% compound annual rate, comparable to the 5.2% increase in 2009. Spending will rise from R1.5 billion in 2009 to R1.9 billion in 2014.

Leading consumer books in 2009

Title	Author	Category
Spud – Learning to Fly	John van de Ruit	Adult fiction
Eclipse	Stephenie Meyer	Children's
New Moon	Stephenie Meyer	Children's
Breaking Dawn	Stephenie Meyer	Children's
Twilight	Stephenie Meyer	Children's
The Lost Symbol	Dan Brown	Adult fiction
Captain in the Cauldron	Mike Greenaway	Adult non-fiction
The Love Dare	Stephen Kendrick and Alex Kendrick	Adult non-fiction
Assegai	Wilbur Smith	Adult fiction
Waag dit om lief te hê!	Stephen Kendrick and Alex Kendrick	Adult non-fiction

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Number of people aged 45 and older (thousands)



Sources: U.S. Census Bureau International Database, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Electronic

Despite its low broadband penetration, South Africa has a viable electronic book market, most of which is centred on professional books and, to a lesser degree, educational books. Nevertheless, there is an emerging consumer electronic book market that was worth an estimated R21 million in 2009.

With the broadband household universe expected to significantly expand during the next five years, we expect that the market for electronic books will also become significantly larger.

The market will also be helped by the introduction of state-of-the-art electronic readers that provide portability, easy downloading, access to thousands of titles and digital print that is easy to read. The availability of hardware and titles as well as the publishers' approach to content will determine the future of electronic books. The digital format allows publishers to enrich text with videos and images, which many argue would enhance the reading experience. Many believe that this format will have appeal in children's books, for example, when showing moving animations. Others argue that seeing a video or listening to audio while reading will detract from the reader's experience.

There are a number of electronic readers now available in South Africa, including the Sony eReader, the Kobo eReader (from the Borders Group), the Bebook Mini eReader and the Kindle from Amazon. Smartphones are also popular portable reading devices. The iPhone can be used to download books from the app store and the Apple iPad, introduced in South Africa in 2010, can also be used to read electronic books. One unique feature of the iPad is that users are able to transfer electronic books between their iPad and their iPhone and automatically synchronise their place in the text, meaning that they will not lose their place when switching between devices. The home computer also remains a principal platform for downloading and reading electronic books.

The Kindle from Amazon pioneered wireless downloads, which were then adopted by the Sony Reader. The Kindle is designed mostly for reading text and its display is a grey-and-black screen. In the USA, Amazon reports that Kindle users buy more than three times as many books as they did before owning the device. Sony users download eight books per month on average, which is many times higher than the overall average of fewer than seven books purchased annually by the typical reader. Nintendo may also be entering the e-book market with a title called *100 Classic Books*, which it plans to make available on its DSi XL platform.

We project spending on electronic books to more than double during the next five years to R58 million. Growth will average 22.5% compounded annually from a small base.

Most countries in EMEA do not have a viable electronic book market. Consequently, the South African share was a very high 37.2% in 2007 and was still a healthy 9.4% in 2009 as other countries in the region began to develop a market. We expect the South African share to continue to decline during the next five years as electronic book sales in other countries take off. Nevertheless, at 3.4% in 2014, South Africa's share of the consumer electronic book market will be much larger than its share of the consumer print book market.

Total consumer books

The overall consumer book market will total an estimated R2 billion in 2014, growing at a 5.6% compound annual rate from 2009. Electronic books will comprise 2.9% of spending in 2014 from 1.4% in 2009.

Consumer book market (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Print	1,230	1,395	1,475	1,430	1,505	1,585	1,670	1,760	1,855	1,945	
% change	*11.3*	*13.4*	*5.7*	*-3.1*	*5.2*	*5.3*	*5.4*	*5.4*	*5.4*	*4.9*	*5.3*
Electronic	4	11	15	17	21	25	32	40	49	58	
% change	*33.3*	*175.0*	*36.4*	*13.3*	*23.5*	*19.0*	*28.0*	*25.0*	*22.5*	*18.4*	*22.5*
Total	**1,230**	**1,395**	**1,475**	**1,447**	**1,526**	**1,610**	**1,702**	**1,800**	**1,904**	**2,003**	
% change	***11.3***	***13.4***	***5.7***	***-1.9***	***5.5***	***5.5***	***5.7***	***5.8***	***5.8***	***5.2***	***5.6***

Sources: Publishers Association of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Educational books

Print

The educational book market in South Africa is decentralised. The Departments of Education in each province are responsible for selecting and ordering textbooks. Selections and order dates are not coordinated, which means that publishers deal with each province separately. Opportunities for economies of scale in print runs are therefore limited and book prices are high.

At the university and college level, books are purchased by students and there is greater discretion because new books compete with used books or with books that can be accessed from the library without needing to be purchased.

The educational book market is affected by the economy and by demographic trends. State schools are subsidised by the Government. The norms of state school funding are primarily geared towards redressing inherited inequalities between poor, mostly black, areas and more affluent ones. At the school level, funding for books comes from tax collections at national government level, which are then distributed by local government, based on the school classifications. With tax collections falling as the economy declined, there were fewer funds available for books in 2009 and spending on print educational books fell by 2.1%.

Although the economy is showing signs of stabilising, it is not yet in a full recovery and tax collections will remain weak in 2010 and possibly also in 2011. Given scarce resources, we expect budgets for school textbooks to remain under pressure for several years. The purchase of new textbooks can be delayed without derailing the educational experience. Efforts to retain teachers in a difficult economic environment generally take precedence over maintaining book purchases. Consequently, we expect the school textbook market to remain weak for several years.

Enrolment also has a potential impact on educational book spending because the number of books that need to be purchased depends on the number of students enrolled. Enrolment, in turn, is affected by demographic trends. At the school level, the key demographic is the 6 to 19 year-old population, which during the next five years is projected to fall by 7.4% to 13 million in 2014 from 14 million in 2009.

Although the starting age of people attending university/college is generally 18 and over, the principal university/college age demographic is the 20 to 25 year-old population. This segment is projected to decrease by an even steeper 8.6% during the next five years to 6 million in 2014 from 6.6 million in 2009. That decline will lead to fewer college students and fewer college textbook sales.

Taken together, the key demographic components for educational books will decrease by 7.8% during the next five years, to 19 million in 2014 from 20.6 million in 2009. Falling enrolment will cut into growth of the educational book market.

Key education demographics (thousands)

Category	2009	2014	Percent change (%)
6-19 population	14,028	12,994	-7.4
20-25 population	6,621	6,049	-8.6
Total	**20,649**	**19,043**	**-7.8**

Sources: U.S. Census Bureau International Database, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

At the same time, efforts to promote literacy will likely have a positive impact on the school book market. Also, an improved economic environment during the latter part of the forecast period will boost tax revenues and school textbook budgets, but the adverse demographic trends will reduce the number of new books that will be needed. We project spending to grow by a cumulative 6.8% between 2011 and 2014.

For the forecast period as a whole, we project educational book print sales to increase from R2.7 billion in 2009 to R2.9 billion in 2014, a 1.2% compound annual advance.

Electronic

Electronic educational books are more than digital versions of print books and include interactive learning tools that provide enhanced value. The principal market for educational electronic books is at the university/college level where electronic books provide a convenient and less-expensive alternative to print books that many university/college students have no desire to keep. Portable devices can store hundreds of books, reducing the need to carry heavy books.

Because students generally do not keep university/college textbooks, they often sell them back to bookstores. Bookstores, in turn, sell used books to students at a discount creating a secondary market that competes with new books. University/college textbook publishers have an incentive to limit competition from used books and electronic books provide an opportunity to do so.

If electronic readers follow the pattern of other electronic devices, we would expect that initial interest in electronic readers would be concentrated among young people. As electronic reading devices begin to penetrate the university/college age population, the potential for electronic educational books will increase.

Spending on electronic educational books totalled R109 million in 2009, more than four times the level in 2007. With new electronic readers now on the market, we expect hardware penetration to increase and electronic book sales to increase as well.

Spending in 2014 will total an estimated R407 million, a 30.1% increase compounded annually from 2009.

As with electronic consumer books, South Africa is ahead of much of EMEA in its electronic educational book market, accounting for 40.4% of total electronic educational book spending in EMEA in 2009.

We expect that share to decline as other countries catch up. By 2014, we expect that South Africa's electronic share will drop to 9.3%.

Total educational books

The overall educational book market will expand at a 3.1% compound annual rate to R3.3 billion in 2014 from R2.8 billion in 2009. Electronic books will account for 12.3% of total spending on educational books in 2014.

South Africa will expand at a 3.1% compound annual rate to R3.3 billion in 2014 from R2.8 billion in 2009.

Electronic educational book market (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Electronic books	1	7	26	56	109	163	218	276	339	407	
% change	*0.0*	*600.0*	*271.4*	*115.4*	*94.6*	*49.5*	*33.7*	*26.6*	*22.8*	*20.1*	*30.1*
South Africa as a % of EMEA (%)	NA	29.2	23.4	30.6	40.4	39.1	28.1	17.8	11.6	9.3	

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Educational book market (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Print	1,990	2,480	2,560	2,795	2,735	2,720	2,725	2,760	2,825	2,910	
% change	*24.0*	*24.6*	*3.2*	*9.2*	*-2.1*	*-0.5*	*0.2*	*1.3*	*2.4*	*3.0*	*1.2*
Electronic	1	7	26	56	109	163	218	276	339	407	
% change	*0.0*	*600.0*	*271.4*	*115.4*	*94.6*	*49.5*	*33.7*	*26.6*	*22.8*	*20.1*	*30.1*
Total	**1,991**	**2,487**	**2,586**	**2,851**	**2,844**	**2,883**	**2,943**	**3,036**	**3,164**	**3,317**	
% change	***24.0***	***24.9***	***4.0***	***10.2***	***-0.2***	***1.4***	***2.1***	***3.2***	***4.2***	***4.8***	***3.1***
South Africa as a % of EMEA	1.5	1.9	2.0	2.1	2.2	2.3	2.3	2.4	2.4	2.5	

Sources: Publishers Association of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Global trends in the consumer and educational book publishing industry

Outlook

- Globally, spending on consumer and educational books will increase by 1.9% compounded annually to $118.8 billion in 2014 from $108.2 billion in 2009.
- Print/audio consumer books – the largest component – declined by 1.4% in 2009, but will recover to reach $72 billion in 2014, a 1.3% compound annual increase from $67.5 million in 2009.
- Print educational books will expand at a 0.9% compound annual rate from $38.9 billion to $40.7 billion.
- The overall print market will increase to $112.7 billion in 2014 from $106.4 billion in 2009, a 1.2% increase compounded annually.
- Electronic books totalled $1.8 billion in 2009, accounting for 1.7% of total consumer and educational books. Driven by growth in portable readers and smartphones, spending on electronic books will more than triple to $6.1 billion in 2014, and their market share will increase to 5.1%.
- Electronic consumer books will total $3.6 billion in 2014, 4.8% of total consumer book spending, and electronic educational books will generate $2.4 billion in 2014, 5.7% of the overall educational book market.
- Consumer book sales as a whole, including print and electronic, will increase from $68.8 billion in 2009 to $75.7 billion in 2014, a 1.9% compound annual increase. The educational book market will grow at a 1.8% compound annual rate to $43.2 billion from $39.4 billion in 2009.

Key drivers

- Changing consumption behaviours will see increasing use of portable readers in North America and growing smartphone penetration in the Asia-Pacific region. Smartphones will be used increasingly for reading textbooks and consumer books.
- EMEA and Latin America do not yet have significant electronic book markets, although one will develop in EMEA during the forecast period.
- The print consumer book market in North America and EMEA will benefit from digitisation projects that allow electronic browsing and increase awareness of titles.
- In all regions, improving economic conditions will boost consumer and educational book spending. Trends in school-age population will also affect spending on educational books.

Global Consumer and Educational Book Publishing Market by Component (US$ Millions)

Component	2005	2006	2007	2008	2009p	2010	2011	2012	2013	2014	2010-14 CAGR
Print/audio consumer books	64,670	65,214	69,300	68,443	67,496	67,536	68,276	69,279	70,553	72,033	
% Change	*4.8*	*0.8*	*6.3*	*-1.2*	*-1.4*	*0.1*	*1.1*	*1.5*	*1.8*	*2.1*	*1.3*
Print educational books	37,450	37,897	38,972	39,849	38,911	38,470	38,691	39,340	40,010	40,712	
% change	*3.7*	*1.2*	*2.8*	*2.3*	*-2.4*	*-1.1*	*0.6*	*1.7*	*1.7*	*1.8*	*0.9*
Total print/audio	102,120	103,111	108,272	108,292	106,407	106,006	106,967	108,619	110,563	112,745	
% change	*4.4*	*1.0*	*5.0*	*0.0*	*-1.7*	*-0.4*	*0.9*	*1.5*	*1.8*	*2.0*	*1.2*
Electronic consumer books	161	311	546	821	1,280	1,861	2,253	2,675	3,153	3,649	
% change	*96.3*	*93.2*	*75.6*	*50.4*	*55.9*	*45.4*	*21.1*	*18.7*	*17.9*	*15.7*	*23.3*
Electronic educational books	186	231	293	372	514	649	884	1,319	1,875	2,439	
% change	*20.0*	*24.2*	*26.8*	*27.0*	*38.2*	*26.3*	*36.2*	*49.2*	*42.2*	*30.1*	*36.5*
Total electronic	347	542	839	1,193	1,794	2,510	3,137	3,994	5,028	6,088	
% change	*46.4*	*56.2*	*54.8*	*42.2*	*50.4*	*39.9*	*25.0*	*27.3*	*25.9*	*21.1*	*27.7*
Total consumer	64,831	65,525	69,846	69,264	68,776	69,397	70,529	71,954	73,706	75,682	
% change	*4.9*	*1.1*	*6.6*	*-0.8*	*-0.7*	*0.9*	*1.6*	*2.0*	*2.4*	*2.7*	*1.9*
Total educational	37,636	38,128	39,265	40,221	39,425	39,119	39,575	40,659	41,885	43,151	
% change	*3.8*	*1.3*	*3.0*	*2.4*	*-2.0*	*-0.8*	*1.2*	*2.7*	*3.0*	*3.0*	*1.8*
Total	**102,467**	**103,653**	**109,111**	**109,485**	**108,201**	**108,516**	**110,104**	**112,613**	**115,591**	**118,833**	
% change	***4.5***	***1.2***	***5.3***	***0.3***	***-1.2***	***0.3***	***1.5***	***2.3***	***2.6***	***2.8***	***1.9***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

A brief look at the book publishing industry in South Africa

The book publishing industry in South Africa is relatively small, but it is nevertheless a key factor in the economy. There are more than 120 publishers in the country, according to the Publishers' Association of South Africa (PASA). Among these are commercial publishers, university presses, non-governmental organisations and one-person privately-owned publishers. Of the 120 publishers that are members of the PASA, about 12 are classified as large publishers, 7 as medium-sized publishers and the remaining 101 as small publishers.

Books are published in all eleven official languages of South Africa as well as in some non-official and foreign languages. Works published include fiction, non-fiction, children's books, reference works as well as school and university textbooks. Electronic publishing is also a growing segment of the publishing industry. While some publishers specialise in the type of books they produce (for example textbooks), the majority of the large and medium-sized publishers publish in several categories.

There are also a number of book importers and distributors active in South Africa as the great majority of books sold locally (especially fiction) are imported, mostly from Britain and the United States. This has resulted in relatively high prices being charged for books in comparison with the income of the average South African.

The South African publishing industry employs about 3,000 people full-time, as well as many freelance workers. In addition, it is estimated that the South African publishing industry employs about 9,000 authors (full- and part-time), who together earn an estimated R150 million in royalties annually. The book-printing and bookselling sectors are also largely dependent on this industry.

Source: The Publishers' Association of South Africa

Chapter 10
Business-to-business publishing

Thea Erasmus, Senior Manager, PwC Southern Africa.

The business-to-business market consists of spending on business information, print and online directory advertising, print advertising in trade magazines, advertising on trade magazine Web sites, trade magazine circulation spending (which includes spending on online content) and spending on professional books in print and electronic formats. Exhibitions and conferences are not included.

Overview

The business-to-business (B2B) market is one of the more cyclical segments of entertainment and media industry because business spending is generally much more sensitive to the economy than consumer spending. B2B is essentially an investment whose purpose is to boost sales. When the economy is weak and prospects for sales enhancement are slim, the return on that investment is low and companies generally cut spending.

On the other hand, when the economy is expanding, sales prospects improve and the return on B2B investment rises, which encourages companies to spend more. Within the B2B market, advertising is more cyclical than end-user spending in other segments.

In 2009, the recession led to sharp decreases in B2B spending. Total spending fell by 10.6%, with advertising plunging by 14.2% and end-user spending falling by 7.8%. The only categories to expand in 2009 were digital directory advertising and electronic professional books.

We expect B2B spending to stabilise in 2010 and to grow slowly in 2011 as the economy remains weak. Then, as the economy gains momentum we expect faster growth in total spending.

We expect the business information market, which declined by 9.2% in 2009, to fall by an additional 3.7% in 2010. Then, as the economy gains momentum, we expect a rebound in business information and a 2.4% compound annual increase through 2014. Despite these gains, it will not be until 2014 that business information surpasses its previous 2008 peak.

Print directory advertising is one of only two categories that we expect to continue to decline during the next five years, the result of an ongoing shift from print to online. Print advertising is expected to fall at a 1.2% compound annual rate between 2010 and 2014.

Digital advertising in directories will grow at a 28.7% compound annual rate. This gain is expected to offset the decline in print and boost overall directory advertising by 1.1% compounded annually.

Print advertising in trade magazines was the weakest category in 2009, shrinking by 26.7%. We expect a rebound of nearly 12% in 2010, buoyed by the FIFA World Cup, followed by slower growth in 2011 and a return to high single-digit gains during 2012–14. Overall growth will average 8.4% compounded annually.

Trade magazine Web site advertising will rise at a 44.4% compound annual rate from a tiny base. Total trade magazine advertising will expand at a 9.5% compound annual rate.

Circulation spending will be bolstered by rising employment during the latter part of the forecast period. Spending will increase at a 1.7% compound annual rate. The total trade magazine market will increase by 7.7% compounded annually during the next five years.

The print professional book market fell by 5.7% in 2009 and by a cumulative 27% since 2006. Spending will continue to decline during the next five years, falling at a 1.9% compound annual rate as electronic sales cut into the print market.

In relative terms, South Africa has one of the largest electronic professional book markets in the world. Growth dipped to 2.3% in 2009 as the economy weakened. We expect faster growth during the next five years as economic conditions improve, with spending expanding at an 8.3% compound annual rate.

Gains in electronic books will offset declines in print and the overall professional book market will increase at a 0.7% compound annual rate.

Total business-to-business advertising will grow at a 4.8% compound annual rate to R1.4 billion in 2014 from R1.1 billion in 2009. Total end-user spending on business information, trade magazine circulation and professional books will increase by 2.1% compounded annually to R1.6 billion in 2014 from R1.5 billion in 2009.

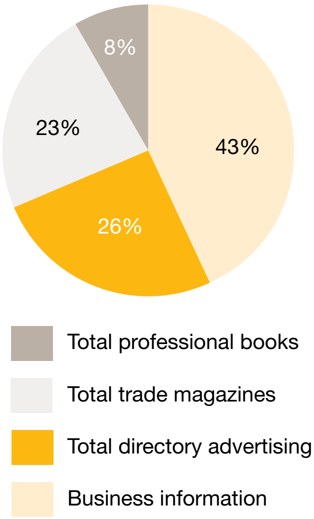
The overall business-to-business publishing market in South Africa will increase from R2.5 billion in 2009 to R3 billion in 2014, rising by 3.2% compounded annually.

Business-to-business market (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Business information	1,040	1,110	1,180	1,200	1,090	1,050	1,055	1,080	1,140	1,225
Print advertising – Directory	520	575	620	650	620	605	600	595	590	585
Digital advertising – Directory	NA	6	12	20	28	36	48	60	77	99
Total advertising – Directory	520	581	632	670	648	641	648	655	667	684
Print advertising – Trade magazines	461	515	560	580	425	475	495	535	580	635
Digital advertising – Trade magazines	NA	3	4	9	7	10	20	27	35	44
Total advertising – Trade magazines	461	518	564	589	432	485	515	562	615	679
End-user spending (print and online)	138	154	151	150	147	146	147	150	154	160
Total Trade magazines	599	672	715	739	579	631	662	712	769	839
Print – Professional books	215	225	195	175	165	160	156	153	151	150
Electronic – Professional books	22	36	41	44	45	48	52	57	62	67
Total Professional books	237	261	236	219	210	208	208	210	213	217
Total advertising	981	1,099	1,196	1,259	1,080	1,126	1,163	1,217	1,282	1,363
Total end user	1,415	1,525	1,567	1,569	1,447	1,404	1,410	1,440	1,507	1,602
Total	**2,396**	**2,624**	**2,763**	**2,828**	**2,527**	**2,530**	**2,573**	**2,657**	**2,789**	**2,965**

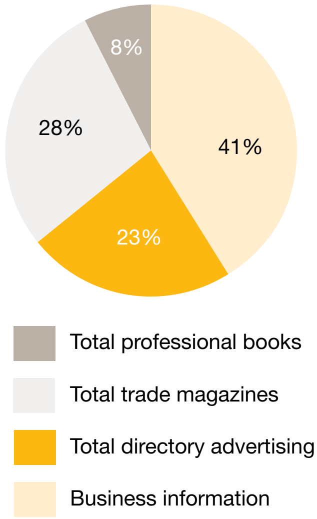
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Business-to-business market: 2009



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Business-to-business market: 2014



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Business-to-business market growth (%)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Business information	5.1	6.7	6.3	1.7	-9.2	-3.7	0.5	2.4	5.6	7.5	2.4
Print advertising – Directory	11.8	10.6	7.8	4.8	-4.6	-2.4	-0.8	-0.8	-0.8	-0.8	-1.2
Digital advertising – Directory	–	–	100.0	66.7	40.0	28.6	33.3	25.0	28.3	28.6	28.7
Total advertising – Directory	11.8	11.7	8.8	6.0	-3.3	-1.1	1.1	1.1	1.8	2.5	1.1
Print advertising – Trade magazines	10.3	11.7	8.7	3.6	-26.7	11.8	4.2	8.1	8.4	9.5	8.4
Digital advertising – Trade magazines	–	–	33.3	125.0	-22.2	42.9	100.0	35.0	29.6	25.7	44.4
Total advertising – Trade magazines	10.3	12.4	8.9	4.4	-26.7	12.3	6.2	9.1	9.4	10.4	9.5
End-user spending (print and online)	8.7	11.6	-1.9	-0.7	-2.0	-0.7	0.7	2.0	2.7	3.9	1.7
Total Trade magazines	9.9	12.2	6.4	3.4	-21.7	9.0	4.9	7.6	8.0	9.1	7.7
Print – Professional books	2.4	4.7	-13.3	-10.3	-5.7	-3.0	-2.5	-1.9	-1.3	-0.7	-1.9
Electronic – Professional books	175.0	63.6	13.9	7.3	2.3	6.7	8.3	9.6	8.8	8.1	8.3
Total Professional books	8.7	10.1	-9.6	-7.2	-4.1	-1.0	0.0	1.0	1.4	1.9	0.7
Total advertising	11.1	12.0	8.8	5.3	-14.2	4.3	3.3	4.6	5.3	6.3	4.8
Total end user	6.0	7.8	2.8	0.1	-7.8	-3.0	0.4	2.1	4.7	6.3	2.1
Total	**8.0**	**9.5**	**5.3**	**2.4**	**-10.6**	**0.1**	**1.7**	**3.3**	**5.0**	**6.3**	**3.2**

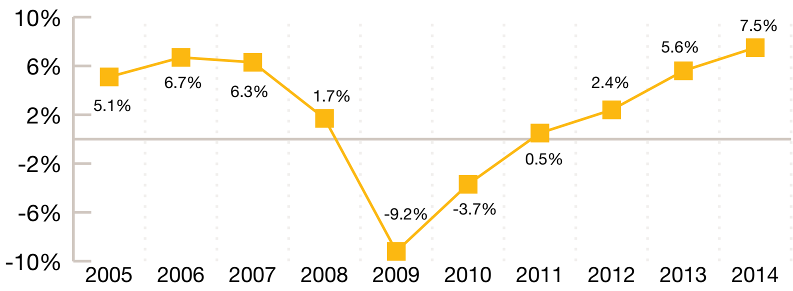
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Business information

We classify business information into four principal categories, being financial, marketing, industry, and professional information:

- Financial information relates to securities, economic and credit data.
- Marketing information is used to sell products or services and to monitor sales. This 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 in areas such as law, accounting and healthcare.

Business-to-business market growth



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The recession led to decreases in each component of the market in 2009. The decline in property values hurt home buying and the decrease in lending activity in general reduced demand for credit information. When sales are falling, companies are not looking to invest, either in their own operations or in acquiring other companies. The mergers and acquisitions market also slowed, which further cut into demand for financial information. As investment is put off, equipment and infrastructures age, creating a pent-up demand. When the economy returns to a sustained expansion, that demand will re-emerge, leading to an increase in investment and increased spending on financial information.

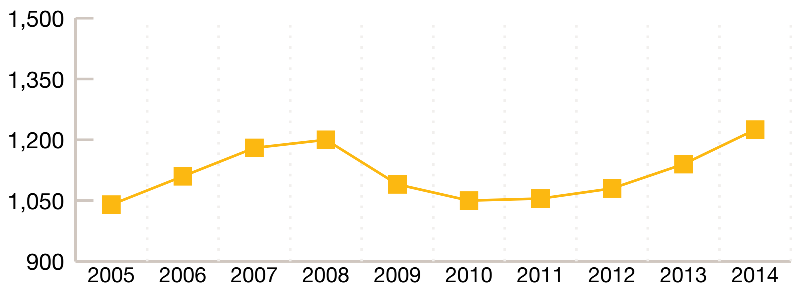
The recession caused layoffs in 2009, which dampened consumer spending. As consumers cut back, the return on the advertising and marketing investment fell, and companies reduced their advertising and marketing spending. As marketing resources were reduced, demand for marketing information also fell. When the economy recovers, consumer spending will rise, and the return on the advertising and marketing investment will increase. Companies will increase their advertising and will spend more on marketing information during the latter part of the forecast period.

The decline in investment activity also reduced demand for industry information. Companies considering investing in industries in South Africa or in other countries often seek information on the prospects for those industries to help them make more-informed decisions. As with the other components of business information, when investment increases, spending on industry information will increase.

We project overall spending on business information to fall by an additional 3.7% in 2010. We then expect the market to stabilise in 2011 and to return to mid-to-high single-digit increases in 2013–14.

Spending on business information will total an estimated R1.2 billion in 2014 compared with R1.1 billion in 2009, a 2.4% increase compounded annually.

Business Information Market (R Millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Directory advertising

The recession contributed to a 4.6% decline in print directory advertising in 2009. The weak economy will lead to a further 2.4% decrease in 2010.

In addition to the effects of the recession, the print directory market is being hurt by a shift in spending to online directories. Online directories offer a better platform than print. In addition to traditional listings, online directories can show maps, provide directions, as well as photographs and even videos. As broadband penetration expands, the Internet will be used by more people seeking information, including listings contained in online directories.

Consequently, even when the economy improves, we do not expect print directory advertising to rebound. Instead, we project modest ongoing decreases. Print directory advertising will total an estimated R585 million in 2014, down 1.2% on a compound annual basis from R620 million in 2009.

Online directory advertising rose by 40% in 2009 but it remained low at only R28 million due to limited broadband penetration. With broadband penetration expected to surge during the next five years, we expect large gains in digital directory advertising, with spending increasing at a 28.7% compound annual rate to R99 million in 2014.

Overall directory advertising will rise from R648 million in 2009 to R684 million in 2014, a 1.1% compound annual increase. The digital share of that market will increase to 14.5% in 2014 from only 4.3% in 2009.

Directory advertising market (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Print	520	575	620	650	620	605	600	595	590	585	
% Change	*11.8*	*10.6*	*7.8*	*4.8*	*-4.6*	*-2.4*	*-0.8*	*-0.8*	*-0.8*	*-0.8*	*-1.2*
Digital	NA	6	12	20	28	36	48	60	77	99	
% Change	*–*	*–*	*100.0*	*66.7*	*40.0*	*28.6*	*33.3*	*25.0*	*28.3*	*28.6*	*28.7*
Total	**520**	**581**	**632**	**670**	**648**	**641**	**648**	**655**	**667**	**684**	
% Change	***11.8***	***11.7***	***8.8***	***6.0***	***-3.3***	***-1.1***	***1.1***	***1.1***	***1.8***	***2.5***	***1.1***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Trade magazine publishing market (R millions)										
South Africa	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Print advertising	461	515	560	580	425	475	495	535	580	635
Digital advertising	NA	3	4	9	7	10	20	27	35	44
Total advertising	461	518	564	589	432	485	515	562	615	679
Circulation	138	154	151	150	147	146	147	150	154	160
Total	**599**	**672**	**715**	**739**	**579**	**631**	**662**	**712**	**769**	**839**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Trade magazines

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. Even the leading titles have circulations of less than 80,000. *BigNews, Landbouweekblad, Accountancy SA, Entrepreneur, Finweek* and *Financial Mail* are the leading titles with respect to per-issue unit circulation.

Trade magazine print advertising is one of the most cyclical of the advertising media. During 2005-06, print advertising in trade magazines rose at double digit rates. In 2009, however, it plunged by 26.7%. With business sales falling in 2009, businesses reduced their inventory and spent less on supplies. The decrease in B2B spending on goods and services led to a decrease in spending on advertising to sell these goods and services. The decrease in employment also reduced the potential audience for trade magazine advertising.

The FIFA World Cup in 2010 is expected to boost business activity in a number of sectors. Publications serving these industries are expecting to benefit and we project an 11.8% jump in overall trade magazine print advertising for the year as a whole. Even with that increase, trade magazine advertising in 2010 will remain much lower than in 2008 and it will not be until 2013 that print advertising returns to its 2008 level.

In 2011, we expect a more moderate 4.0% gain with the absence of the boost from the FIFA World Cup.

When the economy moves into a sustained recovery, trade magazines will benefit as spending on supplies and business services increases to meet growing consumer demand for final products. Growth in B2B spending on goods and services will lead to growth in advertising. We anticipate high single-digit increases during 2012-14.

For the forecast period as a whole, we project trade magazine print advertising to grow by an estimated 8.4% compound annual rate, with spending rising from R425 million in 2009 to R635 million in 2014.

B2B advertisers, like business to consumer advertisers, are allocating more resources to the Internet. Trade magazine Web site advertising more than tripled between 2006 and 2008, although spending remained low. In 2009, however, the overall decline in advertising affected Web site advertising, which fell 22.2%.

We expect Web site advertising to experience double digit gains beginning in 2010 as economic conditions improve. We project digital advertising to rise to R44 million by 2014, a 44.4% compound annual increase from R7 million in 2009.

Overall trade magazine advertising will total an estimated R679 million in 2014, in contrast to R432 million in 2009, a 9.5% increase compounded annually. By 2014, digital advertising will comprise 6.5% of total trade magazine advertising, compared with 1.6% in 2009.

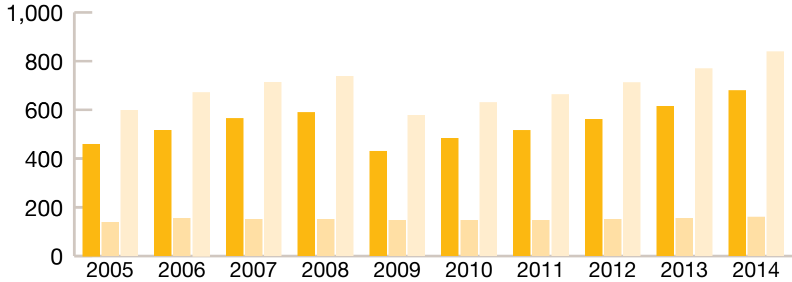
Trade magazines are often distributed free on a controlled basis to identified readers in the served market that advertisers want to target. Because a portion of the market does not pay, circulation generates proportionally less revenue for trade magazine publishers than it does for consumer magazine publishers. Circulation accounted for 52% of consumer magazine revenues in 2009, but only 25% of trade magazine revenues.

Circulation spending for trade magazines fell by 2.0% in 2009 as a result of decreased employment due to the recession. We expect a further 0.7% decrease in 2010.

We then expect economic growth to lead to increased employment, which in turn will expand the potential market for trade magazines. Circulation revenue will rise to an estimated R160 million in 2014, a 1.7% compound annual increase from 2009.

The trade magazine market as a whole will total a projected R839 million in 2014 from R579 million in 2009, a 7.7% compound annual increase.

Trade magazine publishing market (R millions)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
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Total	599	672	715	739	579	631	662	712	769	839

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Trade magazine publishing market growth (%)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Print advertising	10.3	11.7	8.7	3.6	-26.7	11.8	4.2	8.1	8.4	9.5	8.4
Digital advertising	–	–	33.3	125.0	-22.2	42.9	100.0	35.0	29.6	25.7	44.4
Total advertising	10.3	12.4	8.9	4.4	-26.7	12.3	6.2	9.1	9.4	10.4	9.5
Circulation	8.7	11.6	-1.9	-0.7	-2.0	-0.7	0.7	2.0	2.7	3.9	1.7
Total	**9.9**	**12.2**	**6.4**	**3.4**	**-21.7**	**9.0**	**4.9**	**7.6**	**8.0**	**9.1**	**7.7**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Professional books

Professional books serve scientific, technical, medical, legal and financial services professionals. Spending on print books fell by 5.7% in 2009 following two years of double-digit declines. Fewer titles, the impact of the recession and a shift to electronic books contributed to the decrease.

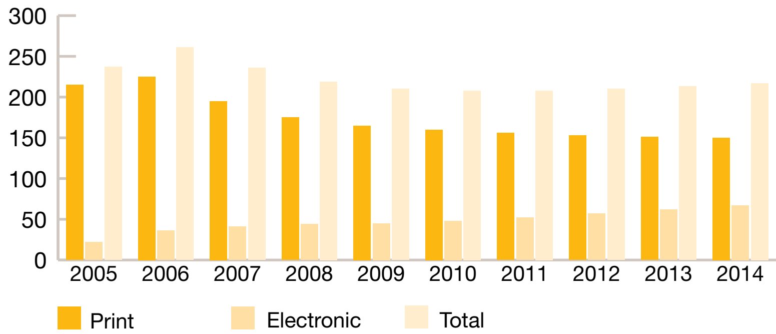
We expect professional employment and the print professional book market to remain weak during the next two years. We then expect an improved economy to have a positive impact on professional employment and professional book sales, but that this will be offset by an accelerating trend toward electronic books.

Professional books are generally used for reference purposes, which makes electronic versions particularly advantageous since the search capabilities of electronic formats potentially make them more useful than print editions.

Professional book market (R millions)											
South Africa	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2010-14 CAGR**
Print	215	225	195	175	165	160	156	153	151	150	
% change	*2.4*	*4.7*	*-13.3*	*-10.3*	*-5.7*	*-3.0*	*-2.5*	*-1.9*	*-1.3*	*-0.7*	*-1.9*
Electronic	22	36	41	44	45	48	52	57	62	67	
% change	*175.0*	*63.6*	*13.9*	*7.3*	*2.3*	*6.7*	*8.3*	*9.6*	*8.8*	*8.1*	*8.3*
Total	**237**	**261**	**236**	**219**	**210**	**208**	**208**	**210**	**213**	**217**	
% change	***8.7***	***10.1***	***-9.6***	***-7.2***	***-4.1***	***-1.0***	***0.0***	***1.0***	***1.4***	***1.9***	***0.7***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Professional book market (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

On balance, we project print declines averaging less than 2% annually during 2012-14, which will be more moderate than the projected 2.8% average annual decrease during the next two years.

For the forecast period as a whole, we project the print market will decline at a 1.9% compound annual rate to an estimated R150 million in 2014 from R165 million in 2009.

South Africa has an active electronic book market. Electronic books are sold on a subscription basis to law firms and accounting firms. Spending on electronic professional books totaled R45 million in 2009.

We expect growth in the electronic market to offset declines in print. Lower-cost electronic versions will expand overall sales and their search capabilities will make them more attractive to professionals. We project spending on electronic professional books to increase to R67 million in 2014, growing at an 8.3% compound annual rate from 2009.

The overall professional book market will increase at a 0.7% compound annual rate during the next five years. Spending will rise from R210 million in 2009 to R217 million in 2014.

Global trends in business-to-business publishing

Outlook

- Overall spending on business-to-business publishing fell by 10.4% in 2009. We project further decreases during the next two years, followed by a rebound during 2012-14.
- Global spending for the forecast period as a whole will increase at a 1.0% compound annual rate to $156 billion in 2014 from $148.1 billion in 2009.
- Business information will remain the largest component of the market throughout the forecast period, rising from $74.6 billion in 2009 to $80.3 billion in 2014, up 1.5% on a compound annual basis.
- Print directory advertising will continue the decline it began in 2008, falling at a 4.6% compound annual rate to $20.9 billion in 2014 from $26.5 billion in 2009. In contrast, spending on online directories will rise strongly, reaching $8.5 billion in 2014 from $3.6 billion in 2009, a 19.1% compound annual increase.
- As a result, online directories will account for 29% of total directory advertising in 2014, up from 11.9% in 2009.Total directory advertising will edge down at a 0.4% compound annual rate to $29.5 billion in 2014 from $30 billion in 2009.
- Print advertising in trade magazines will fall from $13.8 billion to $13.2 billion, a 0.9% decrease compounded annually. Despite modest increases during 2012-14, print advertising in 2014 will be nearly 29% below its 2007 level. In contrast, digital advertising on trade magazine Web sites will increase from $1.5 billion to $2.8 billion, growing at a 13.4% compound annual rate.
- Total trade magazine advertising will rise at a 0.9% compound annual rate to $16 billion from $15.3 billion. Digital advertising will account for 17.7% of total trade magazine advertising in 2014, up from 9.8% in 2009.
- Trade magazine end-user spending, which includes spending on online content as well as print, will increase from $7.6 billion to $8.1 billion, a 1.3% compound annual advance.
- Total trade magazine spending will increase at a modest 1% compound annual rate, rising to $24.1 billion in 2014 from $22.9 billion in 2009.
- The print professional book market will increase at a 0.5% annual rate to $19.9 billion in 2014. Electronic books will total $2.2 billion in 2014, growing at a 15.7% compound annual rate. The overall professional book market will grow from $20.6 billion to $22.2 billion, a 1.5% increase compounded annually.
- Total business-to-business advertising will increase at a 0.1% compound annual rate to $45.5 billion in 2014 from $45.3 billion in 2009.
- End-user spending on business information, trade magazine circulation and professional books will rise at a 1.5% compound annual rate to $110.6 billion in 2014 from $102.8 billion in 2009.

Key drivers

- There are three overriding drivers that are affecting the business-to-business market. Firstly, each segment of the market is sensitive to the economic cycle. Secondly, there is also an ongoing shift from print to digital media in trade magazines, directories, and professional books. (Business information has been distributed largely in digital formats for some years.) Thirdly, new business models are emerging to monetise digital usage more effectively.
- In trade magazines, publishers will be creating databases and charging for certain elements of online content. In directories, online local search that ties into the use of mobile phones will expand the digital advertising market.
- On a more granular level, in the business information market, a rebound in lending activity will boost demand for financial information.
- Growth in consumer spending will revitalise advertising and marketing as well as generating gains in spending on marketing information. Increased investment will drive spending on industry information. While these factors will play a role in each region, the impact on business information spending will vary from region to region.
- Directory advertising will be hurt in the near term by the recession and in the longer run by migration of advertising from print to the Internet. Trade magazines will be adversely affected by the declining economy and falling employment, but will improve as the economy strengthens. Print advertising will continue to be negatively affected by trade magazines' ongoing shift to online distribution.
- The launch of Web sites with paid content will generate an incremental revenue stream for trade magazine publishers. A rebound in professional employment will boost professional books, while electronic readers with colour and graphical capabilities will support growth in spending on electronic books.

Source: *Global entertainment and media outlook 2010-2014* (PwC, 2010)

Global business-to-business market by component (US$ millions)

Component	2005	2006	2007	2008	2009p	2010	2011	2012	2013	2014	2010-14 CAGR
Business information	77,106	82,560	86,105	83,940	74,646	70,791	70,095	71,469	75,171	80,329	
% change	*5.9*	*7.1*	*4.3*	*-2.5*	*-11.1*	*-5.2*	*-1.0*	*2.0*	*5.2*	*6.9*	*1.5*
Print advertising	30,829	31,186	31,591	30,109	26,473	24,516	23,426	22,531	21,712	20,930	
% change	*3.0*	*1.2*	*1.3*	*-4.7*	*-12.1*	*-7.4*	*-4.4*	*-3.8*	*-3.6*	*-3.6*	*-4.6*
Digital advertising	285	1,642	2,479	3,131	3,564	4,245	5,108	6,064	7,221	8,549	
% change	*–*	*476.1*	*51.0*	*26.3*	*13.8*	*19.1*	*20.3*	*18.7*	*19.1*	*18.4*	*19.1*
Total advertising – Directory	31,114	32,828	34,070	33,240	30,037	28,761	28,534	28,595	28,933	29,479	
% change	*3.9*	*5.5*	*3.8*	*-2.4*	*-9.6*	*-4.2*	*-0.8*	*0.2*	*1.2*	*1.9*	*-0.4*
Print advertising	18,384	18,685	18,664	17,313	13,787	12,423	11,963	12,147	12,550	13,161	
% change	*6.5*	*1.6*	*-0.1*	*-7.2*	*-20.4*	*-9.9*	*-3.7*	*1.5*	*3.3*	*4.9*	*-0.9*
Digital advertising	324	891	1,391	1,632	1,506	1,554	1,747	2,037	2,398	2,821	
% change	*–*	*175.0*	*56.1*	*17.3*	*-7.7*	*3.2*	*12.4*	*16.6*	*17.7*	*17.6*	*13.4*
Total advertising – Trade magazines	18,708	19,576	20,055	18,945	15,293	13,977	13,710	14,184	14,948	15,982	
% change	*8.4*	*4.6*	*2.4*	*-5.5*	*-19.3*	*-8.6*	*-1.9*	*3.5*	*5.4*	*6.9*	*0.9*
End-user spending (print and online)	7,878	8,053	8,119	8,003	7,583	7,398	7,449	7,585	7,793	8,103	
% change	*0.1*	*2.2*	*0.8*	*-1.4*	*-5.2*	*-2.4*	*0.7*	*1.8*	*2.7*	*4.0*	*1.3*
Total Trade magazines	26,586	27,629	28,174	26,948	22,876	21,375	21,159	21,769	22,741	24,085	
% change	*5.8*	*3.9*	*2.0*	*-4.4*	*-15.1*	*-6.6*	*-1.0*	*2.9*	*4.5*	*5.9*	*1.0*
Print – Professional books	18,066	18,655	20,219	20,102	19,482	19,212	19,176	19,359	19,616	19,932	
% change	*-0.7*	*3.3*	*8.4*	*-0.6*	*-3.1*	*-1.4*	*-0.2*	*1.0*	*1.3*	*1.6*	*0.5*
Electronic – Professional books	540	654	804	994	1,069	1,176	1,353	1,603	1,898	2,219	
% change	*20.3*	*21.1*	*22.9*	*23.6*	*7.5*	*10.0*	*15.1*	*18.5*	*18.4*	*16.9*	*15.7*
Total Professional books	18,606	19,309	21,023	21,096	20,551	20,388	20,529	20,962	21,514	22,151	
% change	*-0.2*	*3.8*	*8.9*	*0.3*	*-2.6*	*-0.8*	*0.7*	*2.1*	*2.6*	*3.0*	*1.5*
Total advertising	49,822	52,404	54,125	52,185	45,330	42,738	42,244	42,779	43,881	45,461	
% change	*5.6*	*5.2*	*3.3*	*-3.6*	*-13.1*	*-5.7*	*-1.2*	*1.3*	*2.6*	*3.6*	*0.1*
Total end user	103,590	109,922	115,247	113,039	102,780	98,577	98,073	100,016	104,478	110,583	
% change	*4.3*	*6.1*	*4.8*	*-1.9*	*-9.1*	*-4.1*	*-0.5*	*2.0*	*4.5*	*5.8*	*1.5*
Total	**153,412**	**162,326**	**169,372**	**165,224**	**148,110**	**141,315**	**140,317**	**142,795**	**148,359**	**156,044**	
% change	***4.7***	***5.8***	***4.3***	***-2.4***	***-10.4***	***-4.6***	***-0.7***	***1.8***	***3.9***	***5.2***	***1.0***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Chapter 11
Out-of-home advertising

Charles Stuart, Senior Manager, PwC Southern Africa.

The out-of-home advertising market consists of advertiser spending on out-of-home media in such formats as billboards, street furniture (bus shelters, kiosks, etc.), transit displays (bus sides, on-train print, taxi wraps, etc.), sports arena displays and captive ad networks (in such venues as elevators). Advertising spending is tracked net of agency commissions.

Overview

Out-of-home (OOH) advertising fared relatively well in the recession of 2009, declining by a modest 0.4%, following a much steeper decline of 7.5% in 2008. We expect the market to rebound in 2010 as a result of the FIFA World Cup, growing by 8.8% to R1.5 billion. Strict legislation was introduced to regulate OOH advertising in and around stadiums to protect FIFA's sponsors during the tournament, but overall, the new stadiums and improved infrastructure for the FIFA World Cup have had and will continue to provide opportunities for the installation of advanced OOH media.

We expect growth to slow in 2011, with the increase estimated at 4.7% as the incremental FIFA World Cup advertising leaves the market.

Improved economic conditions in the latter part of the forecast period will lead to better performance in the OOH market, with growth increasing each year culminating in a 9.1% gain in 2014. In addition to the economy, OOH will benefit from the deployment of digital screens that provide more effective displays and also more revenue potential as the same site can accommodate multiple advertisers.

By 2014, out-of-home advertising in South Africa will total an estimated R2.0 billion, a 7.7% compound annual increase from R1.4 billion in 2009.

Out-of-home advertising (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Out-of-home advertising	1,020	1,300	1,475	1,365	1,360	1,480	1,550	1,660	1,810	1,975	
% change	*29.9*	*27.5*	*13.5*	*-7.5*	*-0.4*	*8.8*	*4.7*	*7.1*	*9.0*	*9.1*	*7.7*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

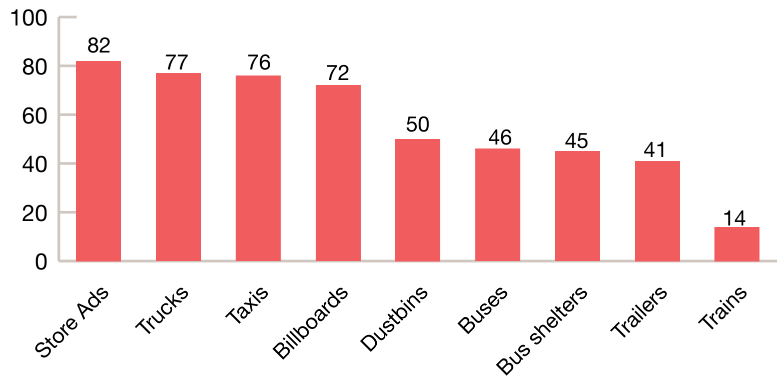
Key developments in the South African out-of-home advertising industry

On an overall basis, out-of-home advertising reaches over 85% of the adult population in South Africa, superseded only by radio and television, which reach about 90% of the population. By contrast, magazines reach less than 50% of the adult population.

Within the out-of-home category, store ads had the greatest exposure in 2009, reaching 82% of the adult population in an average week. Mobile advertising on trucks reached 77% of the adult population, followed closely by taxi advertising with a 76% reach. Taxi advertising consists mainly of taxi wraps, although there is a small presence of adverting media inside taxis as well. Billboards, which represent the vast majority of out-of-home advertising revenues, reached 72% of the adult population in an average week in 2009.

Trailers, buses, bus shelters, trains, and even dustbins have also become widely used out-of-home platforms, reaching a significant proportion of adults each week.

Average weekly reach: 2009 (%)



Source: South African Advertising Research Foundation

While the reach of store ads, billboards, and train ads has remained relatively stable, bus shelters, trailer ads, taxi ads, bus ads, truck ads, dustbins and the other platforms have been attracting larger audiences during the past five years. Consequently, overall exposure to out-of-home advertising has increased.

Unlike the situation in the United States and much of Western Europe, where three major international companies, Clear Channel, JCDecaux, and CBS Outdoor, dominate the OOH market, these companies currently do not have a presence in South Africa. Instead, the OOH market is dominated by smaller companies. Continental Outdoor Media is the new name for the largest OOH company in the country. An investor group led by Helios Investor Partners purchased the company, previously called INM Outdoor, for R 1.1 billion from Independent News and Media (INM) in 2009. INM initially invested in the company in 2001 and took full control in 2008 after acquiring the 50% share held by Clear Channel Communications.

Other major OOH companies in South Africa include Primedia Outdoor and Outdoor Network, which has grown dramatically in recent years through the acquisition of many smaller companies including Nail Outdoor, Frequency Outdoor, and Imbokodo Outdoor.

Improved information and audience measurement techniques have validated the value of OOH advertising, helping it to grow relative to other media. The Telmar Outdoor Planning System (TOPS), developed by a leading worldwide supplier of research software, enables advertisers to compare OOH reach and frequency measures to that of other media. Outdoor Auditors, a new company established in 2009, is in the process of compiling a list of the billboards around the country, detailing the size, media owner, conditions of structure, and restrictions of use for each billboard to enable more precise purchasing decisions.

There were also plans for OOH to be able to offer the same demographic data that is used by advertisers in purchasing television and other media. To this end, the South African Advertising Research Foundation awarded a contract to Nielsen to develop a technique to measure OOH audiences. The Nielsen personal outdoor device (Npod) tracks the location of wearers using GPS technology to determine exposure to displays and matches that exposure to the demographic information of the wearers, including age, gender, income and education. This initiative has provided some initial data, but has failed to materialise as envisaged.

OOH advertising has an advantage over other media in that it is almost impossible to avoid seeing an ad when passing a billboard or bus shelter. By contrast, a consumer watching television can avoid commercials by switching channels, walking out of the room, or with the increased use of digital recorders, simply fast-forwarding through them. Similarly, when reading a newspaper or magazine, a consumer can turn the page without looking at the ad.

OOH advertising enables many unique types of eye-catching displays. Provantage Media branded 34 consecutive concrete pillars on the undercarriage of the M1 motorway in Johannesburg, converting them into a huge billboard for Spectramed. Outdoor Network has developed unique three-sided billboards that rotate. Bus shelters are an ideal alternative in affluent residential areas where billboards are prohibited.

Moving Ads used its fleet of trucks to act as moving billboards to launch the winter promotion for DStv, the MultiChoice digital satellite service, by advertising their new decoder prices.

A relatively new method of OOH advertising is the wrapping of a building. In April 2010, Posterscope wrapped the Chris Hani Baragwanath Hospital in Soweto, Gauteng, with a 10-storey multicoloured billboard covering three sides of the building to advertise the launch of TopTV. Wideopen Platform, a subsidiary of Primedia Outdoor, wrapped one of the largest buildings in Johannesburg with a three-dimensional image of vapour emerging from a hot cup to promote Med-Lemon, a cold fighting medicine. Similarly, Wideopen Platform wrapped buildings in Johannesburg and Cape Town to promote Glacial Vitamin Water.

Public transportation provides an opportunity to reach consumers on the move. SP Media uses the 450 Metrobuses of Johannesburg's Metropolitan Bus Service as mobile billboards, while Graffiti has introduced animated taxi-top advertising in Johannesburg, Pretoria, Cape Town and Durban.

Transit advertising is getting a boost from major improvements in South Africa's transportation systems. In August 2009, Johannesburg was the first city to launch the new bus rapid transit (BRT) system of high-quality public transportation. The initial service included 143 new buses with other routes being added. In June 2010, the Gautrain was launched. A high-speed rail service, it links Johannesburg, Pretoria and the OR Tambo International Airport. The new BRT and Gautrain stations also provide considerable OOH advertising opportunities.

A new development in the OOH industry is the emergence of digital billboards, which can be updated instantaneously from a central location in contrast to traditional billboards, which are installed by hand and require long lead times.

Digital billboards open the market to time-sensitive promotions like store sales and movie premieres. They also attract greater attention for longer periods of time than traditional static signs and therefore command premium pricing. Additionally, digital billboards display sequential ads that can change every 8-10 seconds, thereby increasing the number of advertisers that can be accommodated on a site and generating 5-6 times the revenue of a poster that displays a single ad. Advertisers can buy specific time periods with the potential to provide different advertising in the morning and evening.

Digital billboards open the market to new advertisers that can now buy small time periods as opposed to taking a full billboard. Digital billboards can thus add to the inventory and increase revenues, while maintenance costs are much reduced. Digital billboards are just starting to emerge in South Africa, but they provide the potential to spur growth in the industry. Media Intelligence, with its major installation at Cape Town's V&A Waterfront, is one of the leading companies involved in digital signage. Primedia Outdoor is also a major player, having installed a number of digital billboards in Gauteng.

Digital OOH has become more prominent over the past decade because it can connect with a large number of people. Two of the best examples of digital OOH are the sophisticated Coca-Cola billboard installed at Piccadilly Circus in London, which responds to weather changes and pedestrian activity, and a billboard in Times Square, New York, which encourages interaction with pedestrians by displaying drawings sent from their iPhones.

Les Holley, an executive director of Out of Home Media South Africa (OHMSA), says that regulators are applying stricter OOH regulations and this is negatively impacting on progress in the industry. Regulations currently prevent OOH from using moving or interactive images in South Africa, citing driver distraction as the justification

Source: Digital Platforms in South Africa – 5 August 2010 [OHMSA].

In the United States, the Foundation of Outdoor Advertising commissioned a number of studies to analyse whether digital billboards were more likely to cause traffic accidents than standard billboards. All three studies – two in Cleveland, Ohio and one in Rochester, Minnesota – found no link between digital billboards and traffic accidents. The foundation hopes these results will reassure local governments in the USA that digital billboards do not pose a safety hazard.

Digital networks are connected to a central server, which distributes the content and advertisements to all of the displays. Digital networks encompassing similar venues in many locations provide an opportunity for advertisers to reach a specific demographic at various locations at the same time.

There are many digital networks that are being installed in grocery stores, doctors' surgeries, elevators, gyms and other captive locations and providing information in addition to advertising. Moving Tactics, a retail media specialist, installed a network of 42-inch plasma screens in Ultra Liquor Group's 30 stores. Moving Tactics also installed digital networks in 88 Picardi Rebel Liquor stores as well as in over 100 stores in the Midas Automotive chain. Digital Media, another major player in the market, has installed digital networks for Spar's Tops and Makro liquor store chains among others.

Airports are a prime location to reach affluent consumers. This has been especially true in 2010 with the arrival of many tourists for the FIFA World Cup. The OR Tambo International Airport near Johannesburg is home to the largest network of 103-inch plasma screens in the world. The 42 screens located in the baggage and security areas provide traveler information in addition to the ads. The system was installed by Indiza Media, a subsidiary of Primedia Outdoor. Indiza Media has also installed a number of Litefast Magic displays throughout the airport. These 360-degree see-through displays feature a number of rotating screens. "Given passenger dwell time, especially in the security check-in area, airport environments are ideal marketing platforms for large-format digital and synchronised advertising," explains Mr Mzi Deliwe, Managing Director of Indiza Media

Source: Primedia Outdoor Press Office – January 2010

Other innovative and fast-growing OOH media include branded shopping carts, washroom and fitting room media, projection advertising, mobile shopping mall displays, escalator advertising, digital directories and combined electronic procurement and advertising platforms. Annual spend on these newer forms of OOH advertising is estimated to be in excess of R500 million, but since the spend on these newer forms is not yet publicly available, it is not included in the numbers forecast here.

Digital OOH is an exciting new technology and we expect to see a growing digital presence in the short to medium term. Outdoor has become an integral part of "bundled" advertising campaigns, as brand marketers combine different outdoor formats for maximum impact on their audiences.

Global trends in the out-of-home advertising industry

Outlook

- Globally, the out-of-home advertising market will grow by 4.5% on a compound annual basis from $24.1 billion in 2009 to $29.9 billion in 2014.
- This means that the expansion in out-of-home advertising will outpace the growth in advertising spend as a whole during the forecast period. As a result, out-of-home will gain a larger share of overall global advertising.
- Its growth will be driven by rising penetration of digital billboards that can show multiple ads on the same display and improved out-of-home audience measurement.

Key drivers

- Out-of-home advertising will gain a larger share of overall advertising spending in North America, Latin America and much of the Asia-Pacific region during the next five years, benefiting from increased use of digital billboards that expand the effective out-of-home inventory as multiple ads can be shown on the same display, and improved out-of-home audience measurement.
- Improved audience measurement systems make it easier for advertisers to compare out-of-home with other media, in the process encouraging advertisers to incorporate out-of-home in their overall advertising campaigns, increasing their spending on the medium.
- The expansion of captive video networks will also fuel growth as out-of-home can reach people in areas inaccessible to most other media. Out-of-home also goes hand-in-hand with increased mobile ad spending as advertisers seek media to reach people away from home and when they are shopping.
- Although these developments also apply to the EMEA region, growth in will be limited because the out-of-home market in a number of EMEA countries is saturated. There is virtually no room for additional billboards in some countries and the large supply of inventory is holding down prices.
- Also, in several of the larger EMEA countries – particularly France, Germany, Italy and Spain – the shift to digital is proceeding slowly.
- In the Asia-Pacific region as a whole, the slow rate of growth is principally due to Japan, which also has a saturated market. We project the remaining countries (excluding Japan) to increase at an 11.9% compound annual rate during the next five years.
- In Latin America, a strong economy in Brazil and high inflation in Argentina and Venezuela accounted for the increase in 2009. Out-of-home is beginning to be developed in several Latin American countries as transit ads and street furniture are increasingly being used. The use of new venues will boost out-of-home advertising.

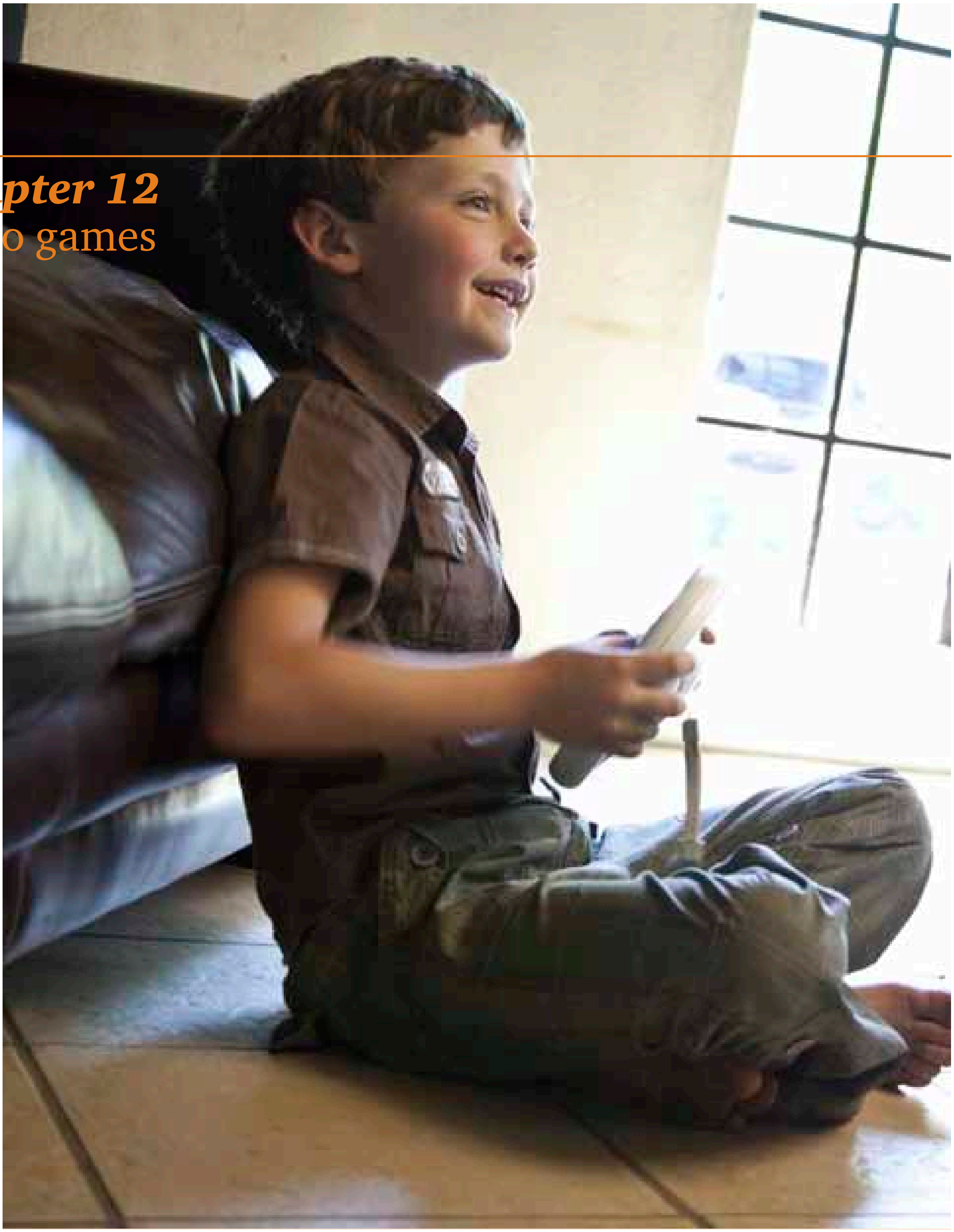
Source: *Global entertainment and media outlook 2010-2014* (PwC, 2010)

Global out-of-home advertising market by region (US$ millions)

Region	2005	2006	2007	2008	2009p	2010	2011	2012	2013	2014	2010-14 CAGR
North America	6,602	7,129	7,694	7,395	6,366	6,121	6,305	6,625	7,022	7,465	
% change	8.2	8.0	7.9	-3.9	-13.9	-3.8	3.0	5.1	6.0	6.3	3.2
EMEA	8,287	9,025	9,709	9,907	8,127	8,161	8,317	8,635	9,005	9,503	
% change	*6.9*	*8.9*	*7.6*	*2.0*	*-18.0*	*0.4*	*1.9*	*3.8*	*4.3*	*5.5*	*3.2*
Asia-Pacific	8,412	8,736	9,354	9,459	8,562	8,695	9,164	9,799	10,546	11,412	
% change	*2.2*	*3.9*	*7.1*	*1.1*	*-9.5*	*1.6*	*5.4*	*6.9*	*7.6*	*8.2*	*5.9*
Latin America	750	868	929	995	1,024	1,109	1,208	1,318	1,439	1,559	
% change	*23.8*	*15.7*	*7.0*	*7.1*	*2.9*	*8.3*	*8.9*	*9.1*	*9.2*	*8.3*	*8.8*
Total	**24,051**	**25,758**	**27,686**	**27,756**	**24,079**	**24,086**	**24,994**	**26,377**	**28,012**	**29,939**	
% change	***6.0***	***7.1***	***7.5***	***0.3***	***-13.2***	***0.0***	***3.8***	***5.5***	***6.2***	***6.9***	***4.5***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Chapter 12
Video games



Craig Napier, Associate Director, PwC Southern Africa.

Zander de Klerk, Senior Accountant, PwC Southern Africa.

The video games market consists of consumer spending on console and handheld games, personal computer (PC) games, online games, mobile games and video game advertising. In the case of console/handheld and PC games, spending consists of the purchase of the game software. Spending on mobile games consists of the cost of downloading games. Spending on online games consists of subscriptions for services that enable users to play games on that platform as well as content that is downloaded to enhance the gaming experience. Spending on hardware and accessories used to play games is not included.

Overview

The video games market in South Africa increased by 13.4% in 2009 to R1.2 billion.

Console/handheld games represent the major category of video game spending reflecting 64% of the market in 2009.

The mobile market is the second-largest category representing 16% of total spending. Growth has been fueled by the introduction of new mobile phones that facilitate the playing of games.

The PC game market was flat in 2009 as consumers shifted to the newer consoles.

The online games market in South Africa is relatively small because of low broadband penetration. Within this market, massively multiplayer online games (MMOGs), which allow thousands of people worldwide to play the same game simultaneously, are popular.

Video game advertising is still a small segment but it is growing at double digit rates.

We expect growth of the console/handheld game market to be moderate over the next few years as the current cycle of consoles matures. There will then be a resurgence in the console/handheld market at the end of the forecast period as we anticipate the introduction of new consoles in response to the growth in mobile gaming.

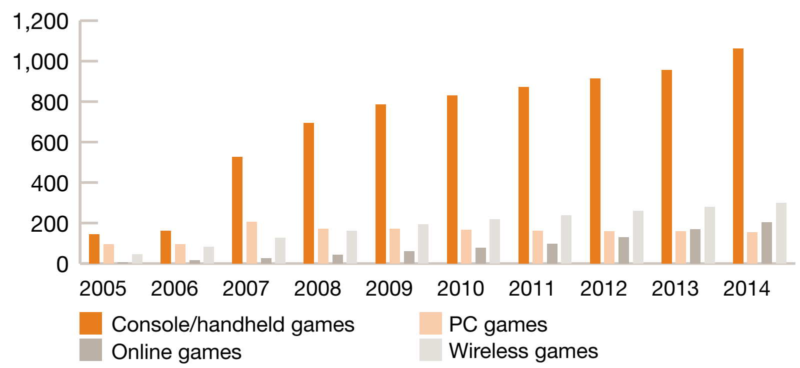
We expect online games to exhibit the strongest growth of the end-user segments during the forecast period as broadband penetration in South Africa improves.

Mobile game spending is anticipated to be the second-strongest consumer category as the number of gamers who use their phones to play increases.

We expect the PC market to continue to decline. However, we anticipate that the market will be supported by the continuing demand of MMOGs, which often also require the retail purchase of a PC game.

Overall end-user spending on video games will rise to a projected R1.7 billion in 2014, a 7.2% compound annual increase from 2009.

End-user spending (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The small advertising market will double during the next five years, fueled by growth in the online games market, where much of the increase in advertising is expected to occur.

The overall video games market will increase to R1.8 billion in 2014, a 7.3% compound annual increase from 2009.

"December sales broke all industry records and underscores the incredible value consumers find in computer and video games even in a down economy,"

– Michael D. Gallagher, president and CEO of the Entertainment Software Association, the trade group which represents US computer and video game publishers.

Source: http://www.npd.com/press/releases/press_100114.html

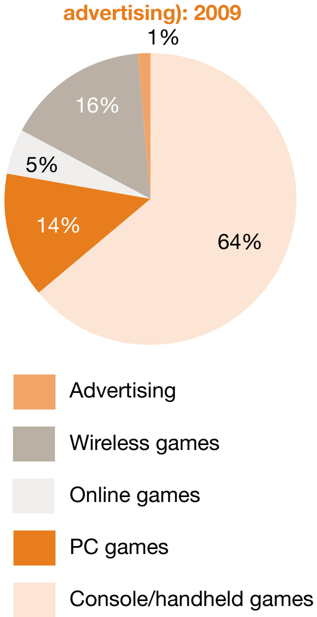
Video game market (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Console/ handheld games	144	162	526	695	787	830	873	915	956	1,061	
% change	*14.3*	*12.5*	*224.7*	*32.1*	*13.2*	*5.5*	*5.2*	*4.8*	*4.5*	*11.0*	*6.2*
PC games	96	96	207	171	171	166	161	158	158	155	
% change	*7.9*	*0.0*	*115.6*	*-17.4*	*0.0*	*-2.9*	*-3.0*	*-1.9*	*0.0*	*-1.9*	*-1.9*
Online games	6	15	25	43	61	78	98	130	168	204	
% change	*200.0*	*150.0*	*66.7*	*72.0*	*41.9*	*27.9*	*25.6*	*32.7*	*29.2*	*21.4*	*27.3*
Mobile games	45	83	126	161	194	218	239	261	280	299	
% change	*80.0*	*84.4*	*51.8*	*27.8*	*20.5*	*12.4*	*9.6*	*9.2*	*7.3*	*6.8*	*9.0*
Total end-user spending	291	356	884	1,070	1,213	1,292	1,371	1,464	1,562	1,719	
% change	*20.2*	*22.3*	*148.3*	*21.0*	*13.4*	*6.5*	*6.1*	*6.8*	*6.7*	*10.1*	*7.2*
Advertising	†	3	10	15	17	20	23	26	29	33	
% Change	*–*	*–*	*233.3*	*50.0*	*13.3*	*17.6*	*15.0*	*13.0*	*11.5*	*13.8*	*14.2*
Total video games	**291**	**359**	**894**	**1,085**	**1,230**	**1,312**	**1,394**	**1,490**	**1,591**	**1,752**	
% change	***20.2***	***23.4***	***149.0***	***21.4***	***13.4***	***6.7***	***6.3***	***6.9***	***6.8***	***10.1***	***7.3***

†Less than R500,000.

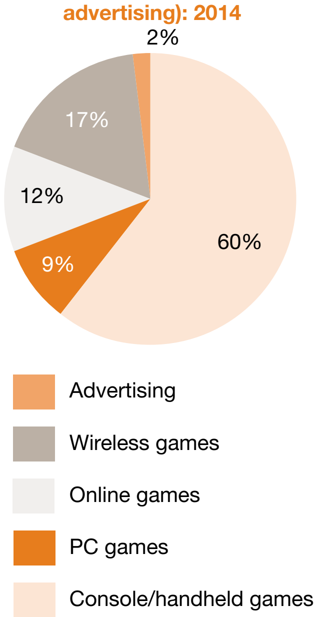
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, GfK Retail and Technology for data for PC Games and Console/Handheld Games for 2006 to 2009.

Video games (spending and advertising): 2009



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Video games (spending and advertising): 2014



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Console/handheld game market

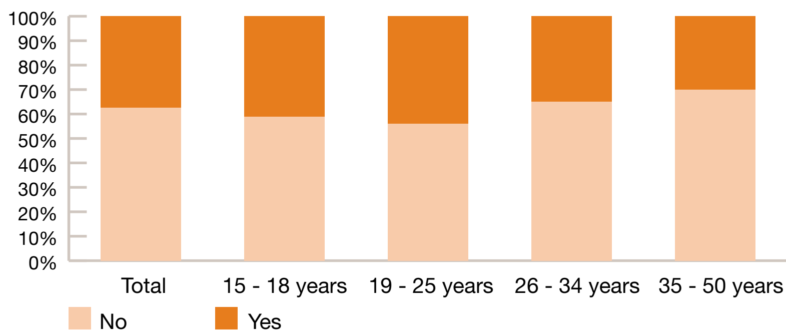
Hardware

The current generation of consoles has been introduced in South Africa over the last four years. Microsoft introduced the Xbox 360 in South Africa at the end of September 2006, almost a year after its worldwide launch. Similarly, the PlayStation 3 (PS3) launched in July 2007, while the Nintendo Wii was the last to enter the market in September 2007, both sometime after their introduction in other countries.

The Xbox 360 experienced difficulties during its initial release due to the high failure rate of consoles, causing Microsoft to extend the warranty period for the console. The Wii is the best performing of the current generation of consoles in South Africa, as it is worldwide. The PlayStation 2 (PS2) continues to sell well in South Africa because of its comparatively lower price.

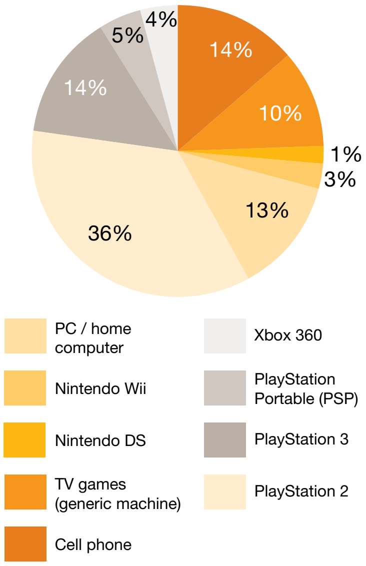
The life cycle of the current generation of consoles is longer than those of the past generations. In the past, a new series of consoles was introduced every four to five years. It seems that the current consoles, which have already been around for the past three to four years, will be around for the next few years with the manufacturers adding capabilities to the machines rather than replacing them.

Game console ownership



Source: GlobalEdge research survey

Consoles on which respondents currently play games



Source: GlobalEdge research survey

In 2010, Microsoft introduced its newest version of the Xbox 360, the Slim, with a 250 GB drive and Wi-Fi capabilities. Microsoft also introduced Kinect (previously called Project Natal), which uses a 3D camera and motion sensing software to let people play games using their own body movements instead of handheld controllers. Sony also introduced its new motion sensitive controller called the Move, which is similar to that of the Wii. Sony also introduced a number of 3D games that are playable on its PS3. In addition to these enhancements, we expect that there will be price reductions of all of the consoles to spur sales.

The market for portable gaming devices continues to show strength. The Nintendo DS, which has dual screens to provide different views of the games, has expanded the universe of gamers to include more women and older players because of its simplicity.

After launching in Japan in November 2009, Nintendo introduced the DSi XL in South Africa in April 2010. The DSi XL has two 4.2 inch screens, almost double the size of the original versions and a better viewing angle making it easier to share content with friends. In 2010, Nintendo announced its newest version, the 3DS, which enables 3D gaming without the need for special glasses. The 3DS also includes two cameras on the outside, making it possible for the user to capture 3D pictures that can be input into the games. Nintendo has not yet announced a formal release date for the 3DS in South Africa.

The other major device in the portable game market is Sony's PSP (PlayStation Portable), a handheld device with a 4.3-inch LCD screen that plays music and movies on a proprietary disc called the Universal Media Disc (UMD), which holds 1.8 GB of data. In October 2009, Sony introduced its newest model, the PSP Go. The new device has a smaller screen than the previous model, 3.8 inches, and is being marketed to people who do not have a handheld device. Sales of the PSP Go have been disappointing, both in the South Africa and around the world.

The average selling price of consoles sold during 2009 was R2 365 based on sales of approximately 246 000 units across all console types. This is compared with similar volumes of console units during 2008, when the average selling price was R2 438.

Software

A total of 2.3 million console/handheld games was sold in 2009, a 13.4% increase from 2008.

We expect the growth rate to moderate somewhat over the next four years as this generation of consoles continues to age. We expect the growth rate to pick up in 2014 as we anticipate the initial introduction of the next generation of consoles. By 2014, an estimated 2.9 million games will be sold, up 4.7% compounded annually from 2009.

New games generally sell for a higher price compared with games that have been on the market for a number of years and which are often discounted. We expect a modest increase in the price of games through 2014 to reach an average of R367, a 1.4% compound annual growth.

We expect spending to rise by 5.5% in 2010 and then to slow somewhat to 4.5% in 2013. We then expect a pickup to 11.0% in 2014 associated with the demand for games for the new consoles. For the forecast period as a whole, spending will increase from R787 million in 2009 to R1.1 billion in 2014, a 6.2% compound annual increase.

Console/handheld game market											
South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Unit sales (millions)	0.4	0.5	1.7	2.0	2.3	2.4	2.5	2.6	2.7	2.9	
% change	*20.0*	*16.7*	*258.3*	*17.4*	*13.4*	*4.3*	*4.2*	*4.0*	*3.8*	*7.4*	*4.7*
Average price (R)	350	338	306	344	344	347	351	353	356	367	
% change	*-4.8*	*-3.6*	*-9.4*	*12.5*	*-0.1*	*1.1*	*1.0*	*0.8*	*0.6*	*3.3*	*1.4*
Aggregate spending (R millions)	144	162	526	695	787	830	873	915	956	1,061	
% change	*14.3*	*12.5*	*224.7*	*32.1*	*13.2*	*5.5*	*5.2*	*4.8*	*4.5*	*11.0*	*6.2*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, 2006–2009 GfK Retail and Technology

Top 10 handheld games sold in 2009

Rank	Title	Publisher	Units	Value (R)
1	Grand Theft Auto Vice City	Take 2	8 856	1 777 153
2	Brain Training	Nintendo	7 142	3 015 322
3	Need For Speed: Undercover	Electronic Arts	6 227	2 229 964
4	Ben 10: Alien Force	Monkey Bar Games / D3 Publisher	5 556	1 772 349
5	Grand Theft Auto Liberty City	Take 2	5 481	1 166 339
6	New Super Mario Bros	Nintendo	5 335	2 629 398
7	Burnout Legends	Electronic Arts	5 310	840 648
8	FIFA 2009	Electronic Arts	4 672	1 661 128
9	FIFA 2010	Electronic Arts	4 552	1 848 548
10	God of War: Chains of Olympus	Sony	4 491	1 013 610

Source: GfK Retail and Technology

Top 10 PS3 games sold in 2009

Rank	Title	Publisher	Units	Value (R)
1	FIFA 2010	Electronic Arts	13 852	9 290 137
2	Need for Speed: Shift	Electronic Arts	7 892	5 061 592
3	FIFA 2009	Electronic Arts	7 218	4 207 005
4	Motorstorm	Sony	6 837	3 298 139
5	Call of Duty 4–Modern Warfare 2	Activision Blizzard	6 717	4 737 774
6	Grand Theft Auto 4	Take 2	6 379	2 928 464
7	Need for Speed: Undercover	Electronic Arts	5 783	3 007 504
8	Assassin's Creed 2	Ubisoft	5 040	3 223 720
9	Far Cry 2	Ubisoft	4 409	2 094 674
10	Gran Turismo 5 Prologue	Sony	4 261	1 733 083

Source: GfK Retail and Technology

Top 10 Xbox 360 games sold in 2009

Rank	Title	Publisher	Units	Value (R)
1	FIFA 2010	Electronic Arts	6 870	4 415 332
2	Gears of War 2	Microsoft	6 207	3 047 900
3	Call of Duty 4–Modern Warfare 2	Activision Blizzard	5 442	3 637 788
4	Kung Fu Panda	Activision Blizzard	5 395	1 612 411
5	Indiana Jones: The Original Adventures	Activision Blizzard	5 212	1 548 828
6	Grand Theft Auto 4	Take 2	4 595	1 873 446
7	FIFA 2009	Electronic Arts	4 504	2 540 365
8	Need For Speed: Undercover	Electronic Arts	4 387	2 055 652
9	Forza Motorsport 3	Microsoft	4 352	2 999 584
10	Far Cry 2	Ubisoft	3 969	1 872 370

Source: GfK Retail and Technology

Top 10 Wii games sold in 2009

Rank	Title	Publisher	Units	Value (R)
1	Wii Sports Resort	Nintendo	54 261	9 644 777
2	Wii Fit	Nintendo	20 642	26 157 604
3	Wii Sports Resort + Motion Plus	Nintendo	19 173	13 180 631
4	Mario Kart + Wheel	Nintendo	9 372	5 672 261
5	Wii Play	Nintendo	6 974	4 917 625
6	EA Sports Active	Electronic Arts	4 828	2 633 096
7	Need For Speed: Undercover	Electronic Arts	3 986	1 748 739
8	EA Sports Grand Slam Tennis	Electronic Arts	3 708	1 853 547
9	Rapala Fishing Frenzy + Fishing Rod	Activision Blizzard	3 586	1 590 633
10	Super Mario Galaxy	Nintendo	3 575	1 856 354

Source: GfK Retail and Technology

PC games

Revenues for PC games reflect only the retail sales of PC games and do not include digital distribution of the games or subscriptions to play them online, both of which are included in the online game category. Revenues for PC games were flat in 2009 at R171 million, but down from a peak of R207 million in 2007. The PC game market has been declining in recent years as consumers and game developers have been more focused on games for the newest consoles. Additionally, the digital downloading of games through online services like Valve's Steam is having a negative effect on the retail sales of PC games.

On the other hand, the continuing growth of MMOGs is benefiting the PC market as most games require the initial purchase of a packaged game before they can be played online. The PC is the preferred platform for MMOGs because the games have complex commands that are easier to accomplish with a keyboard and mouse than with a game console.

Although the base of PC game players is diminishing, it will not disappear entirely as there are distinct groups of players that are loyal to the PC. At one end of the spectrum are those who want to play games, but do not want to spend the money on consoles and are perfectly happy playing PC games. At the opposite end of the spectrum are hard-core gamers who prefer the advantages that the most advanced PCs provide. These advanced PCs can outperform all of the current generation of consoles. Additionally, PCs can be upgraded constantly as opposed to consoles, whose technology is relatively stable until a new generation is introduced every few years.

PC game market											
South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Unit sales (millions)	0.73	0.77	1.59	1.27	1.26	1.20	1.15	1.10	1.09	1.06	
% change	*10.6*	*5.5*	*106.5*	*-20.1*	*-0.8*	*-4.8*	*-4.2*	*-4.3*	*-0.9*	*-2.8*	*-3.4*
Average price (R)	132	125	130	135	136	138	140	144	145	146	
% change	*-2.2*	*-5.3*	*4.0*	*3.8*	*0.7*	*1.5*	*1.4*	*2.9*	*0.7*	*0.7*	*1.4*
Aggregate spending (R millions)	96	96	207	171	171	166	161	158	158	155	
% change	*7.9*	*0.0*	*115.6*	*-17.4*	*0.0*	*-2.9*	*-3.0*	*-1.9*	*0.0*	*-1.9*	*-1.9*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Three popular franchises, *The Sims*, *Call of Duty: Modern Warfare* and *World of Warcraft*, each with multiple titles, are among the most popular games and are helping to support the PC game market.

Some new PC titles that are expected to sell well in 2010 include *Starcraft II: Wings of Liberty*, an exclusive PC title that will be the first non-*World of Warcraft* game introduced by Blizzard since 2001, *BioShock 2* and *Crysis 2*.

The PC game market is being adversely affected by the continuing migration of the majority of gamers to the console platform. This is being offset somewhat by growing broadband penetration, which will expand the online game market, which in turn will benefit PC games because online games often require the retail purchase of a PC game.

Unit sales decreased by 0.8% in 2009 to 1.26 million. We expect declines during the next five years as the shift to console games continues. We project a compound annual decrease of 3.4% through 2014 to 1.06 million units.

The average price of a PC game in 2009 was R136, almost half the price of a console/handheld game. The average PC game price decreased modestly in 2009 and is expected to increase modestly through the forecast period, growing by a 1.4% compound annual rate through 2014 to reach R146.

We project spending to fall to an estimated R155 million in 2014, a 1.9% compound annual decrease from 2009.

Top 10 PC games sold in 2009

Rank	Title	Publisher	Units	Value (R)
1	The Sims 3	Electronic Arts	38 806	13 128 806
2	FIFA 2007	Electronic Arts	15 129	1 462 136
3	Need for Speed: Underground 2	Electronic Arts	13 186	738 727
4	CSI 3: Dimensions of Murder	Ubisoft	13 094	848 166
5	Grand Theft Auto: San Andreas	Take 2	11 039	1 105 163
6	World of Warcraft–Pre Paid Card Games	Activision Blizzard	10 646	2 985 393
7	Command & Conquer–Tiberium Wars	Electronic Arts	10 066	682 433
8	Age of Empires: Collector's Edition	Ubisoft	10 031	991 446
9	Need for Speed: Most Wanted	Electronic Arts	9 858	975 217
10	Tiger Woods PGA Tour 2007	Electronic Arts	9 392	673 482

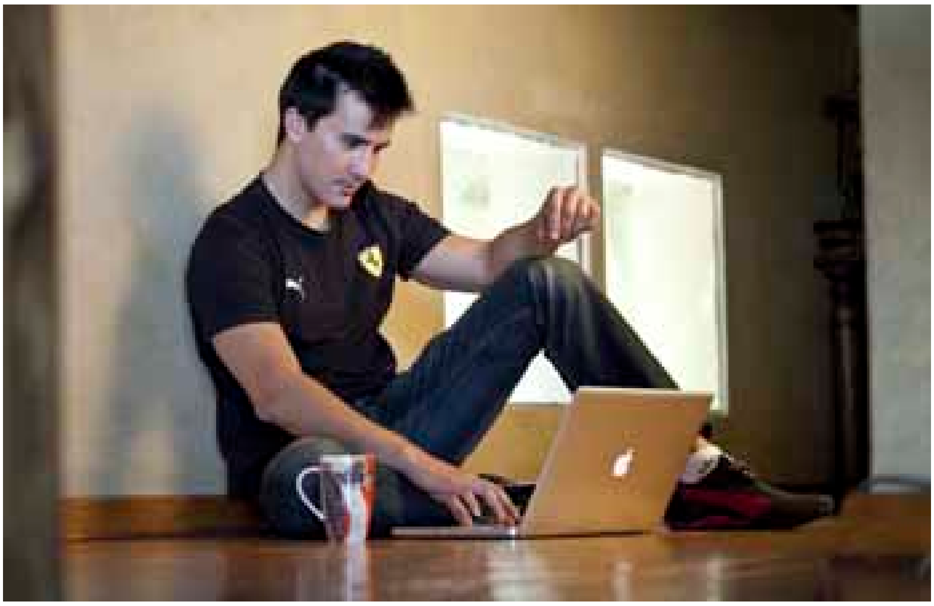
Source: GfK Retail and Technology

Online games

The online game platform enables players to download games and game content and to compete against others via the Internet. The PC platform was traditionally the only means to play games online and is still the dominant platform. Consoles are now becoming important platforms because each of the current generation of consoles supports an online environment. Each of the major console manufacturers (Sony, Microsoft and Nintendo) has introduced online marketplaces (PlayStation Store, Xbox Live and the Nintendo Wii Shop) enabling gamers to purchase games and other content as well as facilitating competition against other players anywhere in the world via the Internet.

Unlike the Xbox Live platform, which charges an annual fee to play games online, the PlayStation Network has enabled gamers to view content and play games online at no charge. In June 2010, Sony announced the introduction of a premium subscription service for the PlayStation Network called PlayStation Plus which launched on 29 June 2010. Gamers that pay R489 annually gain 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 will continue to add new content and services.

Although the Xbox 360 was released in South Africa in September 2006, the country has not been on the list of supported regions for the Xbox Live platform. Therefore, even though many residents paid the annual fee for the service, they did not receive all of the benefits such as free downloadable content for some games that players in supported regions received. The problem has been resolved as Microsoft announced that South Africa would be among the regions that will be supported by the end of 2010.



Recent PC market controversy has arisen around the potential monetary value associated with multiplayer online gaming. When compared to the relatively finite experiences focused on single-player games, a multiplayer game can literally be played for hundreds of hours. We expect that this untapped value will be a target for gaming companies, which could result in some interesting changes to revenue models during the forecast period.

The online game market is composed of several segments. The casual segment is comprised of gamers who go to a Web site to play simple board or strategy games, often at no charge, with advertising providing the requisite revenues. There are a number of online sites such as Yahoo Games and MSN's Zone that provide a variety of games and attract millions of users daily. These casual games attract a wider demographic audience with more women and older adults than traditional gamers, who are usually younger males.

24.com, a major South African online browser game provider, expanded its portfolio of free online games in 2010. In addition to traditional games, 24.com also offers educational games such as *Plan it Green*, which illustrates how much fun going green can be. Additionally, 24.com's portfolio of free games includes cooking games that teach recipes to cooks of all ages.

The segment that gets the most publicity is the massively multiplayer online games (MMOGs) that are played by thousands of individuals simultaneously. Most MMOGs require an initial retail purchase of the game followed by a monthly subscription fee to play the game online. Players also often purchase additional online equipment and accessories to enhance their gaming experience. These games 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. *World of Warcraft (WoW)*, a popular MMOG in South Africa, is the most popular MMOG in the world with 11.5 million subscribers. *World of Warcraft: Cataclysm*, the third expansion pack in the series, is currently in beta testing and is expected to be launched later this year. A number of new MMOGs, including Star *Wars; The Old Republic* and *DC Universe Online*, are being developed and are expected to be launched in 2011 to compete with *WoW*.

SkillPod Media, a leading South African provider of online games, is developing a MMOG platform with its first game, *Fantasy Tribe*, providing a 3D environment. Revenue streams will include both subscriptions and microtransactions that will provide extra features like special weapons. The game will also have an integrated social networking aspect enabling players to connect with friends.

Digital distribution of games and content is emerging as an important segment of the market. Digital distribution is hurting the retail market for PC games as sales are shifting online and away from retail stores. In addition to full games, players can also download additional game content, such as purchasing different weapons, to enhance their playing experience. In many Asian countries, games are given away free, with revenues generated through these microtransactions in order to eliminate piracy losses. In other countries, where the games are initially purchased, these microtransactions provide an additional source of revenue to the operators.

Online gaming has been a focus of the current generation of consoles. Many games have leader boards where gamers can compare their scores to those of other players around the world. The current consoles offer environments in which players can communicate with each other to discuss gaming strategy and download older games that are not available in retail stores as well as additional content for current games.

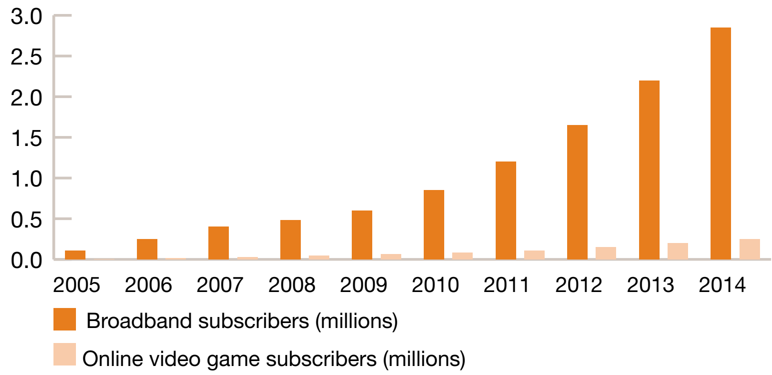
A key driver of online gaming will be growth in the broadband universe because most games require a broadband connection to be played effectively. The broadband universe in South Africa grew by 50% over the last two years, but penetration remains low at only 600,000 households. Over the same period, the number of online video game subscribers almost tripled to 65,000 from 25,000 in 2007. Spending in 2009 rose by 42% to R61 million.

We expect the number of broadband subscribers to increase almost five-fold during the next five years to 2.9 million by 2014, a 36.6% compound annual increase from 2009.

We expect the penetration of online players to decrease from 10.8% in 2009 to 8.8% in 2014 due to the huge increase in broadband households. Despite the decrease in penetration levels, we expect the number of online players to quadruple from 65,000 in 2009 to 250,000 in 2014, representing a 30.9% compound annual growth rate.

Aggregate spending on online games will increase from R61 million in 2009 to an estimated R204 million in 2014, a 27.3% compound annual increase.

Broadband penetration vs online gaming subscribers



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Online game market

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Broadband subscribers (millions)	0.11	0.25	0.40	0.48	0.60	0.85	1.20	1.65	2.20	2.85	
% change	*175.0*	*127.3*	*60.0*	*20.0*	*25.0*	*41.7*	*41.2*	*37.5*	*33.3*	*29.5*	*36.6*
Online video game subscribers (millions)	0.006	0.015	0.025	0.045	0.065	0.085	0.110	0.150	0.200	0.250	
% change	*200.0*	*150.0*	*66.7*	*80.0*	*44.4*	*30.8*	*29.4*	*36.4*	*33.3*	*25.0*	*30.9*
Online video game penetration of broadband households (%)	5.5	6.0	6.3	9.4	10.8	10.0	9.2	9.1	9.1	8.8	
Average monthly spending (R)	86	84	82	80	78	76	74	72	70	68	
% change	*-2.3*	*-2.3*	*-2.4*	*-2.4*	*-2.5*	*-2.6*	*-2.6*	*-2.7*	*-2.8*	*-2.9*	*-2.7*
Annual spending (R millions)	6	15	25	43	61	78	98	130	168	204	
% change	*200.0*	*150.0*	*66.7*	*72.0*	*41.9*	*27.9*	*25.6*	*32.7*	*29.2*	*21.4*	*27.3*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

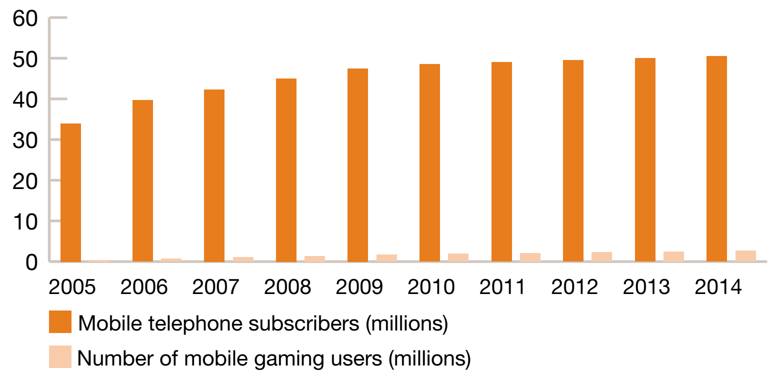
Mobile games

Mobile games are games played on mobile phones or other wireless devices. Consumers got their first exposure to mobile games such as *Tetris* when they came embedded with their mobile phones. These served as an incentive to purchase one phone over another. However, operators did not receive any incremental revenues from these embedded games. It was the introduction of Internet-enabled phones that opened up the market as consumers could now download additional games to their phones. The increasing sophistication of the new handsets will make for a more enjoyable gaming experience. As consumers upgrade their phones for newer models, the number of handsets capable of downloading games will increase dramatically.

Most mobile games are very simple because the graphic capabilities of many handsets are limited. As a result, single-player board games, puzzles and word games are the most popular mobile games. These casual games widen the demographic reach of the mobile market with relatively more women playing mobile games compared with console games. 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 and advanced 3D games being developed for gamers on the go.

Initially, games were downloaded from the carrier's Web sites either directly to the phone or to a PC and then side loaded to the phone. In many instances, the carriers' decks were not user friendly, providing little information about the games. As a result, the number of people downloading games was relatively small. A number of third-party Web sites such as Jamba and Jamster have been established to facilitate the downloading of games. They provide games from a variety of publishers and provide a more user-friendly environment. These Web sites also give game developers who cannot get onto carriers' decks an opportunity to sell their games to consumers. We would expect the number of games downloaded to increase as consumers find these Web sites increasingly more user friendly.

Mobile subscribers vs mobile gaming users



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The introduction of smartphones, including the iPhone and Blackberry phones, has invigorated the market. There are thousands of games on the various App stores that can be downloaded to these handsets. The various App stores make the downloading of games far more user friendly than downloading from the carriers decks. The App stores also make it easier for application developers to reach the mass market. In late 2009, Apple relaxed some of the restrictions that previously prohibited microtransactions. Under the new rules, developers can sell virtual goods. That change will allow free social games that rely on microtransactions for revenues to be distributed on the iPhone and the iPod Touch. The introduction of Apple's iPad, a new tablet computer that runs all of the iPhone apps, will spur market growth due to its enhanced graphic capabilities and large touch screen. The iPad is expected to become the platform of choice for many gamers.

In June 2010, SkillPod Media and Ingrat, a wireless application service provider, launched their joint mobile games portal called Play4Games.co.za, which supports most popular smartphones. The new portal combines Ingrat's mobile payments platform with SkillPod Media's mobile games platform.

Gamers are moving from the console and PC to mobile devices for a number of reasons: the games are cheaper, the higher penetration of smartphones and the growing penetration of the Opera Mini Web browser. The Opera Mini, which was approved for the iPhone in April 2010, enables fast mobile Web browsing by compressing data significantly before sending the content to the device, thereby speeding up the downloading time of games.

Many features that were previously available only on high-end phones are now being offered on mid-level phones. Some of these features include GPS, gyroscopes, high-quality graphics and improved processing power, which enable improved gaming experiences. Additionally, new features, such as touch screens, online interactivity, and 3D capabilities enable game manufacturers to develop more innovative games, which also enhance the gaming experience.

24.com added a mobile game platform in 2010 to take advantage of the growing demand for mobile games.

For many people in South Africa, the cost of a game console or a PC makes them prohibitive, while almost everyone has a mobile phone. People are eager to experiment with mobile games as their phones are the first devices that they own that enable them to access entertainment in an electronic form. Although the number of people playing games on their handsets is increasing, most of them are still playing the free games embedded on the phones.

South Africa has a highly developed mobile market that has seen rapid uptake since competition was introduced to the sector more than 10 years ago. 3G/HSDPA mobile data services now rival available DSL fixed-line offerings in terms of both speed and price and consumers currently have more ready access to the World Wide Web from their mobile phones than from PCs.

The decline in handset prices and data access fees is also helping to drive the market for mobile gaming.

In contrast to broadband, wireless penetration in South Africa has reached saturation point with penetration being in the region of 100% in 2009. As a result, the number of subscriptions is expected to grow at a modest 1.2% on a compound annual basis through 2014 to 50.5 million from 47.5 million in 2009.

Growth of the mobile game market will thus depend more on increased penetration. In 2009, an estimated 3.5% of mobile telephone subscribers downloaded mobile games. We project that share to increase to 5.4% by 2014. We expect the number of people who download games to increase from 1.7 million in 2009 to 2.7 million in 2014, a 9.7% compound annual growth rate.

The average number of downloads per user has declined during the past four years, as is typical with new technologies. Users initially download a large number of games as the service is a novelty. Over time, the novelty effect wears off and users download at a lower sustained rate. Additionally, the early adopters are more likely to download games as they are more innovative, while the individuals who become subscribers later on are more mainstream and thus likely to download fewer games. In 2009, the average user downloaded 3.2 games compared with 3.6 in 2005. We expect this figure to continue to trend down as penetration increases and new users represent a declining proportion of the overall user base. By 2014, the average mobile game user will download 2.7 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.

The growth of 3G networks with their added speed will enable more sophisticated games, which cost more to develop and thus will cost more to buy. As a result, we expect the average price to rise from R36 in 2009 to R41 in 2014, growing at a 2.6% compound annual rate. Spending on mobile games will increase to R299 million by 2014, growing by 9.0% compounded annually.

Mobile game market

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Mobile telephone subscribers (millions)	33.96	39.66	42.30	45.00	47.50	48.50	49.00	49.50	50.00	50.50	
% change	*63.0*	*16.8*	*6.7*	*6.4*	*5.6*	*2.1*	*1.0*	*1.0*	*1.0*	*1.0*	*1.2*
Percent using mobile games (%)	1.3	1.7	2.5	3.0	3.5	4.0	4.3	4.7	5.0	5.4	
Number of users (millions)	0.4	0.7	1.1	1.4	1.7	1.9	2.1	2.3	2.5	2.7	
% change	*100.0*	*75.0*	*57.1*	*27.3*	*21.4*	*11.8*	*10.5*	*9.5*	*8.7*	*8.0*	*9.7*
Annual downloads per user	3.60	3.50	3.40	3.30	3.20	3.10	3.00	2.90	2.80	2.70	
% change	*-4.0*	*-2.8*	*-2.9*	*-2.9*	*-3.0*	*-3.1*	*-3.2*	*-3.3*	*-3.4*	*-3.6*	*-3.3*
Aggregate number of downloads	1.4	2.5	3.7	4.6	5.4	5.9	6.3	6.7	7.0	7.3	
% change	*75.0*	*78.6*	*48.0*	*24.3*	*17.4*	*9.3*	*6.8*	*6.3*	*4.5*	*4.3*	*6.2*
Average price (R)	32	33	34	35	36	37	38	39	40	41	
% change	*3.2*	*3.1*	*3.0*	*2.9*	*2.9*	*2.8*	*2.7*	*2.6*	*2.6*	*2.5*	*2.6*
Aggregate annual spending (R millions)	45	83	126	161	194	218	239	261	280	299	
% change	*80.0*	*84.4*	*51.8*	*27.8*	*20.5*	*12.4*	*9.6*	*9.2*	*7.3*	*6.8*	*9.0*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Advertising

Advertisers have entered the video game market as a means of reaching demographic groups, such as males aged 18-34, who are becoming more elusive as they watch less television than in the past and spend relatively more time playing games.

Initially, video game advertising consisted of static ads that were hard-coded into the games when they were developed. These often consisted of billboards in the background of sporting events or banners in auto racing games. These gave the games a more realistic feel as one could not imagine a football field without billboards. Static advertising is good for brand awareness as it has a long life span, as long as the game is played. However, these ads have some disadvantages – they have to be planned months in advance and once inserted cannot be changed. Another disadvantage is that there is no measure of how often an ad is seen.

Advertising is only appropriate in sports games and other games set in contemporary times, but they would not be placed in games set in medieval or fantasy worlds. In these cases, advertisers can reward players with extra levels of play or with additional content by viewing an ad before the games begin.

Dynamic in-game advertising represents a major step forward in that advertisers can change their messages as necessary. This new form of game advertising became possible with the advent of the Internet and online gaming. For example, a billboard advertising a movie could be updated as new films hit the box office, thereby providing the games with a current feel. Additionally, advertising can be geographically targeted with online players in South Africa seeing one ad while those players they are competing against in the UK might see another. More specifically, players in the north of South Africa could see an ad for a different product than that seen by players in the southern part of the country. The ads can also be varied by time of day and can also be geared to specific demographic groups who identify themselves when they register. Since online games are attached to the Internet, it is possible to track the number of times a gamer is exposed to the ads and the amount of time that ads appear on the screen.

A number of companies including Massive, IGA International and Double Fusion, have all developed the technology to dynamically place ads in video games. Since Massive is owned by Microsoft, it is the only company that can place ads in games played on the Xbox 360. It has signed deals with Electronic Arts, THQ and Activision among others to place ads in their games for the Xbox 360 and the PC. By contrast, Sony has opened its platform to different companies to provide advertising for its games. IGA signed exclusive deals with Activision and Electronic Arts to deliver in-game ads for the PS3. Double Fusion signed an exclusive deal for dynamic in-game advertising for *Pro Evolution Soccer (PES) 2010*, a popular game in South Africa. Nintendo still does not permit in-game advertising in any of its games.

Studies have shown that gamers like advertising in their games because it provides a more realistic experience. In fact, gamers generally develop more favorable attitudes towards the products included in games. Advertisers can improve the effectiveness of their ads by increasing the level of interactive involvement with the product. For example, a character may drink a certain brand of soft drink, drive a certain model car, or talk on a specific cell phone. It is important that the ads are an integral part of the game. In cases where the ads interfere with the gaming experience, they could have a negative impact rather than a positive one.

Advergames are games specifically designed to promote a product and are often played for free on the company's Web site. Many different advertisers are experimenting with games to get their message across to South African consumers. Lego, the toy company, has developed a number of popular advergames, including *The Robot Chronicles*, *Lego Technic* and *Agori Defender*. Pepsi introduced *Beach Skills Soccer* and *Pepsi Game 3* to promote its brand of soft drinks.

Currently, display ads, advergames and advertising on Web-based game portals are the major advertising segments. We expect in-game ads and specifically dynamic in-game advertising to gain in importance over time as more games are played online.

Game publishers are actively pursuing advertising as an additional source of revenues. Dynamic in-game advertising also provides a continuing source of revenue compared with the one-time purchase of the game.

Advertising is only a tiny segment of the video game market, comprising only R17 million in 2009. However, we expect advertising revenues to nearly double by 2014, reaching R33 million, a 14.2% compound annual increase.

Consumer insights: Video games

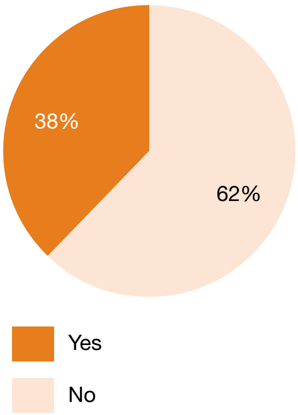
About this research

This publication aims to provide readers with useful information and to bring this to life by including real-life consumer insights. To this end, we commissioned GlobalEdge Marketing Consultants to perform consumer lifestyle research relating to the media and entertainment industry.

This research comprised face-to-face interviews with a sample of consumers that included a mix of the following demographic groups:

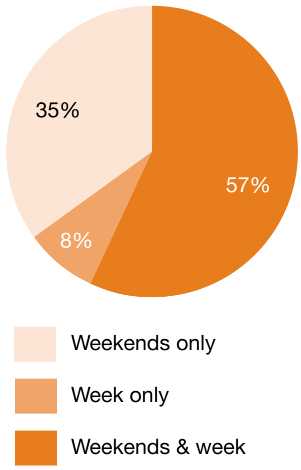
- *Persons between the ages of 15 and 50;*
- *A mix of racial groups;*
- *Males and females;*
- *Residing in Gauteng, the Western Cape and KwaZulu-Natal; and*
- *LSM 5-7 and LSM 8-10.*

Do you own a video games console?



Number of video game consoles they own?	
One	57%
Two	23%
Three	5%
Four	1%
Five	2%
More than 5	12%

When do they play video games?



Console(s) they own?	
PlayStation 2	46%
Cell phone	18%
PlayStation 3	17%
PC / Home computer	16%
TV games (generic machine)	13%
PlayStation Portable (PSP)	6%
Xbox 360	5%
Nintendo Wii	3%
Nintendo DS	2%

Which ONE console do they want to own?	
PlayStation 3	33%
Xbox 360	21%
PlayStation Portable (PSP)	11%
PlayStation 2	11%
Nintendo Wii	7%
Nintendo DS	5%
PC / Home computer	3%
TV games (generic machine)	2%
Cell phone	1%
None I am happy with the one I have	5%

Attitudes towards consoles

	I consider cool	Would never buy	The best quality	My 1st choice in consoles	Cheapest console	Most widely available	My friends have	Better games	Most expensive console	Most value for money	The next console I am buying	Technologically advanced
Cell phone	6%	4%	3%	5%	19%	6%	7%	3%	0%	9%	3%	5%
TV games (generic machine)	1%	39%	1%	5%	60%	5%	6%	2%	0%	5%	1%	3%
Nintendo DS	13%	9%	11%	8%	1%	8%	5%	10%	16%	9%	9%	11%
None	1%	17%	3%	1%	1%	3%	2%	1%	8%	4%	10%	4%
PC / Home computer	5%		2%	5%	1%	6%	5%	4%	4%	3%	2%	3%
PlayStation 2	17%	3%	12%	18%	12%	29%	29%	11%	1%	13%	6%	7%
PlayStation 3	33%	3%	41%	37%	2%	27%	28%	44%	28%	33%	39%	39%
PlayStation Portable (PSP)	8%	11%	7%	5%	1%	4%	6%	3%	8%	8%	9%	3%
Xbox 360	16%	15%	19%	15%	3%	12%	11%	21%	35%	15%	22%	23%

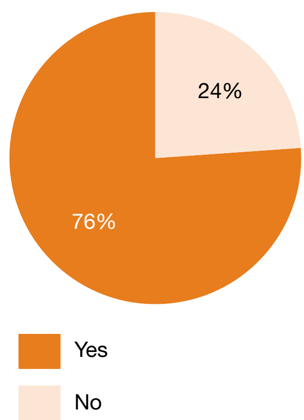
Type of games played?

Racing games / Simulators	51%
Fighting games	42%
Adventure / Quest games	32%
Sports	32%
Puzzle games	21%
Strategy games	15%
Music	7%
First-person shooter games	7%
Platform games	5%
Role-playing games	5%

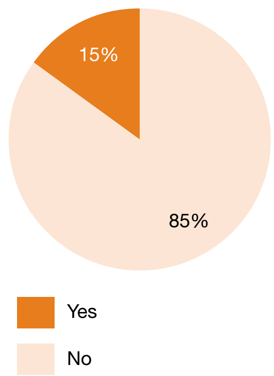
Do they play games with other people?

Yes: Two-player	72%
Yes: Console-to-console	5%
Yes: Online multiplayer	3%
Yes: LAN	2%
No	21%

Should games have age restrictions?



Currently pay for subscription games?



Who they usually play video games with?

Friends	61%
Partner / spouse / boyfriend / girlfriend	28%
My children	18%
Brothers / Sisters	16%
Parents	4%
Other	2%

Attitudes towards games

	Games are cheap	Games are expensive	Games are good value for money	I always buy the latest games	I buy games before DVDs or Blu-ray disks	I copy games regularly	I download games regularly	I know of friends who copy games	I never lend out my games	I only buy original games	I play games again even though I have completed them	I spend most of my money on games	I use my cell phone the most to play games	My friends all play video games	My friends and I share games
Strongly agree	1%	43%	23%	17%	9%	1%	4%	8%	15%	37%	37%	5%	9%	26%	19%
Agree	13%	31%	43%	40%	36%	8%	16%	25%	25%	50%	55%	21%	19%	37%	44%
Neither agree nor disagree	19%	17%	27%	27%	29%	12%	20%	11%	15%	9%	3%	19%	20%	19%	13%
Disagree	31%	8%	4%	12%	17%	43%	36%	31%	34%	3%	4%	36%	31%	11%	14%
Strongly disagree	36%	1%	2%	3%	9%	36%	24%	25%	10%	0%	1%	19%	22%	7%	11%

Most important to them about gaming?

	1st	2nd	3rd	4th	5th
Graphics	45%	19%	15%	14%	11%
Game play	20%	19%	29%	21%	8%
Price	19%	8%	16%	34%	50%
Sound	11%	47%	27%	7%	23%
Level of violence	6%	8%	13%	23%	8%

Global trends in the video games market

Outlook

- The video game market will grow from $52.5 billion in 2009 to $86.8 billion in 2014, growing at a 10.6% compound annual rate. This will make it the second fastest-growing segment of E&M, behind Internet advertising wired and mobile at 11.4%.
- Global console games, the largest category of the video game segment at $28.2 billion in 2009, will expand at a 5.5% compound annual rate to $36.8 billion in 2014.
- PC games will continue to decline, falling at a 1.8% rate compounded annually to $3.5 billion from $3.8 billion in 2009.
- Online and mobile games will be the fastest-growing end-user categories with compound annual increases of 21.3% and 12.3%, respectively. Online games will total $30.6 billion in 2014 and mobile games $13.1 billion.
- There is an emerging video game advertising market that totaled $1.6 billion in 2009, a figure that will increase to $2.8 billion in 2014, growing at a 12.9% compound annual rate.

Key drivers

- The console game market will continue to be driven over the next few years by new games being marketed for the current generation of consoles: the Wii, Xbox 360 and PlayStation 3. The latest handheld devices, the Nintendo DS, the PlayStation PSP and the PSP Go also continue to support the market.
- The online market continues to expand due to the increase in penetration of broadband households and growing digital distribution of content. We expect that by 2014 the next generation of consoles will begin to be introduced, which will spur renewed growth in console games.
- The increasing popularity of massively multiplayer online games (MMOGs) with their subscription fees and microtransactions is also aiding the growth of the market. Casual games are a further important component of the online market, helping to expand the demographic base and stimulate spending.
- The growth of smartphones, with improved graphic capabilities, will drive demand for mobile games. At the same time, new application stores that make the purchasing of games more user friendly will increase the number of gamers willing to purchase games. The growth of 3G networks, with their faster speeds, will provide an environment enabling mobile 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. The growth of MMOGs, which usually require the retail purchase of a PC game, will partially offset the continuing decline of the retail PC game market.
- Video game advertising is emerging as an additional revenue stream. The dynamic in-game advertising segment is increasing in importance and is being fueled by the growth of the online game market.

Global video game market by component (US$ millions)

Component	2005	2006	2007	2008	2009p	2010	2011	2012	2013	2014	2010-14 CAGR
Console games	18,324	19,751	25,344	29,951	28,169	30,000	31,334	32,873	34,674	36,774	
% change	*-2.9*	*7.8*	*28.3*	*18.2*	*-5.9*	*6.5*	*4.4*	*4.9*	*5.5*	*6.1*	*5.5*
Online games	3,887	5,274	7,270	9,608	11,655	14,127	17,068	20,781	25,258	30,593	
% change	*50.7*	*35.7*	*37.8*	*32.2*	*21.3*	*21.2*	*20.8*	*21.8*	*21.5*	*21.1*	*21.3*
Wireless games	2,558	3,603	4,799	6,188	7,313	8,467	9,642	10,957	12,021	13,061	
% change	*68.8*	*40.9*	*33.2*	*28.9*	*18.2*	*15.8*	*13.9*	*13.6*	*9.7*	*8.7*	*12.3*
PC games	4,460	4,580	4,438	4,119	3,816	3,731	3,672	3,608	3,540	3,483	
% change	*-1.8*	*2.7*	*-3.1*	*-7.2*	*-7.4*	*-2.2*	*-1.6*	*-1.7*	*-1.9*	*-1.6*	*-1.8*
Total end-user spending	29,229	33,208	41,851	49,866	50,953	56,325	61,716	68,219	75,493	83,911	
% change	*6.3*	*13.6*	*26.0*	*19.2*	*2.2*	*10.5*	*9.6*	*10.5*	*10.7*	*11.2*	*10.5*
Advertising	173	655	1,021	1,337	1,554	1,843	2,135	2,388	2,598	2,845	
% change	*476.7*	*278.6*	*55.9*	*31.0*	*16.2*	*18.6*	*15.8*	*11.9*	*8.8*	*9.5*	*12.9*
Total video games	**29,402**	**33,863**	**42,872**	**51,203**	**52,507**	**58,168**	**63,851**	**70,607**	**78,091**	**86,756**	
% change	***6.8***	***15.2***	***26.6***	***19.4***	***2.5***	***10.8***	***9.8***	***10.6***	***10.6***	***11.1***	***10.6***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Social gaming

Social gaming on sites like Facebook and MySpace 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, wherein the games are given away free, with the developers gaining revenues through microtransactions as well as advertising. A game grows virally as users invite their contacts to join them in playing the game. Zynga, the major game developer on Facebook, is credited with introducing the first social game, Zynga *Poker*, in July 2007. Zynga's *FarmVille*, which was launched on Facebook in June 2009, is the fastest-growing game of all time, with more than 75 million users. Zynga has more than 125 million gamers playing its various games, including *Mafia Wars* and *Cafe World*, which garnered 10 million players in its first week. In total, there were around 500 million social gamers in 2009.

Major game developers are taking interest in social games, as evidenced by Electronic Arts' purchasing Playfish, the second-leading developer in the market, for $275 million in November 2009. Playfish has more than 60 million users playing its games, which include *Pet Society*, *Restaurant City* and *Country Store*.

Source: Global entertainment and media outlook 2010-2014 (PwC, 2010)

Cloud computing

OnLive is developing a gaming-on-demand service based on cloud computing. Instead of users purchasing games online and then downloading them to a computer, the new service maintains the processing of the games on its servers and enables users to play the games without downloading them. In this way, there is a level playing field for all players regardless of the computers they are playing on. 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 being supported by major companies like Electronic Arts, THQ and Ubisoft to reach people who do not normally buy games. Other advantages of the service are that it will cut down on piracy because the games are never actually downloaded and developers can update games easily. By contrast, download services like Steam provide digital distribution, but require users to have powerful computers and plenty of space to store the games as well as the time to download them. Cloud computing models will contribute to overall growth in online games.

Valve Corporation pioneered the concept of downloading PC games in 2004 with its online service called Steam, which provides games from different publishers. More recently, other companies such as Direct2Drive and Impulse have joined the market. Additionally, many game developers are selling games from their own Web sites. In late 2009, TransGaming teamed up with Intel to support GameTree.tv, TransGaming's on-demand service, which is expected to launch in October 2010.

Source: Global entertainment and media outlook 2010-2014 (PwC, 2010)

3D gaming

Ever-improving digital technology has sharply enhanced 3D entertainment. Quality, image and visual comfort are much improved and the established market for video gaming demonstrates a public appetite for 3D entertainment. Yet the potential of 3D to become the new entertainment norm, particularly in homes, seems uncertain. Two breakthroughs are needed for 3D to escape its niche and become mainstream entertainment, namely the potential to create market blockbusters and the manufacturing of the technology standards required.

Source: Eyes wide open: 3D tipping points loom (PwC, 2009)

Piracy

Despite the most significant global recession in over 20 years, 2009 proved to be a surprisingly good year in the fight against software piracy. Conventional wisdom led many to believe that the recession would drive PC users to deploy more unlicensed software simply to save money, but the results of the 2009 Business Software Alliance (BSA) and IDC Global PC Software Piracy Study show that momentum from years of anti-piracy programmes held firm through the economic downturn.

From 2008 to 2009, installations of unlicensed software on PCs in South Africa remained static at 35%, while the commercial value of this illegal software amounted to $324 million or R2.4 billion.

Despite the global economic recession, piracy of software on PCs declined in many markets, dropping in 54 economies and increasing in only 19, according to the 2009 BSA/IDC Global PC Software Piracy Study. However, the global piracy rate increased from 41 to 43%, largely the result of fast growing, higher piracy markets such as China, India, and Brazil increasing their share of the overall software market.

IDC finds that for every R738 worth of legitimate software sold in 2009, an additional R553 was pirated. But this is an issue that affects more than industry revenues, as lowering PC software piracy can have significant economic benefits. A 2008 BSA/IDC study on the economic impact of reducing software piracy found that lowering the software piracy rate by ten points over four years could create a stronger local information technology sector, generate new high-paying jobs and contribute to the country's economy. In fact, IDC estimates that for every R7 of legitimate software sold in a country, there is another R22-R29 of revenue for local service and distribution firms.

(Source: Seventh Annual BSA/IDC Global Software 09 Piracy Study)

Snapshot of 3D video gaming entertainment

Console/handheld	Possible with current consoles
Mobile phone	Some 3D-ready games
PC	300 3D-ready PC games Several 3D versions of online games available
Online	Several 3D versions of online games available

PwC conducted a survey on 3D entertainment in January 2009, interviewing more than 90 players throughout the world in different segments of the video entertainment industry and six factors were identified that may contribute to a growing 3D market. PwC concludes that some forms of 3D entertainment will develop relatively quickly, but how rapidly 3D will extend to other formats, notably television, is uncertain.

The results specific to the video gaming industry indicated the following:

- 52% of participants agree that 3D is what they would like at home;
- 57% of participants agree that 3D makes games more compelling; and
- 60% of participants agree that 3D effects make games more enjoyable.

A quantity of attractive 3D-ready content, which requires neither prohibitive production costs nor distribution standardisation, is available. Quake (1995) used 3D computer generated images (CGI) and changed the way video games were made, even before it was released in 3D. Now, the increasing use of CGI in video games provides significant material that could be converted into 3D with limited incremental production costs.

Our expectation is that 3D entertainment will have a modestly successful takeoff in 2011 with 3D movies being the most advanced segment. We do not expect the mass adoption of 3D TV before 2012 or the availability of next-generation 3D-Ready game consoles.

Source: Eyes wide open: 3D tipping points loom (PwC, 2009)

Chapter 13
Sports

Vicki Myburgh, Director, PwC Southern Africa.

The sports market consists of gate/ticket revenues for live sporting events, TV rights fees and 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 sale of licensed products with team logos and/or other intellectual property).

Overview

South Africa successfully hosted the 2010 FIFA World Cup, which was FIFA's most profitable tournament to date. The World Cup generated approximately R29 billion in revenues for FIFA, up nearly 25% from the 2006 tournament. The profits from the tournament will finance approximately 95% of FIFA's operating budget during the next four years.

While FIFA retains most of the revenues generated by the tournament, South Africa also received a major infusion. The sports industry generated more than R10 billion in direct revenues from gate receipts, media rights, sponsorships and merchandising. The figure does not include advertising on television and other media associated with the tournament as well as the non-sports revenues generated from foreign visitors. In total, foreign visitors to South Africa spent approximately R11 billion. The South African Football Association will receive approximately R750 million from the 2010 FIFA World Cup.

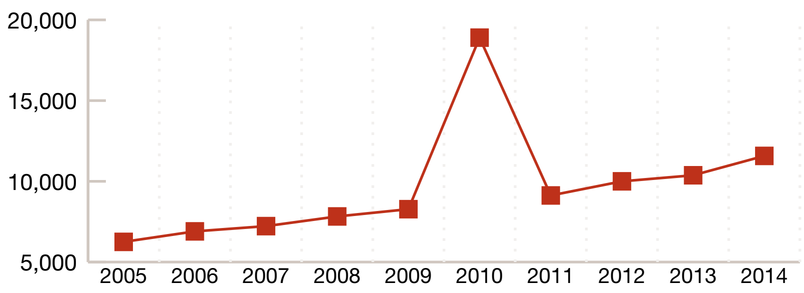
In preparation for the 2010 FIFA World Cup, the Government spent approximately R11.7 billion on new and upgraded stadiums. An estimated additional R11 billion was spent on transportation infrastructure and R1.5 billion on upgrading the telecommunications infrastructure and on broadcast equipment. There were also expenditures by municipalities that brought the total to approximately R40 billion.

These upgrades and the successful hosting of the 2010 FIFA World Cup positions South Africa to bid for other major international events. The South African Rugby Union previously applied to host either the 2015 or 2019 Rugby World Cup and immediately after the 2010 FIFA World Cup, South Africa announced it will bid for either the 2020 or 2024 Olympics.

Sports revenues in South Africa are expected to more than double in 2010 as a result of the FIFA World Cup. In addition to the spending associated with the tournament itself, media rights and sponsorship revenues for South African football have increased since South Africa was named the host country.

Although a significant portion of the spending expected in 2010 will leave the market in 2011, the FIFA World Cup will provide an ongoing lift to sports in South Africa.

Sports spending (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In 2009, the sports market rose by 5.8%, down from the 8.3% increase in 2008. This decline in part reflects the loss of media rights and sponsorship and merchandising revenues associated with the 2008 Olympic Games in Beijing. The recession also contributed to a slowdown in growth. Gate revenues, on the other hand, rose by 7.5%, benefiting from the Confederations Cup football tournament and the Indian Premier League cricket season that were held in South Africa in 2009.

In 2010, we expect spending to jump to R18.9 billion from R8.3 billion in 2009, a 128.4% increase. The market will recede to an estimated R9.1 billion in 2011. We expect above-average gains in 2012 and 2014 associated with the London Olympics and the FIFA World Cup in Brazil in those years.

For the forecast period as a whole, spending will grow at a 6.9% compound annual rate, increasing to R11.6 billion in 2014.

Sports market (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Gate revenues	3,150	3,350	3,500	3,650	3,925	9,000	4,250	4,500	4,800	5,125	
% change	*6.8*	*6.3*	*4.5*	*4.3*	*7.5*	*129.3*	*-52.8*	*5.9*	*6.7*	*6.8*	*5.5*
Media rights	1,100	1,250	1,325	1,475	1,500	3,500	1,750	2,000	2,025	2,350	
% change	*4.8*	*13.6*	*6.0*	*11.3*	*1.7*	*133.3*	*-50.0*	*14.3*	*1.3*	*16.0*	*9.4*
Sponsorship and merchandising revenues	2,000	2,300	2,400	2,700	2,850	6,400	3,125	3,500	3,550	4,100	
% change	*6.2*	*15.0*	*4.3*	*12.5*	*5.6*	*124.6*	*-51.2*	*12.0*	*1.4*	*15.5*	*7.5*
Total sports	**6,250**	**6,900**	**7,225**	**7,825**	**8,275**	**18,900**	**9,125**	**10,000**	**10,375**	**11,575**	
% change	***6.2***	***10.4***	***4.7***	***8.3***	***5.8***	***128.4***	***-51.7***	***9.6***	***3.8***	***11.6***	***6.9***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Gate revenues

Approximately three million people attended the 2010 FIFA World Cup matches. At an average ticket price of approximately R1,700, gate revenues totaled nearly R5.1 billion, which by itself was larger than combined gate revenues for all sports in South Africa. The cheapest tickets for South African spectators were priced at R140, which provided more-affordable access to the average supporter.

As a consequence of the 2010 FIFA World Cup, South Africa now has 10 new, rebuilt, or upgraded stadiums. The new stadiums are the Peter Mokaba Stadium (Polokwane), the Mbombela Stadium (Nelspruit) and the Nelson Mandela Bay Stadium (Port Elizabeth). Kings Park Soccer Stadium (Durban) was demolished in 2006 to make way for the Moses Mabhida Stadium, a new multi-sport facility. Green Point Stadium (Cape Town), now renamed the Cape Town Stadium, was rebuilt at a cost of R4.5 billion and is now a multi-purpose facility.

Stadiums that were upgraded are FNB Stadium (Johannesburg), Ellis Park Stadium (Johannesburg), Loftus Versfeld (Pretoria), Royal Bafokeng Stadium (Rustenburg) and the Free State Stadium. FNB Stadium is now the largest stadium with a seating capacity up from 78,000 to 95,000. It was upgraded at a cost of R3 billion. The investment in all 10 stadiums used in the 2010 FIFA World Cup totaled R11.7 billion.

The 2010 FIFA World Cup is not the only international event to be held in South Africa. In 2009, South Africa hosted the Confederations Cup football tournament, the Indian Premier League (IPL) Twenty20 cricket league and the International Cricket Council (ICC) Champions Trophy. These events, which were not held in South Africa in 2008, contributed to the 7.5% increase in gate revenues in 2009. The IPL was shifted to South Africa from India and the ICC from Pakistan, in both cases because of security concerns.

We expect gate revenues to total R9 billion in 2010 from R3.9 billion in 2009, a 129.3% increase. With the 2010 FIFA World Cup behind us, spending in 2011 will drop by an estimated 52.8% to R4.3 billion.

The stadiums built and upgraded to host the 2010 FIFA World Cup significantly expand gate capacity in South Africa. However, simply creating a new venue does not create a useful afterlife for it and there is a risk that a new stadium will end up being underutilised. Although capacity does not automatically translate into admissions, we expect it will have a positive impact. Additionally, new stadiums typically attract more people than older stadiums.

It is expected that the newly renovated 95,000-seater FNB Stadium will cost between R25 million and R30 million per year to maintain. The stadium has been built as a multipurpose venue and can be booked for events other than soccer matches. The managers of the stadium believe there is no risk of the venue becoming a “white elephant” and that the stadium will easily be able to pay for itself.

However, the remaining venues could prove very costly to run unless a plan is put in place to use these stadiums profitably. Previous FIFA World Cup hosts, Japan and South Korea, opted to demolish some stadiums that had been built for the 2002 event as this was cheaper than maintaining them.

We expect the combination of new stadiums and an improved economy will lead to high single-digit gains in 2012-14 as admissions and gate revenues begin to benefit from improved economic conditions in the latter part of the forecast period.

For the forecast period as a whole, we project gate revenues to grow at a 5.5% compound annual rate, increasing from R3.9 billion in 2009 to reach R5.1 billion in 2014.

Gate revenues (R millions)											
South Africa	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2010-14 CAGR**
Gate revenues	3,150	3,350	3,500	3,650	3,925	9,000	4,250	4,500	4,800	5,125	
% change	*6.8*	*6.3*	*4.5*	*4.3*	*7.5*	*129.3*	*-52.8*	*5.9*	*6.7*	*6.8*	*5.5*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Sponsorships and merchandising

The FIFA World Cup generates most of its revenues from sponsorships, merchandising and media rights. Sponsorships for FIFA in 2010 totaled approximately R9 billion, an 80% increase from 2006, the year of the previous World Cup tournament.

Adidas, Coca-Cola, Emirates, Sony, Visa and Hyundai-Kia are official FIFA partners. This total was reduced from 15 partners in 2006, with each paying substantially more. There were eight FIFA World Cup sponsors in South Africa, which included Budweiser, MTN and MacDonald's, while the six national supporters included the Passenger Rail Agency of South Africa, Neo Africa, BP, Telkom and FNB.

Sponsorships also support the national teams and the various football leagues and teams in South Africa. Adidas, Absa, Vodacom, Nedbank, SAB, Sasol, FNB, Coca-Cola, South African Airways, Mercedes, Avis and Volkswagen are among the leading football sponsors.

Although not an official sponsor, Nike has been expanding its presence in South Africa with television and other media advertising in conjunction with the FIFA World Cup.

Sasol recently announced that it will end its lead sponsorship of South African Rugby at the end of 2010. This sponsorship includes the national Springbok team, the Springbok Sevens, the "A" team and U-20 Springboks. This announcement was made after Sasol and the South African Rugby Union failed to reach mutually agreeable terms to renew the contract.

Although masked by the 2010 FIFA World Cup, the weak economy has been having an adverse impact on some companies. Vodacom, for example, is considering cutting back on its sponsorship of Super 14 Rugby as it looks to reduce expenditure in the face of reductions in revenues, in part due to a cutback in wholesale call termination fees it can charge. In general, however, ongoing contracts with sponsors limit sports' sensitivity to the economy.

Most merchandising revenue is generated at the events themselves. In 2009, the increased number of international events and the rise in gate attendance boosted spending.

Over the longer run, the increase in attendance from the new larger stadiums will also have a positive impact on merchandising.

The combined sponsorships and merchandising market rose by 5.6% in 2009. Sponsorships associated with the 2010 FIFA World Cup as well as merchandise sold at the matches themselves are expected to lead to a 124.6% increase to R6.4 billion in 2010.

Most of this spending will leave the market in 2011 resulting in a 51.2% decline.

The Olympics in 2012 will provide another double-digit increase in local advertising spending and the absence of the Olympics in 2013 will lead to a slowdown in growth to only 1.4%. Then in 2014, the next FIFA World Cup, to be held in Brazil, will provide an estimated 15.5% increase.

For the forecast period as a whole, we project sponsorship and merchandising to increase to R4.1 billion from R2.9 billion in 2009, a 7.5% compound annual increase.

Positive signs of recovery

Sponsorship is back on the marketing agenda according to the IFM Sports Marketing Surveys' 2010 Global Industry Survey. Of the sports marketing professionals surveyed:

- *In 2009, 36% strongly felt that brands had to think twice about sponsorships due to adverse public opinion. This decreased to 29% in 2010;*
- *Nearly two-thirds of those involved in sponsorship believe it offers a much wider reach and impact for a brand than advertising;*
- *Over 60% also believe that sponsorship is ideal for highly-targeted campaigns; and*
- *Sponsorship revenues are beginning to return to previous levels:*
    - *In 2009, 19% felt that global sponsorship revenues would rise. This has more than doubled to 40% in 2010; and*
    - *In 2009, 49% of sponsors felt that they would decrease their own spend. Only 30% predicted this for 2010.*

Source: Back on track? The outlook for the global sports market to 2013 (PwC, 2010)

Sponsorship and merchandising revenues (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Sponsorship and merchandising revenues	2,000	2,300	2,400	2,700	2,850	6,400	3,125	3,500	3,550	4,100	
% change	*6.2*	*15.0*	*4.3*	*12.5*	*5.6*	*124.6*	*-51.2*	*12.0*	*1.4*	*15.5*	*7.5*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Media rights

The media rights market is affected by several trends. The advertising environment is a major factor as it determines to a large degree the return on the investment in sports rights. Globally, pay television broadcasters are playing a growing role in the market because the pay television universe and pay TV revenues are growing despite the recession. Consequently, the return on a sports rights investment for pay TV broadcasters is improving and they are bidding more aggressively for rights. Meanwhile, the emergence of new outlets such as the Internet and mobile phones are providing increased value for any potential rights holder.

In addition to these underlying drivers, rights fees to major international events affect the market. Global media rights to the 2010 FIFA World Cup totaled approximately R20 billion.

In South Africa, the 2010 FIFA World Cup helped drive overall media rights to an estimated R3.5 billion from R1.5 billion in 2009, a 133.3% increase.

An estimated 700 million people globally watched the 2010 FIFA World Cup final between Spain and the Netherlands. This total exceeds the estimated 600 million who watched the opening ceremonies of the Beijing Olympics in 2008. In South Africa, more than 10 million people watched the opening match between South Africa and Mexico as well as the South Africa-Uruguay match, while 9.5 million watched the Ghana-Uruguay match, which was the last appearance by an African country in the tournament. The South African Broadcasting Corporation (SABC) had the broadcast rights.

Pay TV providers would pay more for rights if they were exclusive. Exclusive rights also benefit sports leagues as they generate more revenue.

If these listings were expanded, this would limit rights fee growth. At the same time, a growing pay TV universe as well as a growing mobile Internet market, will expand the overall media rights market. Growth of Internet protocol television (IPTV) and digital terrestrial television (DTT) during the next five years will also expand the rights market.

In addition to the economy and competition, rights to major international events such as the Olympics and the FIFA World Cup also affect the market. After surging in 2010, we expect media rights to decline by 50% in 2011.

The London Olympics in 2012 will lead to a projected 14.3% increase and we expect a 16.0% rise in 2014 related to the FIFA World Cup in Brazil.

Media rights during the next five years will increase to R2.4 billion in 2014, a 9.4% compound annual increase from 2009.

Media rights fees (R millions)

South Africa	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2010-14 CAGR
Media rights fees	1,100	1,250	1,325	1,475	1,500	3,500	1,750	2,000	2,025	2,350	
% change	*4.8*	*13.6*	*6.0*	*11.3*	*1.7*	*133.3*	*-50.0*	*14.3*	*1.3*	*16.0*	*9.4*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Future challenges facing the global sports market

The ongoing globalisation of the sports market, combined with changes in distribution platforms and evolving commercial and economic factors, means each component of the market faces a number of challenges during the period up to 2013.

Sponsorship: smaller brands facing an uphill battle

Globally, sponsorship is the second-biggest component of the sports market after gate revenues and will be the fastest growing component through to 2013. Since 2008, the economic downturn has focused a rising proportion of attention and spending on the biggest sports brands with global reach and pulling power. While these have continued to attract massive sponsorship deals and strong revenues, the mid-level brands have found it harder to attract major sponsors, while sponsorship of the smaller local sports brands has been hit by potential backers reducing discretionary spend during the economic downturn. Alongside this shift, sponsors are also demanding more clarity and specific measurement of the value they get in return for their investment, and the bigger sports brands are generally more able to provide this.

A further impact of the recession has been to accelerate the existing move towards focusing more on social responsibility and community involvement in sponsorship deals, including support for sport at the grass-roots level. This trend involves reducing the emphasis on corporate hospitality in a tough economic environment. A further issue currently is that major events such as the Olympics and FIFA World Cup need to be cautious that the restrictions they place on sponsors' use of their brand and logo do not undermine the business case for sponsoring them.

Gate revenues: price and attendance – striking the right balance

Global revenues will remain the biggest component of the global sports market by a significant margin throughout the forecast period, although its growth will be the slowest. The gate revenue market varies widely from country to country, reflecting local economic factors, including disposable income, economic confidence and the strength and competitiveness of the sports and leagues on offer. In some countries, such as the USA and UK, attending live sports events is an integral part of the culture. In others, especially emerging markets in which tickets are less affordable, far fewer people go to events. Failing to understand the local economic and cultural factors can result in sports bodies setting prices too high for the local economy when entering new geographical markets.

A further challenge facing the gate revenue market globally is how to strike the right balance between charging premium prices for seats (including those for corporate hospitality) and attracting higher attendance at games. The corporate hospitality market is a vital source of gate revenues for sports such as Formula 1 and tennis in developed markets, and is sometimes used to subsidise affordable seats in football. But corporate hospitality is underdeveloped in many – especially emerging – countries, raising the question of whether this valuable source of revenue can be developed in more geographies. More generally, attempts to boost gate revenues by raising ticket prices risks reducing attendance and creating a lack of atmosphere for TV viewers, undermining the value of broadcast media rights.

Broadcast media rights: facing up to a multi-platform world

Broadcast media rights are the third-biggest component of the global sports market behind gate revenues and sponsorship. Growth in underlying spending on media rights (ongoing events only) will be healthy during the forecast period, partly reflecting the fact that they are less susceptible to near-term economic developments, since many rights are locked in to long-term contracts. The wide array of issues impacting media rights – including economic factors, competition regulation and changes in delivery technologies and platforms – makes it an especially complex marketplace. It is also an area in which there can be significant unforeseen impacts. For example, international rights to show European football in an emerging market can actually stunt the development of the sport locally, since consumers are so used to viewing the higher-quality product.

Currently, the overarching challenge for all parties in the media rights market is how to protect and monetise rights in a multi-platform world of pervasive (and often freely available) digital content, echoing the problems encountered by music and, to a lesser extent, filmed entertainment. The negative impact of the economic downturn on advertising spending, coupled with the resulting shift towards subscription models, has seen pay TV companies become the main driver of rights deals. However, while exclusive rights deals may be more lucrative for sports bodies, they risk driving up the costs of players' salaries and can attract attention from competition and media regulators. In March 2010, several sports governing bodies in the UK were reported to be considering legal action against the media regulator, Ofcom, over its attempts to force British Sky Broadcasting Limited (Sky TV) to cut the prices at which it sells its sports channels to rivals. The sporting bodies argued that this move could reduce their investment at grass-roots level, which Sky TV is funding.

Merchandising: exposed to shifts in consumer confidence

The global merchandising market is heavily dominated by North America, which will continue to account for around three-quarters of total global spending throughout the forecast period. This underlines the impact of local cultural and behavioural factors, such as the tendency for North American consumers to buy apparel at games. Merchandising will continue to be the smallest of the four components of the sports market.

Merchandising is more exposed than the other categories to economic conditions, owing to its heavy reliance on consumers' disposable income. Major events also play a significant role, limiting growth in odd numbered years (non-Olympic and non-FIFA World Cup years). The challenges faced by the industry include the risk of losing revenues through counterfeiting – a threat that is especially apparent in emerging markets such as Asia.

Source: Back on track? The outlook for the global sports market to 2013 (PwC, 2010)

Glossary of terms

3G	Third Generation
ACE	Africa Coast to Europe Cable
B2B	Business-to-business
BRT	Bus Rapid Transit
CAGR	Compound annual growth rate
DAB	Digital Audio Broadcasting
DRM	Digital Radio Mondiale
DSL	Digital subscriber line
DTI	Department of Trade and Industry
DTT	Digital terrestrial television
DVB-H	Digital Video Broadcasting – Handheld
DVD	Digital Versatile Disc
DVR	Digital video recorder
E&M	Entertainment and media
ECT Act	Electronic Communications & Transactions Act
EMEA	Europe, the Middle East and Africa
FIFA	Fédération Internationale de Football Association
GDP	Gross domestic product
GPS	Global Positioning System
HD	High definition
HDTV	High-definition television
HSDPA	High-Speed Downlink Packet Access
HSPA	High-speed Packet Access
ICASA	Independent Communications Authority of South Africa
ICC	International Cricket Council
INM	Independent News and Media
IPL	Indian Premier League
IPTV	Internet Protocol television
ISP	Internet Service Provider
ISPA	Internet Service Providers' Association
LCD	Liquid crystal display
MMOG	Massively multiplayer online game
NAB	National Association of Broadcasters
NFVF	National Film and Video Foundation
Npod	Nielsen Personal Outdoor Device
OBE	Outcomes-based education
ODM	On Digital Media
OMIGPI	Old Mutual Investment Group Property Investments
OMLACSA	Old Mutual Life Assurance Company of South Africa
OOH	Out-of-home
PASA	Publishers' Association of South Africa

PC	Personal Computer
PS2	Sony PlayStation 2
PS3	Sony PlayStation 3
PSL	Premier Soccer League
PSP	Sony PlayStation Portable
PVR	Personal video recorder
RAB	Radio Advertising Bureau
RAMS	Radio Audience Measurement Survey
RiSA	Recording Industry of South Africa
SABC	South African Broadcasting Corporation
SAMPRA	South African Music Performance Rights Association
SD	Standard definition
Tbps	Terabits per second
TOPS	Telmar Outdoor Planning System
TVOD	Transactional Video on Demand
UK	United Kingdom
UMD	Universal Media Disc
VHS	Video Home Systems
VOD	Video on Demand
WACS	West Africa Cable System
Wii	Nintendo Wii
WiMax	Worldwide Interoperability for Microwave Access
WoW	World of Warcraft