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South African entertainment and media outlook 2011–2015

2nd annual edition

September 2011

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South African entertainment and media outlook: 2011-2015

Second South African edition

Each year, PwC's team of entertainment and media specialists provide unbiased in-depth forecasts for 13 segments in the entertainment and media industry. The South African entertainment and media outlook: 2011-2015 combines deep knowledge of the local market with global perspectives to provide 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/outlook

About PwC's Entertainment and Media industry group

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

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

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South African entertainment and media outlook: 2011-2015

Prepared and edited by PwC, which provides industry-focused assurance, tax and advisory services to enhance value for clients. More than 161 000 people in 154 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.

Information sources and methodology

Historical information

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

Forecast information

Recent trends in industry performance are analysed and factors underlying the trends are identified. Factors considered include economic, demographic, technological, institutional, behavioural, competitive and other drivers that may affect each of the entertainment and media segments.

Models are then developed to quantify the impact of each factor on industry spending. A forecast scenario for each causative factor is created and the contribution of each factor on a prospective basis is identified. These proprietary mathematical models and analytic algorithms are applied in the process to provide an initial array of prospective values. Our professional expertise and institutional knowledge are then enlisted to review and adjust those values if required. Finally, the entire process is examined for internal consistency and transparency according to prevailing industry wisdom.

Forecasts for 2011-2015 are also based on an analysis of the dynamics of each segment and on the factors that affect those dynamics.

We provide compound annual growth rates (CAGRs) that cover the 2011-2015 forecast period. In the calculation of the CAGRs, 2010 is the beginning year, with five growth years during the forecast period: 2011, 2012, 2013, 2014 and 2015. The end year is 2015. The formula is:

CAGR = 100*((Value in 2015 / Value in 2010)^(1/5)-1)

How we report on the data in each chapter

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

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

Advertising spending is measured net of agency commissions.

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

Inflation

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

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Vicki Myburgh
Leader – Entertainment & Media,
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September 2011

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

Welcome to the second annual edition of PwC's South African entertainment & media outlook (the *Outlook*), covering the forecast period of 2011-2015. A key trend in this year's edition is the accelerating digital migration. Following this trend, we are proud to announce that we have also introduced an online version of the *Outlook* this year in order to give users access to the underlying data. Please visit www.pwc.com/za/outlook to find out more.

Our forecasts and analyses in this edition focus on 13 major entertainment and media (E & M) industry segments, including a new chapter covering gaming. Each chapter sets out the key trends observed and challenges faced in that segment as well as outlining future prospects for the forecast period.

To reflect the ever-changing nature of the industry and rapidly emerging digital revenue streams, we have increased the depth of the data for each of the areas covered in the *Outlook*.

During 2010, both advertising spending and consumer/end-user spending rebounded as markets started to recover from the global financial crisis. However, as we forecast in last year's survey, the entertainment and media industry that is emerging from the recession has changed profoundly in many markets as consumer migration to digital has continued apace, triggered in large part by the device revolution.

In 2010 the South African economy began to recover from its steep decline in 2009. This, together with the impact of the FIFA World Cup, helped total E & M spending to rise by 21.1% – in dramatic contrast to the 3.7% growth seen in 2009 and the 4.6% growth experienced globally in 2010.

As the non-recurring windfall of the World Cup leaves the market, this year's *Outlook* focuses on the pervasive impact of changing consumer behaviour on all segments of the E & M industry as companies search for position in the digital value chain that is now taking shape. With the business models that will deliver success in the digital future still taking shape, this search for positioning is characterised by widespread experimentation and innovation involving a widening diversity of service offerings, revenue models, technology platforms and collaborative structures.

Over the next five years, as we move into what we believe will be the golden age of the empowered consumer, the demand for digital experiences will increase and become the norm. Advertisers are responding by seeking greater involvement with individual consumer's media and entertainment experience. For E & M companies, we see the route to competitive advantage in this dynamic environment being created through increased multiparty collaboration as their businesses transform into collaborative digital enterprises.

The impact of the digital migration is starting to be felt in South Africa thanks to the increasing affordability and availability of broadband and mobile infrastructure. We recognise this digital connectivity as a golden thread that we expect to have an impact on every segment of the E & M market. Notwithstanding this, the focus on culturally and linguistically relevant local content as a key to satisfying consumer demand remains as real today as ever.

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

Should you require additional clarification on any matters included in the *Outlook* or you believe we can be of service to your business in any way, please contact one of the E & M professionals listed on page iv.

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

Sincerely,

Vicki Myburgh

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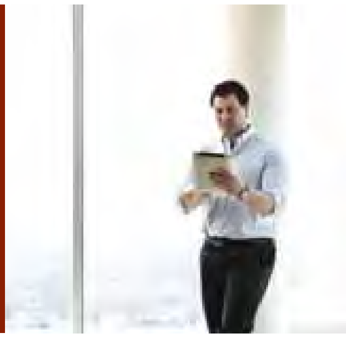


Chapter 1

Industry overview

We are pleased to present the second annual edition of PwC's South African entertainment and media outlook: 2011 - 2015 (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, economic, government, political and business trends driving those forecasts. The purpose of this overview is to provide a synopsis of the data presented in the other 13 chapters of this publication and to present an analysis of some of the most significant themes and insights drawn from the data.

The *Outlook* presents annual historical data for 2006-2010 and provides annual forecasts for 2011-2015 in 13 entertainment and media industry segments:

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

2010: The economy rebounds

The year 2010 saw the global economy begin to recover from its steep decline in 2009, helping global E & M spending to rise by 4.6% following its 2.4% decrease in 2009. Advertising, the most cyclically sensitive of the three E & M spending streams, recorded the largest year-on-year swing, rebounding 5.8% in 2010 from an 11.0% slump in 2009. Consumer/end-user spending also improved, rising by 2.2% in 2010 after falling by 0.4% in 2009. At the global level, Internet access was barely affected by the economic cycle, growing by 9.2% in both 2009 and 2010.

In South Africa, the E & M industry rose by 21.1% in 2010, up from the modest 3.7% growth in 2009. This large growth was fuelled principally by spending associated with the 2010 FIFA World Cup as well as by a rebound in the economy.

Advertising, which is more sensitive to cyclical trends than end-user spending, recorded a growth of 10.4% in 2010 following a 8.6% fall in 2009, when the full impact of the recession was felt.

End-user spending jumped by 25.0%, largely propelled by an 84.6% increase in sports, due to the significant impact of the 2010 FIFA World Cup. Excluding sports, however, end-user spending still rose by a healthy 12.9%.

In addition to the impact of the 2010 FIFA World Cup, an improved economic environment compared with 2009 contributed to the increase in end-user spending in 2010.

In the absence of spending associated with the 2010 FIFA World Cup, we expect the total E & M market to decline by 0.6% in 2011. We then expect high single-digit and double-digit gains during 2012-15.

In addition to sports, end-user spending was boosted by a gain of 42.1% in Internet access. The Internet market benefited from large increases in mobile and broadband access as well as Internet advertising. Continued growth in television subscription spending, propelled television to a growth of 22.3%.

Gate revenues and other spending associated with the 2010 FIFA World Cup will leave the market in 2011, leading to a 39.5% decline in sports and a 2.3% decrease in overall end-user spending. We then look for end-user spending to grow at rates in excess of 8% annually during 2012-15.

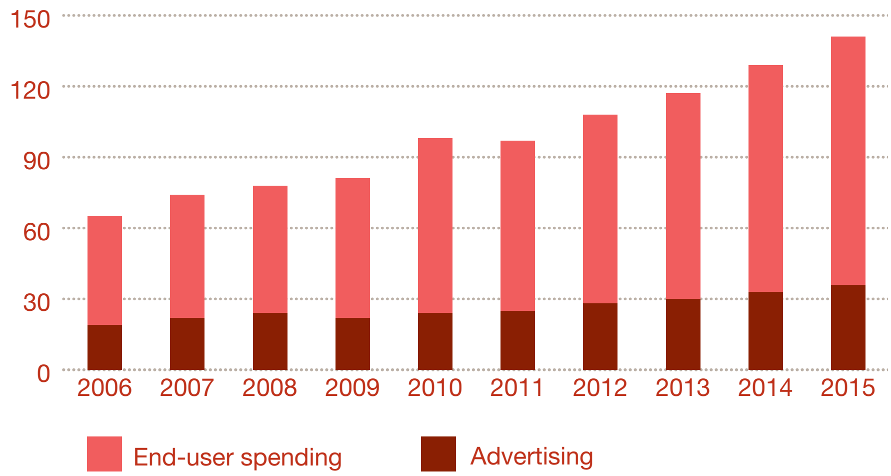
We project a 4.9% increase in advertising in 2011, as advertising associated with the 2010 FIFA World Cup leaves the market. We then look for annual gains of 8.3% or higher during the remainder of the forecast period.

Entertainment and media spending in South Africa by component (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Advertising	19 177	22 302	24 060	21 999	24 292	25 473	27 617	30 007	32 939	35 667	
% change	*16.7*	*16.3*	*7.9*	*-8.6*	*10.4*	*4.9*	*8.4*	*8.7*	*9.8*	*8.3*	*8.0*
End-user spending	45 894	51 552	54 259	59 205	74 012	72 282	79 938	87 203	96 359	104 658	
% change	*13.4*	*12.3*	*5.3*	*9.1*	*25.0*	*-2.3*	*10.6*	*9.1*	*10.5*	*8.6*	*7.2*
Total	**65 071**	**73 854**	**78 319**	**81 204**	**98 304**	**97 755**	**107 555**	**117 210**	**129 298**	**140 325**	
% change	**14.4**	**13.5**	**6.0**	**3.7**	**21.1**	**-0.6**	**10.0**	**9.0**	**10.3**	**8.5**	**7.4**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Entertainment and media spending in South Africa (R billions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

By segment, and aside from sports, the Internet was the fastest-growing segment in 2010 with a 41.4% increase. This was boosted by growth in broadband, mobile access and advertising.

Television was next at 18.8% fuelled by a jump in advertising, in part related to the 2010 FIFA World Cup, as well as ongoing double-digit growth in subscription spending. Out-of-home grew at 13.8% and radio at 11.5%. Growth in out-of-home advertising and radio advertising reflect the improved economic conditions combined with the 2010 FIFA World Cup, which boosted the opportunities for out-of-home and radio advertising.

Gaming rose by 6.7% in 2010 and was followed by filmed entertainment at 6.2%. The gaming market was boosted by limited-payout machines and a surging sports betting market driven by wagering on the 2010 FIFA World Cup.

Filmed entertainment was boosted by double-digit growth in box office spending and cinema advertising, which offset a flat home video market.

Entertainment and media spending in South Africa by segment (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Filmed entertainment	2 461	2 472	2 546	2 702	2 870	3 004	3 158	3 319	3 454	3 574	
% change	*-4.2*	*0.4*	*3.0*	*6.1*	*6.2*	*4.7*	*5.1*	*5.1*	*4.1*	*3.5*	*4.5*
Television	12 399	14 337	15 455	16 266	19 324	21 569	24 285	26 507	28 944	30 920	
% change	*14.5*	*15.6*	*7.8*	*5.2*	*18.8*	*11.6*	*12.6*	*9.1*	*9.2*	*6.8*	*9.9*
Music	2 367	2 485	2 442	2 303	2 212	2 154	2 120	2 140	2 172	2 224	
% change	*6.7*	*5.0*	*-1.7*	*-5.7*	*-4.0*	*-2.6*	*-1.6*	*0.9*	*1.5*	*2.4*	*0.1*
Radio	2 544	2 852	3 084	3 103	3 461	3 647	3 8500	4 106	4 384	4 694	
% change	*13.2*	*12.1*	*8.1*	*0.6*	*11.5*	*5.4*	*5.6*	*6.6*	*6.8*	*7.1*	*6.3*
Out-of-home	1 020	1 160	1 078	1 073	1 221	1 290	1 410	1 545	1 695	1 850	
% change	*29.9*	*13.7*	*-7.1*	*-0.5*	*13.8*	*5.7*	*9.3*	*9.6*	*9.7*	*9.1*	*8.7*
Internet	3 919	5 564	6 337	8 827	12 480	15 721	20 775	25 999	31 610	37 743	
% change	*34.1*	*42.0*	*13.9*	*39.3*	*41.4*	*26.0*	*32.1*	*25.1*	*21.6*	*19.4*	*24.8*
Consumer magazine publishing	3 607	3 929	4 151	3 916	4 048	4 111	4 309	4 524	4 760	5 009	
% change	*11.0*	*8.9*	*5.7*	*-5.7*	*3.4*	*1.6*	*4.8*	*5.0*	*5.2*	*5.2*	*4.4*
Newspaper publishing	9 562	10 653	11 506	10 543	10 828	11 049	11 438	12 054	12 841	13 720	
% change	*13.2*	*11.4*	*8.0*	*-8.4*	*2.7*	*2.0*	*3.5*	*5.4*	*6.5*	*6.8*	*4.8*
Consumer and educational book publishing	3 893	4 076	4 298	4 370	4 577	4 761	4 979	5 210	5 440	5 675	
% change	*20.7*	*4.7*	*5.4*	*1.7*	*4.7*	*4.0*	*4.6*	*4.6*	*4.4*	*4.3*	*4.4*
Business-to-business	2 624	2 763	2 837	2 527	2 569	2 650	2 763	2 894	3 051	3 225	
% change	*9.5*	*5.3*	*2.7*	*-10.9*	*1.7*	*3.2*	*4.3*	*4.7*	*5.4*	*5.7*	*4.7*
Sports	8 360	9 080	9 465	10 015	18 490	11 180	11 960	12 175	13 690	13 635	
% change	*12.8*	*8.6*	*4.2*	*5.8*	*84.6*	*-39.5*	*7.0*	*1.8*	*12.4*	*-0.4*	*-5.9*
Video games	366	888	1 078	1 234	1 249	1 328	1 421	1 518	1 617	1 750	
% change	*27.5*	*142.6*	*21.4*	*14.5*	*1.2*	*6.3*	*7.0*	*6.8*	*6.5*	*8.2*	*7.0*
Gaming	13 465	15 540	15 810	16 075	17 150	17 300	17 175	17 440	18 385	19 140	
% change	*17.1*	*15.4*	*1.7*	*1.7*	*6.7*	*0.9*	*-0.7*	*1.5*	*5.4*	*4.1*	*2.2*
Total	**65 071**	**73 854**	**78 319**	**81 204**	**98 304**	**97 755**	**107 555**	**117 210**	**129 298**	**140 325**	
% change	***14.4***	***13.5***	***6.0***	***3.7***	***21.1***	***-0.6***	***10.0***	***9.0***	***10.3***	***8.5***	***7.4***

Note: Television, newspaper, consumer magazine, trade magazine, and directory Web site and mobile advertising are included in their respective segments and also in the Internet advertising segment, but only once in the overall total. Similarly, sports betting is counted in both the Sports and Gaming chapters, but only once in the overall total.

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The role of the economy

Just as the key driver in 2009 was the global recession, so the improved economic conditions in 2010 played a major role in the recovery in E & M spending. While the 2010 FIFA World Cup was the dominant driver in 2010, and will account for most of the decline in 2011, the economic cycle is an important driver of the underlying market and will continue to affect spending through the forecast period.

The South African economy was booming in the middle of the last decade, growing at real rates in excess of 5% in 2006-07. In the latter part of 2008, however, South Africa began to be affected by the global downturn. Real GDP growth, which is adjusted for inflation, moderated to 3.6% for 2008 as a whole and then fell by 1.7% in 2009 as the full effects of the recession were felt.

In 2010, however, the economy began to rebound, rising by 2.8% in real terms.

We do not expect South Africa to return to the accelerated increases of previous years as the economy is now more developed and growth is expected to more closely approximate the performance of developed economies. Nevertheless, we do anticipate faster growth compared with the past two years and project real GDP to expand at a 3.5% compound annual rate during the next five years.

Inflation propelled nominal GDP at double-digit rates during 2006-08 and kept the economy growing in nominal terms in 2009 with a 6.1% increase despite the decrease in real GDP. Nominal growth improved to 8.8% in 2010 as the economy rebounded.

With inflation now lower than in the past, we expect nominal GDP growth to remain at single-digit levels, averaging 9.5% compounded annually through 2015.

South African GDP growth (%)

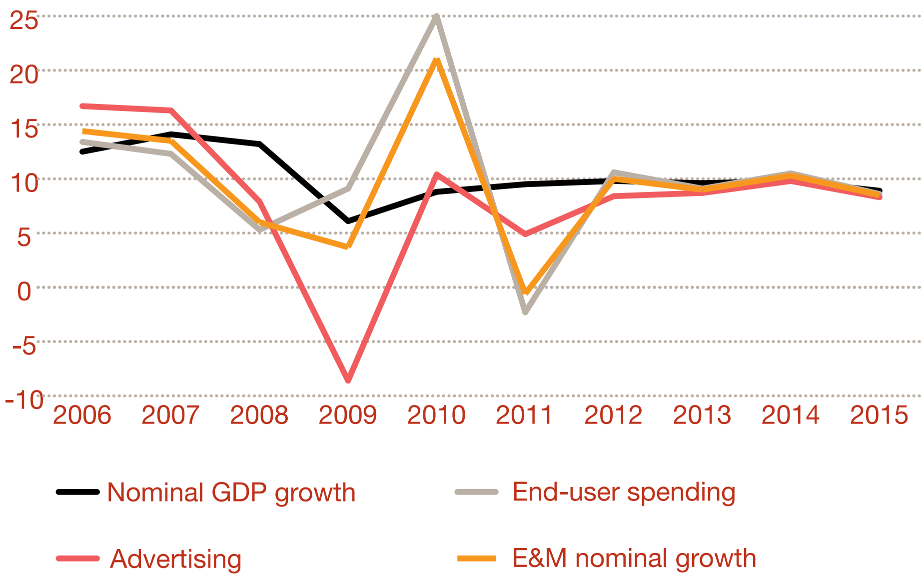
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Real GDP growth	5.6	5.5	3.6	-1.7	2.8	3.2	3.6	3.4	3.8	3.3	3.5
Nominal GDP growth	12.5	14.1	13.2	6.1	8.8	9.5	9.8	9.6	9.8	8.9	9.5

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

The 2010 FIFA World Cup provided a large boost in 2010 and its absence will lead to a decline in 2011. The economy during 2010-11 is expected to have a secondary influence on overall spending. The introduction of tablet computers and electronic reading devices provided a boost to digital spending, while the buoyancy of the advertising market was demonstrated during the year.

From 2012 onwards, E & M spending is expected to closely track nominal GDP growth.

Entertainment and media and nominal GDP growth (%)



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

Looking forward

Economic prospects are mixed. While South Africa is experiencing an economic recovery, with healthy nominal GDP growth rates expected for the foreseeable future, high oil and food prices and above-inflation wage increases could have an adverse effect on economic growth if they persist. Meanwhile, external factors such as uprisings in several countries in Middle East and North Africa, as well as the state of economies in the developed world, could have an impact on the local economy. Nevertheless, the longer-term prospects overall are stronger than they were three years ago.

At the same time, structural changes in the E & M market, principally the ongoing shift from the higher-priced physical distribution to lower-priced digital distribution, will limit spending. Online ad rates are substantially lower than their counterparts in the traditional advertising media, and end-user prices for digital content are also generally lower than prices for physical content. As a result, the shift in usage from traditional media to digital media is not revenue neutral. Consequently, as the digital share of the E & M market increases, spending will lag behind the growth in nominal GDP. This decoupling will change the historical relationship between E & M and GDP, under which E & M spending typically rose faster than nominal GDP during periods of economic expansion. We project that during the next five years, E & M spending will grow at a 7.4% compound annual rate – well below the projected 9.5% compound annual increase in nominal GDP.

During the next five years, the Internet will be the only segment to average double-digit annual growth with a projected 24.8% compound annual increase. Broadband and mobile access growth and double-digit increases in Internet advertising will drive the Internet market. South Africa's low broadband penetration and Internet access has now become a government priority. The increase in penetration rates is expected to aid economic growth.

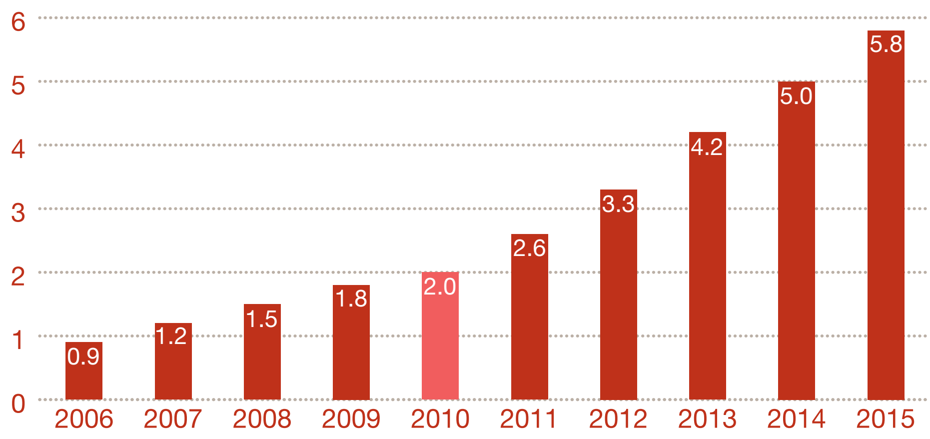
Television is expected to be the next fastest-growing segment with a projected 9.9% compound annual increase, the result of continued growth in subscription spending and steady growth in advertising.

Out-of-home advertising and video games will be next with compound annual increases of 8.7% and 7% respectively, followed by radio at 6.3%. New community and commercial stations and an expanding economy will lead to healthy growth in radio advertising. The emergence of digital displays will drive the out-of-home market while significant growth in online games will be the principal driver of video games.

The absence of spending associated with the FIFA World Cup in 2010 will contribute to an overall 0.6% decrease in E & M spending in 2011. We then expect spending to expand at rates averaging 9.5% on a compound annual basis through to 2015.

Spending in 2015 will total an estimated R140.3 billion, an 7.4% compound annual increase from R98.3 billion in 2010.

Internet share of total advertising (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Advertising

Advertising is sensitive to the economy and the recession led to an 8.6% decline in 2009. In 2010, advertising rebounded with a 10.4% increase, in part reflecting the rebound in the economy and in part reflecting the infusion of spending related to the World Cup.

Internet advertising rose by 25.5% in 2010 and television, radio, cinema, out-of-home and a small video games market each increased by more than 10%.

The four print categories — consumer magazines, newspapers, trade magazines and directories — collectively grew by 5.7%. While benefiting from improved economic conditions, print significantly lagged the other segments, reflecting a shift in the share of spending from print to the electronic media.

During the next five years, the Internet will be the fastest-growing category with a 33.6% compound annual increase. The Internet's share of total advertising in South Africa is expected to nearly triple to 5.8% in 2015 from 2.0% in 2010.

We also expect video games to expand at double-digit rates, with cinema advertising increasing at a 9.9% compound annual rate.

With the economy expected to generate a sustained expansion, we anticipate a stronger performance from the print media. Increases will be generated by high print spending itself as well as by a growing digital sector for publishers. Trade magazines will expand at a projected 9.1% compound annual rate, while newspapers and consumer magazines will each increase by 7.1% on a compound annual basis.

We also project high single-digit increases for out-of-home and television advertising, which will both benefit from sustained economic growth.

We project the overall advertising market during the next five years to increase at an 8% compound annual rate, rising to an estimated R35.7 billion in 2015 from R24.3 billion in 2010.

Advertising (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Television	6 402	7 803	8 306	7 508	8 609	9 014	9 968	10 776	11 888	12 654	
% change	*18.6*	*21.9*	*6.4*	*-9.6*	*14.7*	*4.7*	*10.6*	*8.1*	*10.3*	*6.4*	*8.0*
Radio	2 119	2 422	2 650	2 664	3 019	3 200	3 400	3 650	3 925	4 230	
% change	*16.0*	*14.3*	*9.4*	*0.5*	*13.3*	*6.0*	*6.3*	*7.4*	*7.5*	*7.8*	*7.0*
Cinema	265	245	255	205	240	265	295	325	355	385	
% change	*-33.8*	*-7.5*	*4.1*	*-19.6*	*17.1*	*10.4*	*11.3*	*10.2*	*9.2*	*8.5*	*9.9*
Out-of-home	1 020	1 160	1 078	1 073	1 221	1 290	1 410	1 545	1 695	1 850	
% change	*29.9*	*13.7*	*-7.1*	*-0.5*	*13.8*	*5.7*	*9.3*	*9.6*	*9.7*	*9.1*	*8.7*
Internet	180	259	358	385	483	661	912	1 264	1 643	2 058	
% change	*20.0*	*43.9*	*38.2*	*7.5*	*25.5*	*36.9*	*38.0*	*38.6*	*30.0*	*25.3*	*33.6*
Consumer magazines	1 987	2 179	2 271	2 091	2 158	2 211	2 392	2 598	2 821	3 041	
% change	*13.0*	*9.7*	*4.2*	*-7.9*	*3.2*	*2.5*	*8.2*	*8.6*	*8.6*	*7.8*	*7.1*
Newspapers	6 158	7 113	7 987	7 116	7 638	7 940	8 372	9 020	9 837	10 738	
% change	*19.3*	*15.5*	*12.3*	*-10.9*	*7.3*	*4.0*	*5.4*	*7.7*	*9.1*	*9.2*	*7.1*
Trade magazines	518	564	598	432	444	473	515	562	621	686	
% change	*12.4*	*8.9*	*6.0*	*-27.8*	*2.8*	*6.5*	*8.9*	*9.1*	*10.5*	*10.5*	*9.1*
Directories	581	632	670	648	636	626	616	610	608	610	
% change	*11.7*	*8.8*	*6.0*	*-3.3*	*-1.9*	*-1.6*	*-1.6*	*-1.0*	*-0.3*	*0.3*	*-0.8*
Video games	3	10	15	17	19	22	25	28	31	34	
% change	*—*	*233.3*	*50.0*	*13.3*	*11.8*	*15.8*	*13.6*	*12.0*	*10.7*	*9.7*	*12.3*
Total	**19 177**	**22 302**	**24 060**	**21 999**	**24 292**	**25 473**	**27 617**	**30 007**	**32 939**	**35 667**	
% change	***16.7***	***16.3***	***7.9***	***-8.6***	***10.4***	***4.9***	***8.4***	***8.7***	***9.8***	***8.3***	***8.0***

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

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

End-user spending

End-user spending, consisting of spending by consumers and other end users on products and services produced by the entertainment and media industry, rose 25% in 2010.

Growth was led by sports at 84.6%, reflecting the impact of the 2010 FIFA World Cup, with the Internet and television next at 42.1% and 22.3%, respectively.

Gaming and filmed entertainment rose at 6.7% and 5.3%, respectively, and were the only other categories to increase by more than 5%.

We expect the Internet to be the fastest-growing end-user spending category during the next five years with a projected growth of 24.4%. Television will be the second fastest-growing segment at 11.3% compounded annually, with video games next at 6.9% followed by business information at 6.1%. No other segment is expected to average more than 5% growth on a compound annual basis.

We project total end-user spending to expand at a 7.2% compound annual rate, rising to R104.7 billion in 2015 from R74.0 billion in 2010.

End-user spending (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Filmed entertainment	2 196	2 227	2 291	2 497	2 630	2 739	2 863	2 994	3 099	3 189	
% change	*1.3*	*1.4*	*2.9*	*9.0*	*5.3*	*4.1*	*4.5*	*4.6*	*3.5*	*2.9*	*3.9*
Television	5 997	6 534	7 149	8 758	10 715	12 555	14 317	15 731	17 056	18 266	
% change	*10.5*	*9.0*	*9.4*	*22.5*	*22.3*	*17.2*	*14.0*	*9.9*	*8.4*	*7.1*	*11.3*
Music	2 367	2 485	2 442	2 303	2 212	2 154	2 120	2 140	2 172	2 224	
% change	*6.7*	*5.0*	*-1.7*	*-5.7*	*-4.0*	*-2.6*	*-1.6*	*0.9*	*1.5*	*2.4*	*0.1*
Radio	425	430	434	439	442	447	450	456	459	464	
% change	*0.7*	*1.2*	*0.9*	*1.2*	*0.7*	*1.1*	*0.7*	*1.3*	*0.7*	*1.1*	*1.0*
Internet	3 739	5 305	5 979	8 442	11 997	15 060	19 863	24 735	29 967	35 685	
% change	*34.9*	*41.9*	*12.7*	*41.2*	*42.1*	*25.5*	*31.9*	*24.5*	*21.2*	*19.1*	*24.4*
Consumer magazines	1 620	1 750	1 880	1 825	1 890	1 900	1 917	1 926	1 939	1 968	
% change	*8.7*	*8.0*	*7.4*	*-2.9*	*3.6*	*0.5*	*0.9*	*0.5*	*0.7*	*1.5*	*0.8*
Newspapers	3 404	3 540	3 519	3 427	3 190	3 109	3 066	3 034	3 004	2 982	
% change	*3.6*	*4.0*	*-0.6*	*-2.6*	*-6.9*	*-2.5*	*-1.4*	*-1.0*	*-1.0*	*-0.7*	*-1.3*
Consumer and educational books	3 893	4 076	4 298	4 370	4 577	4 761	4 979	5 210	5 440	5 675	
% change	*20.7*	*4.7*	*5.4*	*1.7*	*4.7*	*4.0*	*4.6*	*4.6*	*4.4*	*4.3*	*4.4*
Business information	1 110	1 180	1 200	1 090	1 140	1 200	1 275	1 355	1 440	1 530	
% change	*6.7*	*6.3*	*1.7*	*-9.2*	*4.6*	*5.3*	*6.3*	*6.3*	*6.3*	*6.3*	*6.1*
Trade magazines	154	151	150	147	144	146	150	157	167	180	
% change	*11.6*	*-1.9*	*-0.7*	*-2.0*	*-2.0*	*1.4*	*2.7*	*4.7*	*6.4*	*7.8*	*4.6*
Professional books	261	236	219	210	205	205	207	210	215	219	
% change	*10.1*	*-9.6*	*-7.2*	*-4.1*	*-2.4*	*0.0*	*1.0*	*1.4*	*2.4*	*1.9*	*1.3*
Sports	8 360	9 080	9 465	10 015	18 490	11 180	11 960	12 175	13 690	13 635	
% change	*12.8*	*8.6*	*4.2*	*5.8*	*84.6*	*-39.5*	*7.0*	*1.8*	*12.4*	*-0.4*	*-5.9*
Video games	363	878	1 063	1 217	1 230	1 306	1 396	1 490	1 586	1 716	
% change	*26.5*	*141.9*	*21.1*	*14.5*	*1.1*	*6.2*	*6.9*	*6.7*	*6.4*	*8.2*	*6.9*
Gaming	13 465	15 540	15 810	16 075	17 150	17 300	17 175	17 440	18 385	19 140	
% change	*17.1*	*15.4*	*1.7*	*1.7*	*6.7*	*0.9*	*-0.7*	*1.5*	*5.4*	*4.1*	*2.2*
Total	**45 894**	**51 552**	**54 259**	**59 205**	**74 012**	**72 282**	**79 938**	**87 203**	**96 359**	**104 658**	
% change	***13.4***	***12.3***	***5.3***	***9.1***	***25.0***	***-2.3***	***10.6***	***9.1***	***10.5***	***8.6***	***7.2***

Note: Sports betting is included in both the Sports and the Gaming segments, but only once in the overall total.

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

While the rising share of digital revenues in E & M might break the link between overall industry growth and GDP during the next five years, it is equally clear that digitalisation will continue to open up major opportunities for new types of services, business models, collaborative synergies and consumer relationships. Advances in all these areas are emerging by the day, encouraged and enabled by ongoing floods of innovation in devices, delivery methods and pricing. The underlying driver of this innovation is consumers' eagerness to adopt new ways of consuming the content they enjoy. In combination with the rising appetite for content, consumers' ongoing behavioural shift towards digital consumption in all forms suggests that the long-term outlook for the industry is bright – irrespective of shorter-term economic cycles.

Key global themes

The collaborative future: Reshaping for consumer relevance and engagement.

The coming five years will see digital technologies progressively increase their influence across the industry and the rapid change in technologies and consumer behaviours will continue across all E & M segments.

These trends will see worldwide digital spending growing at 11.4% compounded annually through 2015, compared with a compound annual growth rate of just 3.3% for non-digital spending. In South Africa, we expect to see digital spending growing at 26.2% compounded annually through to 2015, compared with a compound annual growth rate of 3.2% for non-digital spending.

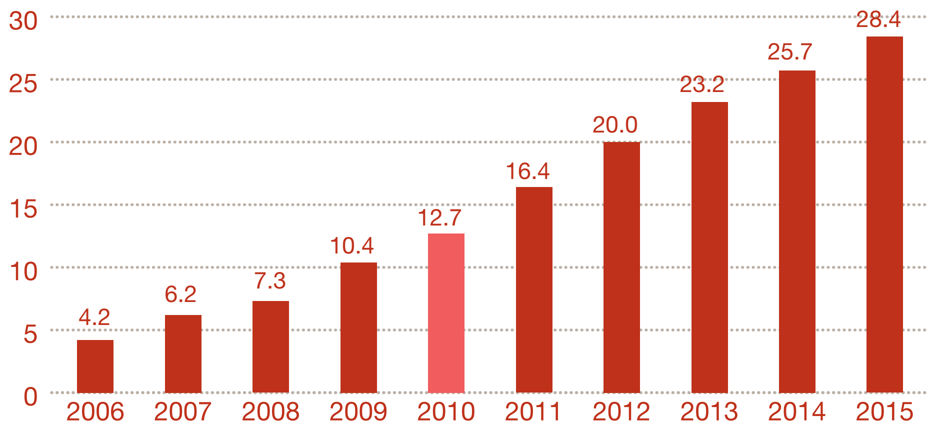
However, one key issue *has* changed since last year. In 2010, we said companies were still searching for their position in the digital value chain and embedding their digital strategies with no clear path yet emerging to succeed in a changed environment. In 2011, the focus has changed from inward to outward, as companies embrace the fact that multi-partner collaborations along the value chain will be key to their success – an approach we highlighted in last year's *Outlook*.

As a result, 2011 has seen an upsurge in collaborative partnering, which we are confident heralds the transformation of the E & M industry over the next five years into a digital collaborative ecosystem. PwC's *Annual Global CEO survey* shows that industry CEOs see collaboration as critical to innovation and consumer engagement. Collaboration also provides an opportunity to address the industry's pressing challenges around talent by providing vital and complementary skills.

Digital becomes the new normal

Increasingly, digital technologies provide the focus and opportunity for collaboration. In our view, this reflects the fact that the industry is reaching a psychological and behavioural tipping point by moving from the old normal – of essentially traditional business with a growing digital element – to a new normal, wherein digital is acknowledged as the central driver of future operating models, consumer relationships, and revenue growth. While digital currently accounts for 12.7% of total industry revenues in South Africa, it is expected to grow to 28.4% of total spending during the next five years, spurred on by improved broadband access.

Digital share of E & M spending in South Africa (%)



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

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Fuelled by collaboration

The rising demand for digital experiences will increasingly be met through multiparty collaboration. The momentum behind collaboration will be sustained by the pervasive impact of the Internet on all media. Unlike previous waves of innovation, the Internet is fundamentally altering the dynamics of the various media themselves. Witness the impact on book publishers, which now find themselves fully immersed in the digital revolution following the surge in sales of e-readers and tablet computers.

The route to competitive advantage: Harnessing three key drivers

In our view, the route to success in the emerging collaborative digital environment lies in harnessing three industry-wide dynamics:

- **Digital:** This is the rapid and accelerating digitisation of elements including content, business processes, and product innovation. Social media, mobility, and the explosion of apps have already had profound impacts – and these will continue to grow.
- **Demand:** All interactions are being affected by rising consumer expectations. Consumers are empowered, connected, able to influence large communities of people, and ready to play an increasingly collaborative role in developing new E & M products and services.
- **Data:** The proliferation of digitised content, Web access, and social media means companies now have the ability to mine and analyse detailed/contextual information never previously available. Data is key to the interface between consumers, content experience and brand, as well as to innovation.

To harness those three drivers, we believe participants in the industry need to focus on:

- The empowered consumer;
- The involved advertiser; and
- Organising the business for digital, by transforming into a collaborative, digital enterprise.

We will now examine all three of these focus areas in more detail.

I: The empowered consumer

Across the E & M industry, content producers, media owners, platforms and advertisers are being compelled to create experiences that engage today's empowered consumer, thereby creating multiple opportunities for monetisation. These efforts include redesigning content experiences to be multipurpose and multiplatform, extending experiences across different social and physical contexts. Engagement of and with the consumer is becoming the principal driver of brand, content and device, both from a social and a technological perspective.

A 'golden age' for consumers

But will consumers pay? For many, the expectation that content can be accessed free has become an integral part of their lifestyles. Convincing people to pay is made all the more difficult by the fact that we are now in a 'golden age' for the content consumer.

With the explosion of digital content, consumers have a choice and volume of content several magnitudes greater than five years ago, much of it available free – or at least at no extra cost in addition to paying for access.

Furthermore, piracy is not only rife but also spreading across segments with the advance of digital. With e-readers now taking off among consumers, book and magazine publishers risk encountering the same issues that music did during its own digital transformation several years ago – namely, rampant digital theft and plummeting revenues. Meanwhile, the cross-industry battle against piracy continues.

What will people pay for?

In an industry that must generate profits to invest in new content experiences, a situation in which content cannot be effectively monetised is unsustainable. If consumers do not start paying, how can the content industry survive – particularly if advertising-supported content revenue models do not deliver replacement revenues quickly enough?

New content revenue strategies

The drive to build content engagement is accompanied by growing efforts to monetise that engagement. Despite the widespread belief that digital content should be free, consumers are becoming more used to paying for premium content on their digital devices. Encouraged by this trend, companies are now taking various approaches to try to reassert the monetary value of their content.

In the newspaper industry, for instance, these efforts are being spearheaded by moves to implement paywalls for online content, making 2011 the year the paywall concept proves its commercial viability – or lack of it. To date, the prospects appear brighter at the premium end of the market and for specialist content such as high-end financial news and analysis, with some newspapers adopting approaches that include 'freemium' business models, which combine a free ad-funded service with a premium subscription-based ad-free variant.

Across the E & M industry, a range of other strategies are being employed to drive content revenues and fend off digital erosion. For example, consumers are increasingly impatient for movie content – and the Internet enables them to open the release windows early, unofficially and for free. In response, the filmed entertainment industry is trying out new ways of windowing releases by staggering the release on various platforms in combination with different pricing options for different time delays. We believe this strategy will bear fruit.

Price is clearly a factor in consumers' decisions about whether to engage in piracy, but other considerations can more than offset that. In last year's *Outlook*, we highlighted quality, convenience and experience as key factors encouraging consumers to pay for content. To these three, we now add 'participation' and 'privilege'.

In terms of participation, consumers love playing an active role in shaping their content – and are happy to pay to do so. Witness the popularity of buying virtual equipment to gain a competitive edge on video gaming sites. The advance of social media as a mainstream and monetisable platform for content and advertising underlines the rise of participation.

Meanwhile, in terms of privilege, many consumers would like unlimited access to content free but are happy to pay for services that provide additional value and the ability to 'jump the queue', such as special offers, advance information on discounts and earlier access to content.

Companies face the challenge of turning these five attributes into sustainable, profitable and engaged relationships with consumers by offering advantages that more than offset the attractions of 'free' pirated content. TV content providers are fending off the threat of cord cutting by expanding their subscriptions onto the fixed and mobile Internet.

The drive to build content engagement is accompanied by growing efforts to monetise this engagement. Some newspapers are implementing online paywalls and the filmed entertainment industry is trying out new ways of 'windowing' releases, staggering release on various platforms with different pricing options.

In each case, engagement and revenues are being driven by a combination of content and brand through companies becoming a trusted provider of content experiences that people value above possible 'free' alternatives.

Mobile devices: What's hot

Among younger demographics particularly, consumers' imaginations have been fired up by the proliferation of smart mobile devices and the desire to have the latest experience generated by the latest device. Each of the three key categories – smartphone, tablet and electronic reader – has its own specific appeal in delivering content experiences that build consumer engagement and each category will continue to see strong growth in the next five years.

Smartphones: *People are migrating to smartphones as wireless network upgrades allow for faster download speeds, and the markets for smartphones and mobile apps are now driving one another. Carriers are also promoting smartphones, since the users spend much more per month than non-smartphone users.*

Tablets: *These generally offer better screen resolution than typical PCs and provide a mobile platform for video content, print content, games apps and Internet access. While tablets can be used in a number of ways and for non-E & M activities, E & M is a principal tablet application. Book publishers, video game developers and television and film companies are all now making their content available to tablet users.*

E-readers: *While they have been around for several years, it was only recently that e-readers began to generate much excitement. This occurred when Amazon introduced the Kindle, which gave consumers the ability to wirelessly and instantaneously download books directly to the mobile device. As well as being much less expensive than tablets, electronic readers have longer battery lives, can be read in full sunlight, and attract avid book readers to whom video and colour are not important.*

How will people pay—and when?

Establishing content and brand engagement is one half of the monetisation equation. The other involves the mechanics of how people will execute their financial transactions. While a growing number of business models seek to generate revenues from consumers – often in combination with advertising – there remain questions about how to raise money from those consumers. Again, various models are being tried, including freemiums, micropayments and selling bundled access to the same content over a variety of platforms.

At the same time, there is a significant emerging shift away from payment models that involve buying and 'owning' content that is stored on a device, towards paying for the right to 'rent' it via streaming from cloud-based services. Taking music as an example, the models currently in use range from the iTunes-style concept of paying per transaction to own a specific piece of content to the subscription model of giving the right to stream content from a library.

For transaction-based payments, a pointer to the future may be the success of micropayments in the video games industry.

As explosive growth in mobile devices continues, people's choice of platform has become a further factor influencing what people buy and via what payment model. Some platforms impose a particular payment model. While paid-for apps have taken off dramatically, competing operating systems and varying non-standardised handset displays are now fragmenting the market, forcing app developers to repurpose their offerings for multiple platforms.

As the accompanying information panel shows, the explosive growth in various types of mobile devices is set to continue throughout the forecast period.

The relationship between content providers and distributors may also influence payment methods. A deluge of smartphone data is clogging communications operators' bandwidth capacities – yet the returns on investing in network upgrades are uncertain. Given these circumstances, telcos might favour a payment model based on metering the flow of data and charging consumers for the amount of bandwidth they use. The challenge with this approach is that the size of the data download does not necessarily reflect its value to the consumer.

Another approach involves using the smartphone as a device to conduct financial transactions. Several technology companies are developing smartphones equipped with near-field communication (NFC) technology that enables them to make mobile payments. Telcos, banks and technology companies are already collaborating to establish market position early on.

In seeking the right payment model for the right content experience, it is critical that E & M companies take a flexible approach and collaborate with other players. This will give content companies the greatest possible scope for moulding their payment models around what consumers want, thereby making the mode of payment one of the drivers of engagement.

II: The involved advertiser

As content providers have set about using creative thinking and innovation to drive digital revenues from consumers, so advertisers and agencies have followed suit, becoming increasingly sophisticated in identifying and exploiting the new brand opportunities brought by digital content services and platforms. Advertisers want more information and more verifiable return on investment from their ad spend. They are also listening to – and engaging directly with – their consumers to a greater extent than ever before.

Ad agencies are moving to respond to these needs, providing their clients with new ideas for connecting with consumers via digital platforms, thus enhancing ad effectiveness and the return on investment. Agencies are also investing in the success of digital advertising by sharing the risks and rewards with brand owners and by trying out new ideas jointly with clients on an experimental basis.

What will advertisers pay for?

The fundamentals of what advertisers are looking for remain consistent: advertisers will pay to appear where the right people are watching, especially if they can interact with people in a personalised way. The move to digital media has vastly increased the opportunities to do this.

Their core aims mean advertisers want to use channels in which consumers are both concentrated within their target segments and closely engaged with the content experience. They are also increasingly demanding transparent, verifiable evidence that they are hitting the right segments with the right messaging via the right platform and thereby generating a good return on their ad spend. This demand is driving ongoing advances in audience measurement, with a shift in metrics away from volume towards engagement. As content providers constantly innovate to drive digital revenues from consumers, so advertisers and agencies have become increasingly sophisticated in identifying and exploiting the new brand opportunities brought by digital.

Over the past year, consumers' growing engagement with content has undoubtedly helped to drive an unexpectedly strong recovery in the advertising market – especially TV advertising. The resilience of TV advertising reflects several factors, which in combination have seen advertising spend return to TV during the economic recovery in a way that has not happened for the print media. One reason is the compelling nature of video content and the intensity of the TV experience for live action sports and major public events. For example, the 2011 Cricket World Cup final was reportedly watched by one billion TV viewers worldwide.

TV has also enthusiastically embraced and engaged with social media, building strong online communities around social media's content, and actively expanding its reach to new devices and channels, thereby boosting convenience and flexibility for users.

How will advertisers use digital media to engage consumers?

To leverage content engagement to drive brand engagement, advertisers are collaborating, experimenting and innovating with E & M companies and other participants, to embed and target their messaging in new and increasingly sophisticated ways.

One of the signs of this growing sophistication is a more insightful view of the relationship between consumers' buying decisions and use of electronic media. Every sale transaction involves three stages: research, purchase and delivery. Depending on the array of variables, including the nature of the brand offering – from cars to fast-moving consumer goods and financial services – and the prevailing consumer culture, electronic media play a greater or lesser role in each of the stages. Through analysis of electronic media's influence at each stage, advertisers can target and structure campaigns to yield a more optimal return.

Together with such approaches, a major current focus for brand owners is on using mobility and social networking to develop direct consumer relationships, turning social media into social intelligence and brand engagement. Filmed entertainment companies are also making growing use of social networks as a source of revenues, such as streaming movies on Facebook.

With commercial use of social media, the power of the concept, its free-form and fluid nature, is also its greatest challenge. In this context, it is significant that many of the current initiatives to create new monetisation models through platforms such as Facebook are experimental in nature.

Whereas in the past companies used to conduct detailed research and planning before launch, today they simply put something out there and see whether consumers take it up. In effect, companies are using the social networking community as a collaborative testing environment for the commercial viability of new ideas.

Branded digital entertainment is a further strong focus. While the concept of branded entertainment has been around for many decades, digital media and especially social networking, have transformed branded entertainment's reach and profile. Young consumers are more likely to buy a brand that tries to entertain them.

Customised content across complementary platforms drives advertising effectiveness

While online services and social media were initially seen as threats to television consumption and advertising, they are proving to be complementary to TV revenues. Indeed, TV and social networking are increasingly being integrated as a single offering, and digital advertising is seen as incremental to TV ad spend rather than as a replacement.

TV has also proved adept at repurposing for other platforms, creating a consistent multichannel content experience while using robust authentication to keep control of rights usage. These efforts include generating customised content that attracts not only specific advertisers but also specific demographic profiles on specific platforms.

The power of complimentary cross-platform integration to drive deep content engagement is also evident in video games, which have succeeded in tapping into every aspect of digital through incorporation of compelling content, interactivity with social networks, exciting graphics and integration with mobile.

Addressable advertising continues to advance

As the techniques for monetising social networks as advertising and commerce platforms continue to evolve and mature, advertisers are looking to the next stage: using new platforms and technologies as central brand contact points by harnessing such developments as location-based marketing and addressable advertising to target content and messages at consumers based, respectively, on those consumers' locations or demographics and interests.

A key question remains how far and how fast mobile addressable advertising and location-based advertising can drive ad revenues. New technologies are rapidly pushing back the boundaries of what is possible, as reflected by the development of 'gladvertising', an emerging model that uses cameras backed by advanced emotion recognition software to detect a passerby's mood and target them with an appropriate advertisement. Gladvertising is expected to come into use within the next five years.

More generally, digital billboards will link with smartphones and offer 'interactive experiences' enriched by personal details such as anniversaries, favourite foods and the shops a consumer has visited.

It is significant that collaboration will be essential for E & M companies, advertisers and platforms wishing to capitalise on opportunities such as these.

III: Transforming the business for digital

The rise of the collaborative digital enterprise

Where are these various trends and forces taking E & M companies as we head towards 2015? The answer is, towards a new operating model that we call the collaborative digital enterprise (CDE). This operating model will enable companies to harness the three drivers – digital, demand and data – that we highlighted earlier. We expect to see CDEs emerging in many sectors in the next few years, but the digitalisation of content and the surrounding experience gives the model particularly powerful implications for the E & M industry.

The CDE has its roots in technology, but is much bigger in that it is designed for an environment of constant disruption – and opportunity – caused by the emergence of the digital economy. This transformation means technology is no longer an isolated or enabling element within the enterprise. It *is* the enterprise. So, true digital transformation requires a total recast of what a company does to stay relevant and to lead – by conducting itself as a dynamic, interconnected and continuously engaged enterprise. A company so optimised will collaborate continuously with, and be enabled by, its entire customer, employee, and supplier ecosystem.

Migrating to the CDE model will also enable companies to keep their cost base down thanks to the move to digital. For example, book publishers are trying to work out the pricing structure for their digital books, but at the same time, the physical cost base for their old-world product is rising because fewer non-digital units are being sold. These products will not be as profitable in terms of margins with fewer people buying. Digital processes and interactions will help keep their cost bases down, whether the end product is delivered digitally or non-digitally.

Of the three drivers, we have concentrated so far on the first two: digital and demand. To make the most of these two, E & M companies will need to harness the third – data – by understanding and exploiting the full power and value of the information generated and stored in their collaborative value chains.

Data mining: A key skill for future success

E & M companies must master a skill once associated more with retailers: data mining. Given ongoing fragmentation, the only way companies can move to engagement-based selling of content and ads is by understanding the information they hold.

The advent of digital content and delivery technologies has driven rapid growth in E & M processes critically dependent on data mining. The rise of data mining up the skills agenda also reflects the E & M industry's broader move toward an information-based and analytic culture that uses technology to move into the next phase of business improvement – a phase based on information.

Effective data mining helps companies by applying robust management information and analytic systems and metrics that drill down into customer and operational data to gain insights into individual consumer's behaviours and preferences. This in turn enables companies to develop content relevant to each platform and consumer segment, drive scale in the direction of the consumer, enhance the consumer's engagement with the content and create a more attractive and transparent offer for advertisers.

Given the ongoing fragmentation of audiences and consumption modes, the only way companies can move to engagement-based selling of content to consumers and of ads to advertisers is by mining and then understanding the information they hold. For advertisers, effective audience measurement is one element of this. But we believe the real prize lies in tailoring content experiences to consumers and in driving engagement to a whole new level, which will boost both content and ad revenues.

Data mining: Across the collaborative value chain

A further driver of the need for quick and accurate data mining and analytics is the fact that more complex deals and collaborations are happening – and more rapidly.

The growing interdependence of the digital environment demands that the ability to track and mine data applies not just within businesses, but also across their entire digital value chains.

For example, it is imperative for video content owners to have visibility into their distribution chains. At the same time, advertising agencies are collaborating with third parties to add value to their client relationships by helping ensure that they are operationally ready for marketing campaigns, and in assisting them to integrate and streamline their media spend management.

Future-proofing content: Fusing technology and skills

As new digital platforms tip over into mainstream adoption, the companies' ability to deliver customised content for new platforms and channels will be important to their success. Specifically, in combination with the right balance of creative and digital skills, this will enable companies to 'future-proof' their content against changes in the platform landscape.

We believe that over time the technology and device landscape will shift towards open standards, which will attract wider and more sustainable support from consumer and content providers than proprietary systems do. By developing their content in line with such open standards, companies can reduce the need to repurpose or recreate that content when the environment changes. At the same time, tagging the digital content with relevant metadata will also help consumers search for it and boost consumption across platforms. All of this will help to future-proof content in a shifting digital value chain.

A crucial requirement for the future-proofing of content will be the ability to find, develop and retain people with the right digital skills. Again, collaboration will be the main route for gaining access to people with complementary talents and specialist skills that companies may not have in-house.

Another challenge in building the E & M CDE of the future is that many companies need to rebalance their talent base more evenly, shifting it away from people who *create* content toward those with the information technology and the technological skills to *repurpose* it across multiple platforms. Also, while companies do benefit from staff with long-service records and extensive professional experience, history shows that entrenched employees too often make decisions based on gut feelings for their market. Instead, decision makers need to use data mining, analytics, and management information tools to derive the hard, objective insights required for making the best decisions.

Supported by robust end-to-end digital workflow

A vital enabler for future-proofing of content and for the overall operations of the collaborative E & M company of the future is digital work flow. A company with a well-designed and executed end-to-end digital workflow around its content has a built-in competitive advantage over companies without this, because it enables the company to create and deliver higher-quality multi-platform content experiences faster and at lower cost. Even when the end product is non-digital, all in-house creation will still be generated and managed through digital work flow, delivering higher levels of agility, greater consumer responsiveness and lower costs.

Given the ever-deeper penetration of digital technology into all segments, these benefits apply to all media – but initially they are most evident in video content. Already, content providers to multichannel video delivery platforms need to be masters of digital workflow. Over the next five years, digital workflow will become an increasingly critical differentiator in all other E & M segments as well.

We believe companies should examine their own end-to-end digital workflows, assess the work flows' fitness for purpose in the future and, if this has not already been done, re-set their supply chain for digital content, all the way from creation through the distribution process and on to the consumer experience.

Regulatory challenges: privacy and cross-platform regulation

Alongside the other benefits brought by transformation to the collaborative digital enterprise, the CDE model will also position businesses to respond more effectively to regulation, which is a certain major industry risk factor where digital migration is driving ongoing change and uncertainty.
In our view, there are two specific regulatory challenges to which E & M companies should pay particularly close attention as they evolve towards the CDE model.

Privacy

Location-based and addressable advertising have the potential to raise worries about consumers' privacy, possibly leading to specific regulation via legislation or industry self-regulation. More positively, shifts in consumer behaviour and attitudes seem to be moving in the industry's favour, as consumers come to feel increasingly comfortable exchanging personal data for a proposition that adds value to their lives. People's willingness to accept this trade-off varies. But as people start to see and experience the cost and convenience benefits, we believe technological innovations will continue to change consumer behaviours and redefine belief systems. We expect the Consumer Protection Act to significantly impact the rights of consumers and the way advertisers reach their target audience going forward.

Cross-platform content regulation

For regulators worldwide, the continual fragmentation of the device market is heightening the dilemmas around regulating the same content by using different criteria in multiple spaces, such as on TV, online and via smartphone, tablet and e-reader. The resulting regulatory inconsistency raises questions about whether current regulatory regimes are protecting a defunct status quo in a world that has moved on. This challenge is underlined by diverse court rulings around the world on digital rights.

The collaborative digital enterprise: At the nexus of market change

As the digital ecosystem evolves, we believe that more and more E & M companies will reshape themselves for it by harnessing the three drivers – digital, demand and data – to create a collaborative digital enterprise. This will position them at the nexus of significant new market dynamics, including industry-wide digital transformation, the broader shift to an overall collaborative ecosystem-based economy and the higher degree of agility needed to remain competitive in this environment.

The final, mission-critical piece of the puzzle is a CDE's differentiated ability to collaborate – enabling it to pursue clearly identified goals holistically through close, transparent and trusting two-way relationships with customers, employees, distribution and technology partners, and suppliers.

The collaborative future emerges

In PwC's view, the next five years will see the collaborative digital enterprise model emerge as a template for successful E & M companies. Not all E & M players will evolve this way; some have unique embedded advantages that will enable them to go it alone. But, we believe that organisations that adopt this model will generally be more successful in the digital ecosystem that will emerge by 2015.

As we have highlighted, in 2011 we are already seeing collaboration unleash genuine commercial power across the value chain. This collaboration is emerging in virtually every industry relationship – for example, with consumers through the use of social networking as a test bed for new offerings; with advertisers, through new and emerging models such as addressable advertising; and with platforms, through content experiences tailored to capitalise on specific device capabilities.

The new landscape is already emerging. Across the leading digital markets, we are seeing pipe owners, content owners, device manufacturers, operating systems and app developers working together in varying configurations to produce engaging content and service experiences, all of them fed by instantaneous consumer feedback and analytics. The momentum is unstoppable.

The collaborative digital enterprise will escalate and elevate this collaboration from the current series of discrete initiatives to a sustainable and interconnected collaborative digital ecosystem. We think that by 2015, most E & M companies, and the vast majority of the industry winners, will have digital collaboration infused into their DNA. The real question is how quickly this comes about.

Chapter 2

Internet access spending and advertising

The Internet market consists of spending by consumers to access the Internet and spending by advertisers.

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

Internet advertising consists of spending by online advertisers on display, classifieds, paid search, video and other online formats; and advertising delivered to mobile devices. The Internet advertising category includes online and mobile television, newspaper, consumer magazine, trade magazine and directory publishing advertising that is also included in the respective content chapters. To eliminate any double counting, figures for total advertising are presented in Chapter 1's Industry overview.

Outlook at a glance			
Internet access and advertising market (R millions)	2010	2015	2011-15 CAGR (%)
Total wired Internet access	4 197	13 635	26.6
Mobile access	7 800	22 050	23.1
Total Internet and mobile access	11 997	35 685	24.4
Internet advertising	435	1 300	24.5
Mobile advertising	48	758	73.7
Total advertising	483	2 058	33.6
Total	12 480	37 743	24.8

Outlook in brief

- *South-Africa's data backbone has strengthened significantly, with the continent now connected to a number of undersea fibre-optic cables. Fibre-optic capacity in 2011 is now 300 times larger than it was before the launch of SEACOM.*
- *Uncapped broadband packages were introduced to consumers for the first time during 2011.*
- *As a result of fierce competition, both broadband and mobile Internet access prices have started to decline significantly.*
- *Mobile access is seen as the future of the Internet connectivity, with both the mobile access and mobile advertising market expected to see significant growth.*
- *The Internet is a key driver of entertainment and media spending in most segments. It has and will continue to redefine the way that consumers interact across all segments.*
- *Social media is growing to become an important component of online advertising.*

Louis de Jager
Manager
PwC Southern Africa

Elenor Smith
Manager
PwC Southern Africa

Broadband

The South African Department of Communications defines a broadband connection as "an always available, multimedia connection with a download speed of at least 256kbps" as per its Broadband Policy for South Africa. It has recently said that it may consider increasing the download speeds to 2Mbps in their definition of broadband.

The department also clarified what is meant by "100% broadband penetration" as being population coverage and not geographic coverage. The plan is for the whole of South Africa's population to be within the coverage of a broadband network.

Source: Jan Vermeulen,"Broadband for all by 2020: What does it mean?" www.mybroadband.co.za, (August 2011).

Summary

The Internet has moved well beyond serving as an information and e-mail resource to become an entertainment centre in and out of the home. Users download, upload and share videos, music, movies, TV shows, newspapers, books, magazines and other content. Users also use the Internet to shop online. Because many of these applications consume large amounts of data, bandwidth is critical. Historically, when broadband has become available, Internet users have quickly shifted from dial-up. In South Africa, high costs coupled with a lack of broadband availability in some areas and slow broadband speeds in others are the remaining impediments to growth in the Internet market. Thanks to mobile technology, the playing field is, however, steadily changing.

'The future of the Web lies in mobile devices' – this is the view of Tim Berners-Lee, the man credited with inventing the Internet we know today[1]. Internet access in South Africa is rapidly becoming a mobile technology. The goal of universal broadband availability by 2019 that was set by the South Africa National Broadband Forum and endorsed by the Department of Communications in 2009, envisions mobile technologies playing a major role in meeting this target, as fixed-line infrastructure and access thereto remains limited. In 2011, the Minister of Communications, Roy Padayachie, signed a compact that commits to achieve 100% broadband penetration by 2020, demonstrating Government's recognition of the strategic importance of universal Internet.

Sentech, the state-owned signal distribution company, will begin rolling out its National Wireless Broadband Network in 2011. This will extend broadband to rural and underserved areas, with R450 million having been allocated to the project in 2011.

The shutdown of analog television signals scheduled for December 2013 is expected to free up valuable spectrum in the 800MHz. This spectrum that will be allocated for mobile broadband will facilitate the emergence of Long Term Evolution (LTE) 4G technologies that will provide for fast mobile broadband. The 800MHz band has strong propagation features that allow signals to travel further and penetrate buildings more effectively than higher frequencies, while also requiring fewer mobile towers. Various industry players have already indicated that they are interested in rolling out LTE network infrastructure.

Meanwhile, mobile carriers have been making significant upgrades to their wireless network infrastructures. As a result, users of mobile data services have been experiencing a significant increase in speeds. Vodacom had more than 1 800 HSPA+ sites in 2010 and has upgraded around 1 000 of these to enable up to 43.2Mbps download speeds. MTN is using its 900MHz licences to expand its 3G network into rural areas. Cell C entered the 3G market with a bang in 2010, investing more than R5 billion in deploying a new HSPA+ network using both its 900MHz and 2.1 GHz licenses. Cell C has also began rolling out its 42Mbps HSPA+ service to selected areas. Telkom launched its 8ta mobile network in October 2010 with a 7.2 Mbps mobile service. Telkom is also planning to increase its 1 000 base stations to 2 000 during 2011 and 2012 as well as increasing the speeds it is offering to a 21 Mbps HSPA+ service.

Spending on mobile Internet access overtook wired Internet access spending in 2009. By 2015, mobile Internet access spending is projected to be 62% higher than spending on wired Internet access.

1 Source: Anna Malczyk, *"Is mobile the future of the web?" Marketing Web,* (January 2011).

Internet users (millions)

Technology	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Dial-up	3.3	3.2	2.3	1.5	1.0	0.7	0.5	0.3	-33.5
Fixed broadband	0.7	0.8	1.1	1.5	2.1	2.9	3.9	5.0	35.4
Mobile broadband	0.6	1.3	2.6	4.8	7.5	10.5	13.9	17.5	46.4
Total	**4.6**	**5.3**	**6.0**	**7.8**	**10.6**	**14.1**	**18.3**	**22.8**	**30.6**

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

While most of the growth in access spending will be generated by mobile access, we also expect a pick-up in wired access spending, attributed to a significant increase in capacity and decreases in prices.

South-Africa's data backbone has strengthened significantly during recent years as the continent has become connected via a number of undersea fibre-optic cables. South Africa is currently serviced by four undersea fibre-optic cables, namely SEACOM, EASSy, SAT3 and SAFE.

In April 2011, The West Africa Cable System (WACS) landed at Yzerfontein in the Western Cape. With a capacity of 5.2 Terabits per second (Tbps), the cable will provide South Africa with more capacity than the current capacity of all other undersea fibre-optic cables serving South Africa put together. WACS links South Africa and other countries in western Africa to Europe. The cable is expected to be ready for commercial use in the first quarter of 2012, and will increase South Africa's broadband capacity by more than 500 gigabytes (GB) per second. MTN is the leading investor in WACS. It's R700 million commitment represents approximately 14% of the total cost.

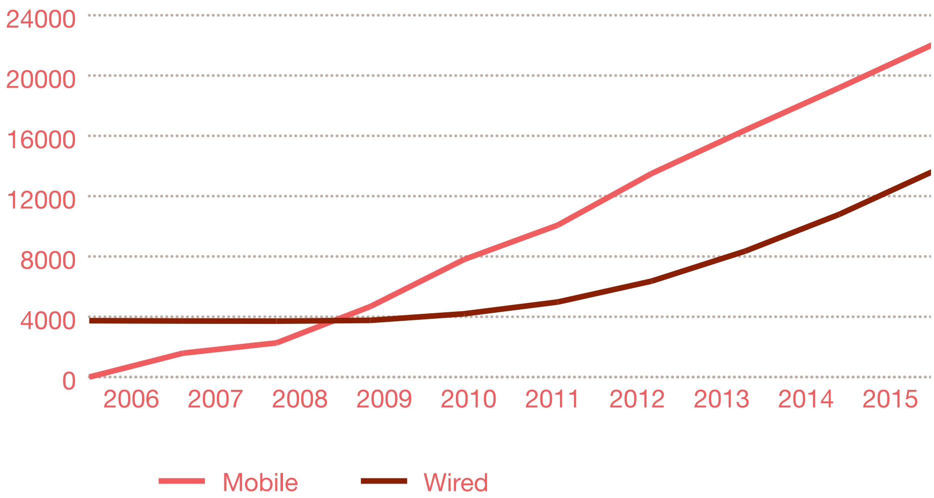
The new cable systems have substantially increased Internet capacity in South Africa and contributed to a significant decrease in costs. The combination of lower costs together with faster speeds will boost the fixed broadband market during the next five years.

There was an increase in the total number of Internet users in South Africa from 5.3 million in 2009 to 6.0 million in 2010. Of this total, 3.7 million were broadband users, of whom 2.6 million (comprising 70% of broadband users) accessed the Internet through a mobile connection. Mobile broadband has been the fastest-growing technology during the past two years and this trend is expected to continue during the next five years. By 2015, there will be an estimated 17.5 million mobile broadband users in South Africa, a 46.4% compound annual increase from 2010.

We also expect fixed broadband to show significant growth, rising to five million users in 2015, a 35.4% compound increase, while the number of dial-up users is expected to decline by 33.5% on a compound annual basis, falling to 300 000 in 2015 from 2.3 million in 2010.

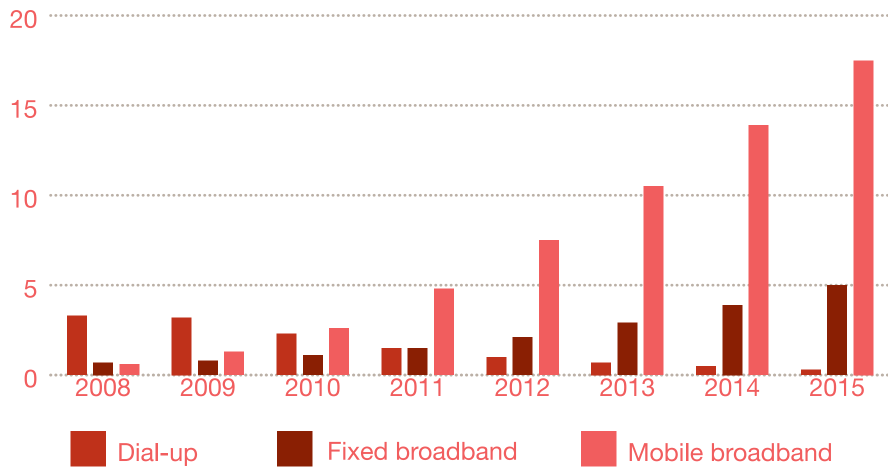
With the increase in broadband access and affordability of the service, consumers can look forward to the introduction of various new services over the forecast period. The new services are expected to cross a range of media segments. In the Pay-tv segment, MultiChoice has announced its DStv Box office service for PVR subscribers and indicated plans to launch an online version of the movie store by the end of 2011.

Internet access spending (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

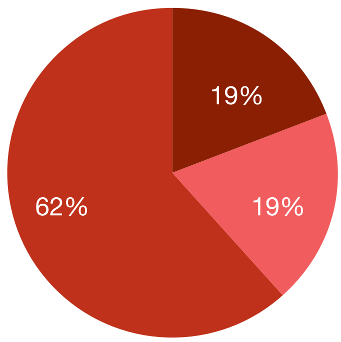
Internet users (millions)



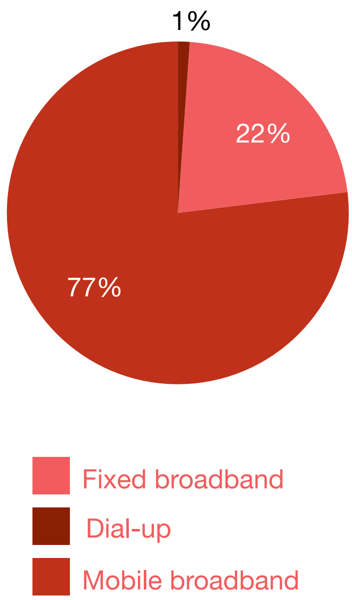
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Distribution of Internet users (%)

2011



2015



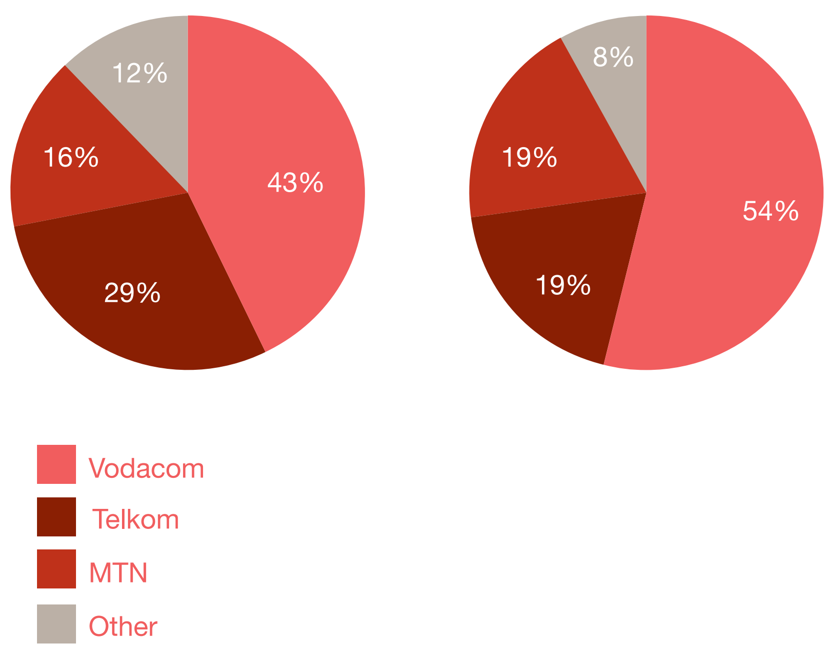
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The large increase in mobile broadband in 2010 generated share gains for Vodacom and MTN, the principal mobile providers. Vodacom's share of total broadband users (including wired and mobile access) increased to 54% in 2010 from 43% in 2009 while MTN's share rose from 16% in 2009 to 19% in 2010. Telkom's share dropped to 19% in 2010 from 29% in 2009.

With Cell C and 8ta (a division of Telkom) launching 3G services during the latter half of 2010, we expect increased competition in the broadband market to significantly affect the distribution of broadband subscribers over the forecast period. Consumers are increasingly looking for data deals that offer better value. Bundled deals are also becoming common with past-midnight data deals bolted on to standard deals to entice consumers to take up special offers. The speed and reliability of the broadband service, together with the best value for money, will continue to drive consumers' choice of broadband providers.

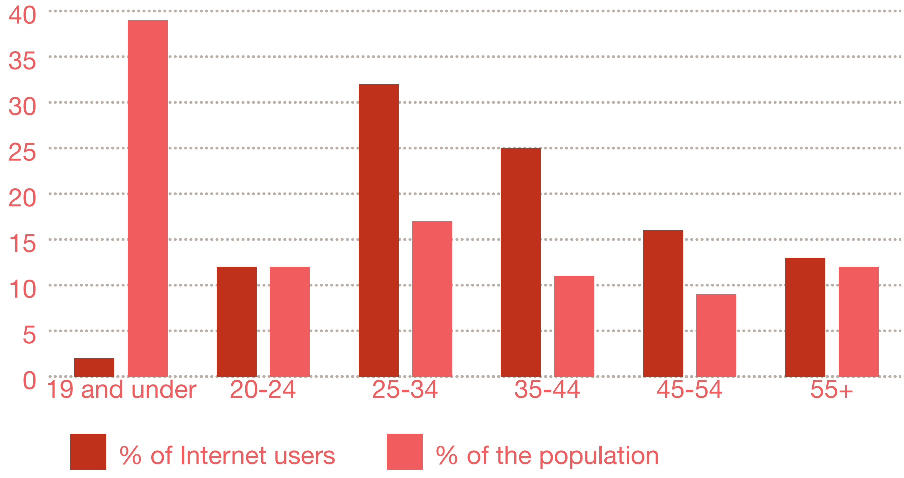
Distribution of broadband subscribers (%)

2009 **2010**



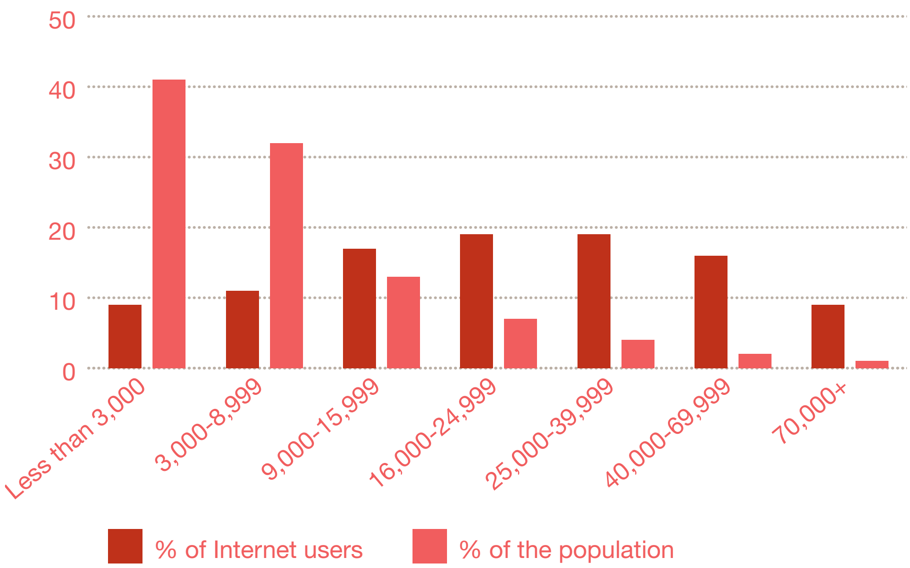
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Distribution of Internet users by age in South Africa (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Distribution of Internet users by income in South Africa (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In 2010, more than half (57%) of Internet users in South Africa, representing 28% of the population, were between 25 and 44 years. Internet usage among people 45 and older was also higher than its share of the population. Internet users aged 19 and younger, represent 39% of the population, but only 2% of Internet users.

The breakdown of Internet users by age can be directly linked to the average income of these users. The incidence of Internet usage rises as income rises.

Although prices are coming down thanks to increased competition and capacity in the market, broadband is still expensive in South Africa. In addition to the fee charged by Internet Service Providers (ISPs), fixed broadband users have to pay a monthly phone-line rental fee as well as an ADSL-line rental fee. As recently as 2006, the average fixed broadband monthly fee was R780 excluding phone-line rental. This price fell to R480/month in 2010, but is still relatively high in comparison with costs in more mature markets.

Households with a monthly income of R9 000 or higher accounted for 80% of all Internet users, even though this group represents only 27% of the population. The highest income level, with a monthly income of R40 000+, accounts for 25% of all Internet users, but only 3% of the population.

Total Internet spending rose by 41.4% in 2009. Access spending, which comprised 96% of the total market in 2010, increased by 42,1% and advertising showed an increase of 25.5%.

Fixed broadband access spending benefited from the launch of SEACOM in 2009 and rose by 20.8% in 2010, following three years of single-digit growth. The dial-up market declined by 17.7% in 2010, its largest decrease during the past four years. Overall, total wired access spending rose by 11.6% in 2010.

With mobile broadband becoming available to more areas and with fixed broadband prices coming down, we expect dial-up users to switch to broadband at accelerating rates, which in turn will lead to accelerating decreases in dial-up spending.

As the dial-up market shrinks, declines in that component will have less of an impact on total spending while the expanding wired broadband segment will play a larger role in total spending. We expect wired Internet access spending to rise by 18.7% in 2011 and to expand at annual rates above 20% during the 2012-15 period.

For the forecast period as a whole, wired Internet access spending is expected to increase at a 26.6% compound annual rate to R13.6 billion by 2015.

Advances in wireless infrastructure will drive mobile access spending, which we expect will reach R22.1 billion in 2015, a 23.1% compound annual increase from R7.8 billion in 2010.

Total Internet access spending is projected to increase at a 24.4% compound annual rate to R35.7 billion in 2015 from R12 billion in 2010.

Wired Internet advertising growth slowed to 4.3% in 2009, having experienced the effects of the recession, but rebounded with a 19.2% advance in 2010 thanks to the economic recovery and the FIFA World Cup. Over the longer run, an expanding wired broadband subscriber base will fuel growth in wired Internet advertising, which we expect will average 24.5% compounded annually during the next five years.

A growing mobile Internet subscriber base is also expected to boost mobile advertising. Although this market is still in its infancy, we expect it to expand at a 73.7% compound annual rate over the forecast period.

We project that total Internet advertising will increase at a 33.6% compound annual rate to an estimated R2.1 billion in 2015 from R483 million in 2010.

The overall Internet market is expected to more than triple in size to R37.7 billion by 2015 from R12.5 billion in 2010, averaging 24.8% growth compounded annually.

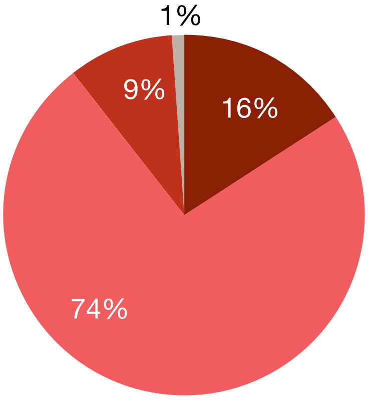
Internet access and advertising: Wired and mobile (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Dial-up	1 399	1 280	1 071	900	741	594	459	336	225	126
Broadband	2 340	2 441	2 640	2 862	3 456	4 386	5 904	8 019	10 560	13 509
Total wired Internet access	3 739	3 721	3 711	3 762	4 197	4 980	6 363	8 355	10 785	13 635
Mobile access	–	1 584	2 268	4 680	7 800	10 080	13 500	16 380	19 182	22 050
Total Internet and mobile access	3 739	5 305	5 979	8 442	11 997	15 060	19 863	24 735	29 967	35 685
Internet advertising	180	255	350	365	435	550	700	900	1 100	1 300
Mobile advertising	–	4	8	20	48	111	212	364	543	758
Total advertising	180	259	358	385	483	661	912	1 264	1 643	2 058
Total access and advertising	**3 919**	**5 564**	**6 337**	**8 827**	**12 480**	**15 721**	**20 775**	**25 999**	**31 610**	**37 743**

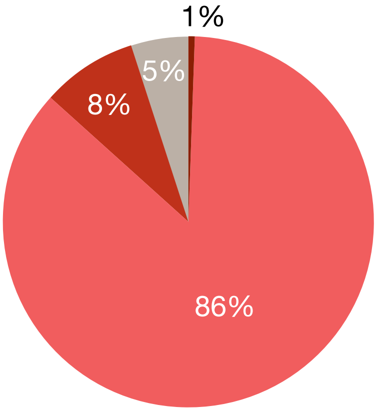
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

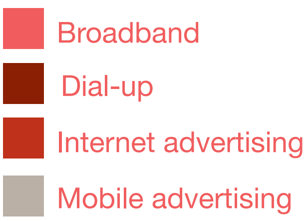
Distribution of Internet access and wired spending (%)

2010



2015





Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Internet access spending

Wired access

Karel Pienaar, Managing Director of MTN commented that 'Africa has until now been a cyclist on the information superhighway' [2]. Limited capacity has hampered the broadband market in South Africa, leading to high costs and constraining penetration. The capacity bottleneck is now easing with the opening of a number of undersea cables.

The SEACOM cable was completed in 2009 and provided a major increase in capacity for the South African Internet market, with a capacity of 1.28Tb/s. The SEACOM cable was followed by the EASSy which was completed in mid 2010. Both cables connect South Africa and other East African countries with Europe. The EASSy cable has a capacity of 4.72Tb/s.

South Africa is also serviced by two lower-capacity cables, SAT 3 and SAFE, which provide a connection between South Africa and countries in Western Africa to Europe.

The cable that is expected to have the most significant impact on the broadband capacity in the near future is the WACS. The WACS cable is owned and operated by a consortium of telecommunications operators, including Neotel, Telkom, Gateway Communications and MTN. Of these operators, Telkom, Vodacom, MTN, Neotel are also the South African investors in EASSy.

2 Source: Nmachi Jidenma, "South Africa's broadband capacity set to double as West Africa Cable System lands" www.thenextweb.com, (accessed July 01, 2011)

Neotel is currently the only telecommunication operator in South Africa that has direct access to all five undersea cables currently landing on our shores[3].

Fibre capacity in 2011 is 300 times larger than it was prior to the launch of SEACOM in July 2009. Growth in broadband capacity has predictably led to an increase in Internet usage. This is evidenced by the fact that Internet traffic in South Africa doubled in 2010[4] from the preceding year. However, broadband capacity is still expected to increase significantly with new undersea fibre-optic cables planned to be launched within the forecast period.

One of these planned cables is the recently announced South-Atlantic Express (SAex) cable system, which is expected to link South Africa (landing in Kwazulu-Natal) and Angola to Brazil and onwards to the United States[5]. Mtunzini in Kwazulu-Natal has already established itself as a centre of local connectivity as it is the landing point for both the SEACOM and EASSy cables.

3 Source: "*Neotel to connect to 5 undersea cables in South Africa*", www.neotel.co.za (April, 19, 2011)

4 Source: Pyramid Research, "*South Africa: Undersea Cables will double broadband capacity*" www.subtleforum.com (June, 6, 2011)

5 Source: Duncan McLeod, "*Brics nations back R3bn Brazil-SA mega cable*" www.techcentral.co.za (accessed July, 2, 2011)

Internet access spending (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Wired											
Dial-up	1 399	1 280	1 071	900	741	594	459	336	225	126	
% change	*-15.2*	*-8.5*	*-16.3*	*-16.0*	*-17.7*	*-19.8*	*-22.7*	*-26.8*	*-33.0*	*-44.0*	*-29.8*
Broadband	2 340	2 441	2 640	2 862	3 456	4 386	5 904	8 019	10 560	13 509	
% change	*108.6*	*4.3*	*8.2*	*8.4*	*20.8*	*26.9*	*34.6*	*35.8*	*31.7*	*27.9*	*31.3*
Wired total	3 739	3 721	3 711	3 762	4 197	4 980	6 363	8 355	10 785	13 635	
% change	*34.9*	*-0.5*	*-0.3*	*1.4*	*11.6*	*18.7*	*27.8*	*31.3*	*29.1*	*26.4*	*26.6*
Mobile	–	1 584	2 268	4 680	7 800	10 080	13 500	16 380	19 182	22 050	
% change	–	–	*43.2*	*106.3*	*66.7*	*29.2*	*33.9*	*21.3*	*17.1*	*15.0*	*23.1*
Total access spending	**3 739**	**5 305**	**5 979**	**8 442**	**11 997**	**15 060**	**19 863**	**24 735**	**29 967**	**35 685**	
% change	***34.9***	***41.9***	***12.7***	***41.2***	***42.1***	***25.5***	***31.9***	***24.5***	***21.2***	***19.1***	***24.4***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The SAex cable will provide a 12.8Tb/s capacity, which is 10 times the capacity of SEACOM, and 2.5 times the capacity of WACS. It is expected to be completed by June 2013. The cost is estimated at approximately R3 billion. SAex will be run by local black-owned technology investment company, eFive Telecoms. The SAex cable will provide onward connectivity to India, China and other Asian countries through SEACOM.

The Africa Coast to Europe (ACE) is a cable system planned to run along the west coast of Africa between France and South Africa. The cable is expected to have the same capacity as the WACS (5.12Tb/s) and is planned to be completed in late 2012.

The India-Middle East-Western Europe (I-ME-WE) cable is another cable expected to benefit not only South Africa but also the rest of Africa. The cable has been operational since 2009 and is currently linking India with France. It is expected to provide onward passage to cables such as EASSy and SEACOM in the near future.

In the next few years, South African consumers can expect a decrease in broadband Internet prices, higher speeds and a more stable service. Since Internet providers own capacity on more than one cable, they have the ability to redirect traffic from one cable to another in case of any cable failure. This will increase the level of broadband reliability and security.

The Independent Communications Authority of South Africa (ICASA) awarded a licence to Broadband Infraco, a state-owned enterprise, in October 2009 to allow it to sell domestic broadband services to fixed and mobile network operators. Broadband Infraco spent approximately R1 billion in 2010 to build a network and install 1 000km of fibre-optic cable. In November 2010, Broadband Infraco began selling capacity, offering network operators capacity of up to 10Gbps in increments of 155 Mbps.

MTN, Vodacom and Neotel are jointly building a 5 000km fibre-optic cable network connecting several major centres across South Africa. The first phase of the cable, which links Gauteng with Kwazulu-Natal and the landing point for the SEACOM, EASSy and the planned SAex was commissioned in June 2010.

Also in November 2010, a new player in South Africa's rapidly evolving telecoms scene, FibreCo Telecommunications, announced plans to develop a national open-access long-haul terrestrial fibre-optic broadband network to improve connectivity and further reduce Internet costs across the country. FibreCo is a partnership between Cell C, ICT firm Internet Solutions and investment management and advisory firm, Convergence Partners. The 12 000km network will commence with construction of the Cape Town-Johannesburg route and will also link with the new WACS cable.

Industry dynamics changed dramatically when MWEB began offering an uncapped service in March 2010, reflecting the impact of the additional capacity. In the first year of uncapped service, more than half of MWEB's subscribers selected the uncapped option and MWEB attracted many new subscribers as a result of this offering. Other ISP's followed with uncapped offerings, resulting in increased competition in the market.

Telkom is targeting light users with Telkom Simple, a new offering introduced in 2010. The package provides subscribers with 1 GB per month at 384 kbps for R369 that includes the phone line rental, ADSL modem and an 8ta 3G modem including 500MB once off data.

Telkom customers who subscribe to the Do Broadband 2 and 3 bundles also received additional data allowances for the same price from September 2011. Telkom has also introduced a new bundle at R395 per month offering a 1Mbit/s line and 5GB of monthly data.

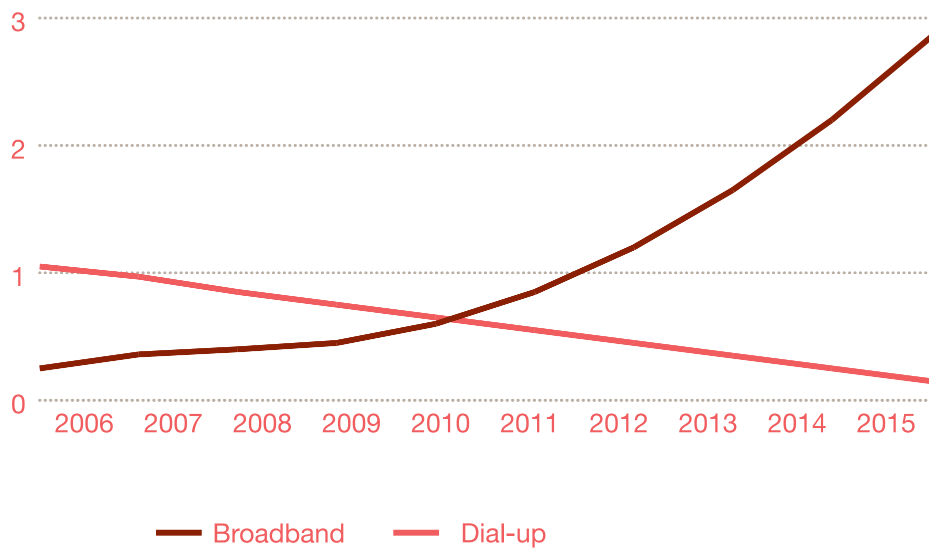
Telkom launched its no obligation 'Free Broadband' promotion in July 2011, offering new customers a free three-month subscription to their high speed Internet option (up to 1024kbps ADSL access). The promotion, available for a limited period, included 5GB of free monthly data, a 3GB email account, a free modem, free ADSL installation and a fixed line installation. During the three month trial, customers were only liable for the cost of their Telkom landline rental, call charges and out-of-bundle data costs.

Capacity growth is leading to faster speeds at lower costs, which will in turn boost broadband penetration. We expect the number of fixed broadband households to increase from 600 000 in 2010 to 2.85 million by 2015, a 36.6% compound annual increase. Fixed broadband household penetration will reach an estimated 29.4% in 2015, up from only 6.2% in 2010.

Growth in fixed broadband will be largely attributable to the conversion of dial-up subscribers to broadband. The dial-up household universe shrank by 13.3% in 2010 to 650 000. As broadband availability (both fixed and mobile) increases, we expect steeper decreases in dial-up. The dial-up household base will fall to a projected 150 000 by 2015, a 25.4% compound annual decrease. We expect dial-up household penetration to decrease to just 1.5% in 2015 from 6.7% in 2010.

The number of fixed broadband subscribers has overtaken the dial-up subscriber base in 2010 and is expected to be 19 times larger by 2015.

Wired Internet households (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The overall number of fixed Internet households rose by 4.2% in 2010 as accelerated growth in broadband more than offset the decline in dial-up. 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 the overall wired Internet household base to expand at double-digit annual rates beginning in 2011.

The total number of wired Internet households will reach an estimated three million in 2015, compared to1.3 million in 2010, a 19.1% compound annual increase. Household penetration is projected to rise to 30.9% in 2015 from 12.9% in 2010.

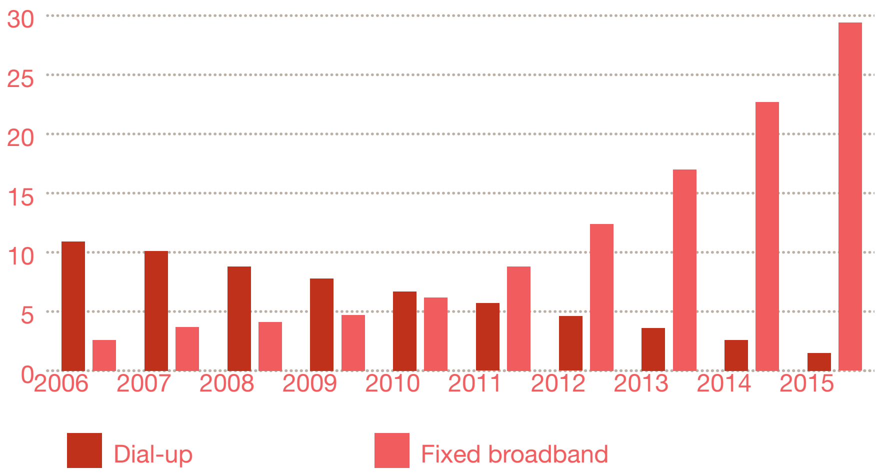
South Africa still lags far behind the rest of the developed world's household penetration with North America and Western Europe having around 80% penetration. The gap is, however, slowly narrowing with the means of access and the price becoming more accessible.

Wired Internet households (millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Dial-up	1.05	0.97	0.85	0.75	0.65	0.55	0.45	0.35	0.25	0.15	
% change	*-16.0*	*-7.6*	*-12.4*	*-11.8*	*-13.3*	*-15.4*	*-18.2*	*-22.2*	*-28.6*	*-40.0*	*-25.4*
Fixed broadband	0.25	0.36	0.40	0.45	0.60	0.85	1.20	1.65	2.20	2.85	
% change	*127.3*	*44.0*	*11.1*	*12.5*	*33.3*	*41.7*	*41.2*	*37.5*	*33.3*	*29.5*	*36.6*
Total	**1.30**	**1.33**	**1.25**	**1.20**	**1.25**	**1.40**	**1.65**	**2.00**	**2.45**	**3.00**	
% change	***-4.4***	***2.3***	***-6.0***	***-4.0***	***4.2***	***12.0***	***17.9***	***21.2***	***22.5***	***22.4***	***19.1***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Wired Internet household penetration (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The People's Republic of China is the world leader with 115 million wired broadband households, 70 million dial-up households and 291 million mobile access subscribers in 2010. In spite of these high figures, fewer than half of all households have a wired Internet connection and less than a quarter of the population has a mobile Internet subscription.

Source: Global entertainment and media outlook 2011-2015 (PwC, 2011)

Fixed broadband market

The average monthly broadband fee fell 9.4% in 2010 and we expect an additional 10.4% decline in 2011, reflecting the effect of the growth in capacity from the opening of SEACOM, the entrance of Broadband Infraco and the opening of WACS.

Thereafter, decreases are expected to be moderate, in part because some subscribers will opt for faster speeds that command premium prices. We expect that the average broadband subscriber will pay R395 per month in 2015, a 3.8% compound annual decrease from 2010.

The drop in monthly fees along with improvements in the broadband infrastructure is expected to drive fixed broadband penetration during the next five years.

Broadband access spending is expected to increase from R3.5 billion in 2010 to R13.5 billion in 2015, a 31.3% compound annual increase.

Wired broadband access market

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Subscribers (millions)	0.25	0.36	0.40	0.45	0.60	0.85	1.20	1.65	2.20	2.85	
% change	*127.3*	*44.0*	*11.1*	*12.5*	*33.3*	*41.7*	*41.2*	*37.5*	*33.3*	*29.5*	*36.6*
Average monthly fee (R)	780	565	550	530	480	430	410	405	400	395	
% change	*-8.2*	*-27.6*	*-2.7*	*-3.6*	*-9.4*	*-10.4*	*-4.7*	*-1.2*	*-1.2*	*-1.3*	*-3.8*
Broadband access spending (R millions)	2 340	2 441	2 640	2 862	3 456	4 386	5 904	8 019	10 560	13 509	
% change	*108.6*	*4.3*	*8.2*	*8.4*	*20.8*	*26.9*	*34.6*	*35.8*	*31.7*	*27.9*	*31.3*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Dial-up market

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

During the next five years, as mobile and wired broadband availability increases, there will be fewer unserved areas and broadband is expected to become more affordable. This combination will lead to accelerating contraction in the dial-up subscriber base. By 2015, there will be an estimated 150 000 dial-up subscribers, down 25.4% on a compound annual basis from 650 000 in 2010.

Infrastructure improvements and increased competition will also put downward pressure on dial-up fees. Dial-up fees have been trending down in recent years and we expect these decreases to continue during the next five years with the average fee falling to R70 by 2015.

Dial-up access spending is expected to drop from R741 million in 2010 to R126 million in 2015, a 29.8% compound annual decrease.

Dial-up access market											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Subscribers (millions)	1.05	0.97	0.85	0.75	0.65	0.55	0.45	0.35	0.25	0.15	
% change	*-16.0*	*-7.6*	*-12.4*	*-11.8*	*-13.3*	*-15.4*	*-18.2*	*-22.2*	*-28.6*	*-40.0*	*-25.4*
Average monthly fee (R)	111	110	105	100	95	90	85	80	75	70	
% change	*0.9*	*-0.9*	*-4.5*	*-4.8*	*-5.0*	*-5.3*	*-5.6*	*-5.9*	*-6.3*	*-6.7*	*-5.9*
Dial-up access spending (R millions)	1 399	1 280	1 071	900	741	594	459	336	225	126	
% change	*-15.2*	*-8.5*	*-16.3*	*-16.0*	*-17.7*	*-19.8*	*-22.7*	*-26.8*	*-33.0*	*-44.0*	*-29.8*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile access

The mobile Internet access market will be driven by wireless network upgrades that provide faster speeds, by the “freeing up” of spectrum currently used for analog television in 2014 for high-speed mobile broadband and by the rollout of the National Wireless Broadband Network that will extend mobile broadband into areas not currently served.

With mobile broadband serving more areas at faster speeds, together with the growing penetration of smartphones and tablet computers that facilitate mobile Internet browsing and the competitive packages offered by mobile service providers, we expect this market to show significant growth in next five years.

Due to the demographic composition of the country, the number of people that have access to a mobile phone far outweighs the number of people that have access to a computer. We therefore expect that that mobile Internet users will comprise 72% of total Internet users by 2015. This is a significant increase from the 40% in 2010.

Driven by increased competition, mobile carriers are increasingly offering aggressive discounts and special packages to attract customers. Some of the packages introduced included an uncapped mobile package by MTN, but with full speeds only available for a limited amount of data. Vodacom launched a 2GB+2GB service in 2011 that combines daily and a nightowl data plan in a single package for R149/month. The special was only available for sign-up until the end of July 2011. Vodacom also reduced its standard broadband package prices substantially in August and launched the night owl service offering on all its data packages. MTN and Cell C introduced similar new offerings with MTN reducing existing packages’ pricing and offering free data when users recharge on prepaid packages.

In 2011, Cell C introduced a package that consists of 2 GB of data and a 7.2 Mbps dongle service for R149 per month and Telkom’s mobile service, 8ta launched a much-welcomed and keenly priced R199 package for 10GB of data with an option for an additional 10GB of data for use after midnight for R100 more. The rate per megabyte for this deal is a mere R0.03, the cheapest of all the offerings. 8ta also launched a 2 GB +1 GB package in August for R149 per month.

MWEB introduced a new bundle that includes a fixed digital subscriber line (DSL) and MTN 3G broadband access for a single monthly fee. Options include a 384kbit/s DSL data package with a 2GB cap and a 2GB MTN 3G service at R199 per month. Another option includes an uncapped 384kbit/s data package and an ‘Uncapped Lite’ MTN 3G package at R499 per month. The ‘Uncapped Lite’ package includes 3GB of full-speed data after which speeds are throttled. Both packages include an ADSL router and a USB 3G modem. Customers have access to a 2GB mailbox, 5GB of online file storage and free uncapped hosting for a year.

Vodacom is currently focusing on providing all subscribers with a download speed of at least 1Mbps. It is also introducing smartphones for between R500 and R1000 in an attempt to extend its reach to a previously untapped market.

Mobile Internet access market

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Mobile telephone subscribers (millions)	42.3	45.0	46.4	47.5	48.0	48.5	49.0	49.5	50.0
Accessing Internet through mobile devices (%)	1.0	1.3	2.7	5.5	10.0	15.5	21.5	28.0	35.0
Mobile Internet access subscribers (millions)	0.4	0.6	1.3	2.6	4.8	7.5	10.5	13.9	17.5
Average monthly spending (R)	330	315	300	250	175	150	130	115	105
Aggregate annual spending (R millions)	1 584	2 268	4 680	7 800	10 080	13 500	16 380	19 182	22 050

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The number of mobile Internet access subscribers doubled in 2010 to 2.6 million, representing 5.5% of the mobile telephone subscriber base. We expect this perentage to significantly increase during the next five years as handsets with Internet capabilities become the norm and as mobile download speeds increase. Smartphones are becoming very popular in South Africa, which is driving mobile Internet access. We project that by 2015, 35% of mobile telephone subscribers will access the Internet through their mobile devices.

Japan alone accounted for 44% of global mobile Internet access spending in 2010.

Source: Global entertainment and media outlook 2011-2015 (PwC, 2011)

During 2011, two satellite broadband offerings were introduced to enable access for far outlying areas. One of these services, SkyeMax satellite broadband was launched costing approximately R8000 for the hardware and installation and R750 per month for 1 GB of data. These services are hoping to attract customers that do not have access to conventional telecommunications coverage.

We expect the number of mobile Internet subscribers to increase to 17.5 million in 2015, a 46.4% compound annual increase from 2010.

We estimate that the average subscriber paid R250/month for a mobile Internet access package in 2010. Competition in the mobile market is puting downward pressure on prices. New promotional packages in 2011 that were being offered for less than R150/month increased competition in the market and resulted in an increase in mobile Internet users. We project average monthly spending to fall to R105 by 2015, a 15.9% compound decrease.

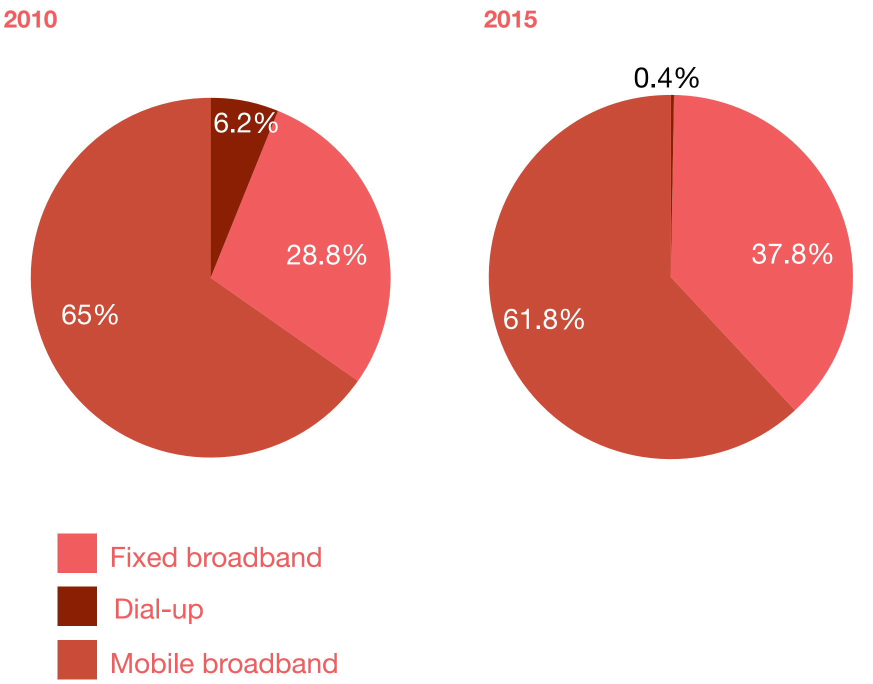
Aggregate mobile Internet access spending is expected to rise from R7.8 billion in 2010 to R22.1 billion in 2015, a 23.1% compound annual increase.

Total access spending

Total wired access spending is projected to grow at a 26.6% compound annual rate during the next five years from R4,2 billion in 2010 to R13.6 billion in 2015.

When mobile access is included, total Internet access spending will increase from R12.0 billion in 2010 to R35.7 billion in 2015, growing at a 24.4% compound annual rate.

Distribution of Internet access spending (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Connecting with the digital consumer

In an era in which consumers have more choices than ever before, and in which South Africa's Internet landscape is becoming increasingly competitive, Internet, mobile and broadband service providers are increasingly challenged to win consumers' trust and loyalty. The key to connecting with customers on both an emotional and rational level lies with personalisation and customisation.

Consumers want their service providers to offer flexible, customisable plans to address their specific and varying needs. There is a particularly strong desire for more flexible and personalised contracts that allow customers to customise or personalise their service to meet individual needs, such as bundling, affordability or service. Consumers are also demanding improved customer service. They also desire that their provider respect their privacy and not sell their personal information, even if such information is readily available.

Source:"Connecting with the Digital Consumer ", The Speed of Life – Consumer intelligence series, PwC United States, May 2008

Wired Internet advertising (R millions)											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Search	70	117	179	193	231	292	372	480	585	690	
% change	*42.9*	*67.1*	*53.0*	*7.8*	*19.7*	*26.4*	*27.4*	*29.0*	*21.9*	*17.9*	*24.5*
Display	50	77	109	117	141	182	235	306	380	455	
% change	*19.0*	*54.0*	*41.6*	*7.3*	*20.5*	*29.1*	*29.1*	*30.2*	*24.2*	*19.7*	*26.4*
Classified/ other	60	61	62	55	63	76	93	114	135	155	
% change	*1.7*	*1.7*	*1.6*	*-11.3*	*14.5*	*20.6*	*22.4*	*22.6*	*18.4*	*14.8*	*19.7*
Total	**180**	**255**	**350**	**365**	**435**	**550**	**700**	**900**	**1 100**	**1 300**	
% change	***20.0***	***41.7***	***37.3***	***4.3***	***19.2***	***26.4***	***27.3***	***28.6***	***22.2***	***18.2***	***24.5***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Advertising

Wired Internet advertising

Wired Internet advertising showed double-digit growth with a 19.2% increase in 2010 to reach R435 million, following a slow 4.3% increase in 2009.

While the expanding wired broadband universe is attracting more advertising, Internet ad rates are still considered low in comparison to other more traditional media forms. This is probably because the inventory is so large and the Internet provides a flexible advertising form for advertisers looking to target specific consumers in the market. Most of the growth in Internet advertising is expected to come from volume increases as advertisers increasingly use this media form.

Advertisers target broadband users because they spend more time online than dial-up users and visit more Web sites, making them appealing for search engine and online classified advertising.

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, Yahoo! was fifth, and MSN also was among the top-20 sites visited.

In April 2011, Google Instant Search was launched in South Africa. Google Instant Search generates results as the user types in the request. It uses an algorithm to anticipate the full request as it is being typed and allows the user to see results instantly.

The effectiveness of online advertising

PwC France was commissioned to undertake a globally-applicable study on the effectiveness of online advertising. In a constantly-changing environment in which new online resources, formats and uses are being developed, measuring the effectiveness of online advertising is a complex matter. The findings of the study, which includes input from 11 major global advertisers, is summarised below.

Over the past five years, advertising budgets allocated to Internet media have grown spectacularly. There are two main trends driving this boom:

- An increase in Web usage, which strengthens the Internet's role in providing recommendations and preparing consumers to make purchases; and
- developments in targeted advertising formats and techniques that help shape more communicative and relevant online campaigns.

Although the Internet is by nature a quantifiable medium, online strategies are not yet adequately based on a suitable performance measure. Advertisers realise that measuring performance is an important issue, but for the most part they face difficulties in implementing appropriate methods and indicators. This can primarily be put down to a lack of resources, but other reasons include the lack of organisational tools and the need to strengthen expertise. Advertisers are uncertain as to the effectiveness of online advertising, and therefore unsure as to how to effectively implement an online advertising strategy.

The new environment has prompted advertisers to consider several fundamental questions: Which media mix should be used to achieve an optimum communications strategy and what is an effective way to combine digital media with other media?

The emergence of the Internet has not replaced the use of other media, particularly TV. Rather than competing, these two media complement each other. The Internet acts as an extension to the TV experience as Internet users look out for specific, unusual and previously unavailable content. This simultaneity in media consumption enables the brand experience to be prolonged through online media and encourages advertisers to mix their Web campaigns with other media.

Media use is becoming increasingly interlinked. As consumers now interact with various media formats, advertisers that succeed in mixing media could achieve a very effective means of branding. Recent studies suggest that this approach can enhance brand awareness and loyalty by up to 20%. Advertisers should determine what the objective of their online advertising campaign is before deciding on an appropriate media mix.

Advertisers are aware of the large number of resources available to them for measuring the effectiveness of online advertising. It is up to each one of them to select the most useful indicators for their interactive strategy and develop an online culture within their environment.

– Thierry Limousin, Digital Director, Samsung

Optimising online advertising budgets

There is no hard and fast rule concerning the optimum budget allocation. However a recent study conducted in Germany among the largest advertising networks in partnership with Procter & Gamble looked at what portion of the budget of a media campaign should be devoted to online advertising. The study demonstrated that, for the same budget, advertising campaigns were more effective when at least 15% of that budget was spent on online advertising. The study also revealed that display advertising had nearly the same impact as TV advertising, but with a much lower budget. Increasing the portion of online advertising in the media mix can be a way of reaching a broader population for the same budget.

Matching targeted advertising formats and techniques with marketing objectives

Rich media formats have advanced considerably over the past five years. This progression has heightened the communicative potential of online advertising. Links to a brand website are no longer the be-all and end-all of developing a brand experience and other formats that are better suited to achieving marketing objectives have become popular. By performing an in-depth analysis of 2 500 online advertising campaigns from the MarketNorms® database, market research institute Millward Brown found that certain formats performed in improving brand recognition, while others were more effective in terms of brand image. Flash and rich media formats appear to be the most effective formats for developing brand and advertisement awareness. These formats allow for greater creativity, which makes them more visible and improves campaign recognition and brand promotion.

Advertisers should be very specific when deciding what marketing objectives they want to achieve as this should determine the format of their online advertising strategy.

Online campaigns drive offline sales

In 2010, eight out of 10 Internet users interviewed by Médiamétrie reported consulting a website before purchasing a product. This trend is confirmed by assessing the impact that online advertising campaigns have on offline sales. After analysing the purchasing behaviour of a panel of 185 million consumers, comScore showed that exposure to display advertising campaigns resulted in a 10% increase in shop sales.

The objective of online advertising should therefore not just be to boost Web traffic and online sales, but also to boost sales in bricks-and-mortar distribution channels.

Determining the effectiveness of online advertising

Apart from deciding how to use online marketing, advertisers also struggle to determine the effectiveness of such advertising, which directly influences their decisions regarding online marketing. Advertisers remain dissatisfied with the tools available to them to evaluate the performance of online advertising. Faced with an overwhelming amount of generated data, they express a need for transparent and comparable information. The majority of advertisers confirmed that measuring effectiveness is instrumental to their online strategy. Some advertisers wish to further broaden their measurement tools, for example by analysing Web traffic or assessing engagement more systematically. Others highlight the need for a better handling of available data. Advertisers also insist on the need to converge Web data with data from other communication sources in order to enhance multi-channel monitoring.

All of the metrics available have advantages and disadvantages, and should be carefully selected in measuring the effectiveness of online advertising. The click-through method for example, is a widely used metric, but advertisers have realised that although the click-through rate is user friendly, it underestimates the actual impact that display advertising has on the brand. If the goal of a marketing campaign is to build brand awareness, the click-through method would most probably not be the best metric to measure the effectiveness of the campaign.

The most important factor for advertisers to consider when measuring online performance is the objective of their online campaign. They should only then determine which available indicators would best measure this.

Measuring online advertising effectiveness is a complex matter, especially in a dynamic environment in which new resources, formats and uses are constantly being developed. With an increasing portion of advertising budgets going to online campaigns, measuring performance is more than ever a key issue. Advertisers do not wish to blindly invest in this type of media even if they believe it is the right decision in the long run. There are many measurement tools and it is important for advertisers to familiarise themselves with these tools, and ensure that they select the appropriate ones.

Source: Measuring the effectiveness of online advertising (PwC France, 2010)

If you have a different commercial for the same product in different mediums, then it might be more interesting. You'll view it on the Internet. You won't just say, 'Oh I saw this already today on TV' (and) switch it or close it.

25-34 year old consumer

Source:"The Value of User-Generated Content in Today's Media Landscape", *The Speed of Life – Consumer intelligence series,* PwC United States

Six of the top 20 most visited sites in South Africa are social networking sites. General information sites such as Wikipedia, News24 and Independent Online also are widely visited. Banks are well represented with Standard Bank, First National Bank and Absa in the top 20. Of the top-20 sites, six were South African.

Top-20 visited sites in South Africa

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
Blogger	blogger.com
Gumtree	gumtree.co.za
LinkedIn	linkedin.com
The Standard Bank of South Africa	standardbank.co.za
First National Bank	fnb.co.za
Windows Live	live.com
Absa Group Banks	absa.co.za
WordPress	wordpress.com
Microsoft	microsoft.com
Independent Online	iol.co.za
Amazon	amazon.com
Microsoft Network (MSN)	msn.com

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Sponsored search is the leading online advertising category with revenues of R231 million in 2010. This comprises more than half of the R435 million in total spending. Google is the dominant search engine and the leader in generating revenue from 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 24.5% compound annual rate to R690 million in 2015.

For the first time in the past five years, search was not the fastest-growing category. In 2010, display advertising increased by 20.5% compared with a 19.7% growth for search. Display advertising was fueled primarily by advertising on social network sites. Social network sites are attracting large audiences, particularly younger people, and are among the most visited sites in South Africa. As the younger generation is becoming increasingly difficult to reach with traditional media, advertisers are expected to focus on this advertising medium.

Facebook and MySpace together generated more than $800 million in advertising in 2010 and social network sites as a whole generated approximately $1,3 billion in 2010 in the United States.

Source: Global entertainment and media outlook 2011-2015 (PwC, 2011)

There were six social network sites in the top-20 sites visited and four — Facebook, YouTube, Twitter and Blogger — in the top ten. Facebook ranked second, YouTube fourth, Twitter seventh and Blogger ninth. LinkedIn and WordPress also were in the top 20. In addition to these sites, MXit is a heavily visited site in South Africa.

Top social networking sites in South Africa
Facebook
YouTube
Twitter
Blogger
LinkedIn
WordPress
MXit

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The growing popularity of social networks is contributing to faster growth in display advertising. Social network sites, as well as information and banking sites, are good platforms for display advertising. We project display advertising to continue to be the fastest-growing category, averaging 26.4% compounded annually to reach R455 million in 2015 from R141 million in 2010.

The remaining portion of the market consists of classified, rich media (an advertising format that incorporates visual animation or sound with user interaction), video and other advertising.

Classified advertising is the most volatile advertising category because it is the most sensitive to the economy. Employment advertising, a leading classified category, also responds sharply to changes in the economy. The recession in 2009 led to an 11.3% decline in this category. In 2010, with the economy showing signs of recovery, classified and other advertising rose 14.5%. Gumtree, a popular classified advertising site, was the tenth most visited in 2010.

With a more favourable outlook for the economy, classified advertising in general will rise and online classified is positioned to gain share from other media. The Internet is a good platform for classified advertising because users can search, sort and select the categories they want, providing an advantage over print formats. As well as being more easily searchable, online classified advertising is also less expensive when compared to print rates. Furthermore, ads can be inserted at any time, changed easily and are typically not as limited with respect to word count. The online environment also allows for video ads. For all these reasons, classified advertisers are shifting their spending to the Internet, and this shift is expected to be permanent.

Media24 launched Kalahariads.net, an online classifieds Web site in early 2011. The site is aligned with Media24's newspapers with advertisements in print automatically published on the site as well. Small businesses are also offered a free Web page to profile their companies on the Kalahari.com Web site.

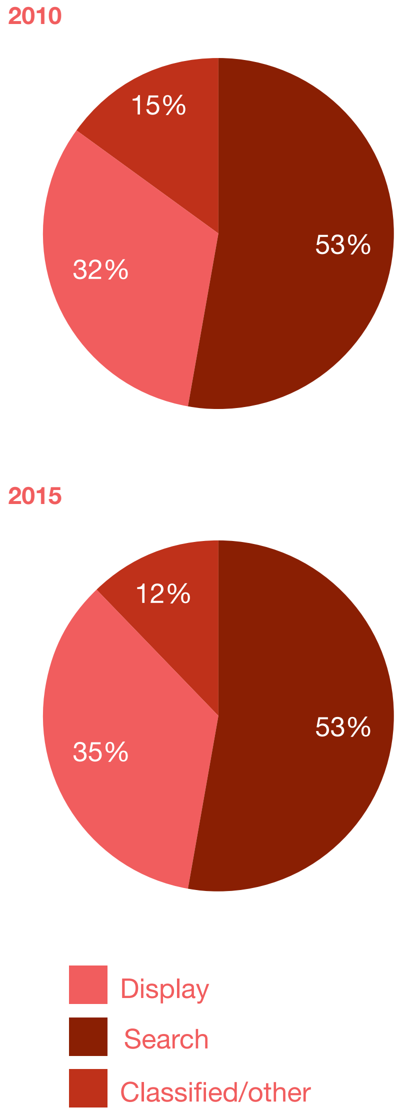
The Internet is a key driver of entertainment and media spending in most segments. It has and will continue to redefine the way that consumers interact with suppliers of various products and services.

Social media is changing the way consumers interact, and online advertsing is starting to follow suit. Facebook and Twitter are providing a platform for consumers to connect more effectively with suppliers. Furthermore, with the introduction of a number of group shopping Web sites, including Dealify, Groupon, Wicount and Zappon in South Africa during the past year, consumers are starting to embrace online shopping because of the value it offers. These Web sites are primarily driven by companies willing to offer substantial discounts in order to attract multiple new customers. The daily deals offered on these sites are a very effective advertising medium and often result in an immediate sale if sufficient discount is offered by the seller.

We project classified/other advertising to grow at rates in excess of 20% annually during the next three years and to average 19.7% compounded annually to reach R155 million in 2015 from R63 million in 2010.

Overall, wired Internet advertising will reach an estimated R1.3 billion in 2015, a 24.5% increase compounded annually from 2010.

Distribution of wired Internet advertising spending (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile advertising

Advertising delivered to mobile devices, excluding test message ads from carriers, is a growing segment of the market. Spending totaled R48 million in 2010, more than twice the level recorded in 2009.

Social networking is a rapidly growing mobile category. MXit is a popular mobile social networking site in South Africa. Facebook and Twitter have also become popular mobile sites. Motribe is a new mobile social networking platform based in Cape Town. InMobi is a mobile ad network that assists advertisers in placing ads on mobile sites. These sites and services are enhancing mobile usage and driving mobile advertising.

Mobile advertising in South Africa is proving to be effective. Response rates for coupons delivered through mobile ad campaigns range from 10% to 25%, which is much higher than response rates in other media forms. Mobile ad campaigns can also be launched quickly and mobile advertising is still relatively inexpensive. Of course, early users are highly engaged and response rates will likely fall as mobile access becomes more widespread. Nevertheless, initial success is attracting advertisers to mobile platforms.

Smartphones with GPS capabilities allow local advertisers to target ads to mobile phone users in the vicinity, making such advertising even more effective. As smartphone penetration increases, targeted location-based advertising will increase. Tablets are also promoting mobile Internet use while providing an attractive platform for video advertising.

The principal driver of mobile advertising is growth in mobile Internet usage. The number of mobile Internet access subscribers is projected to increase from 2.6 million in 2010 to 17.5 million in 2015, which will significantly expand the reach of mobile advertising. Additionally, mobile phones can reach young people, who are often difficult to reach through traditional media.

Low mobile ad rates are beginning to attract advertisers. Annual advertising per mobile Internet subscriber averaged only R18.32 in 2010, compared with nearly R348 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 2015, annual advertising per mobile access subscriber will be R43.33, an 18.8% compound annual increase from 2010.

Aggregate mobile advertising will rise to a projected R758 million in 2015, a 73.7% compound annual increase from 2010.

Connecting with the digital consumer

As part of a global research initiative, PwC in the United States has an ongoing consumer research programme that offers directional insights on consumer attitudes and behaviours in the rapidly changing media landscape.

The following is a summary of the latest findings among consumers of various ages:

- Although the Internet and mobile devices have made it a lot easier to reach consumers, it has simultaneously created a challenge in reaching consumers effectively. While consumers are used to the omnipresence of advertising and have become more accepting of its growing pervasiveness in new media, they also turn away from ads that they don't find personally relevant and become irritated when these ads interfere with their access to content. The personal nature of alternative media, such as social networking sites, blogs and mobile devices, allow consumers more control and personalisation. They want any advertising to align with that personalisation. Consumers perceive devices such as mobile phones and MP3 players as 'my personal space' and resist unsolicited messages. An advertiser/marketer therefore faces the challenge of accessing the consumer's personal space in such a way that the consumer is not irritated and therefore thinks less of the brand, but in an innovative, personal, non-interruptive and targeted manner that will in turn promote brand loyalty.
- Advertisers and marketers need to understand and respect individual interests and deliver against them, rather than overtly 'sell' their message. Viewer-created advertising messages may be one way to begin to establish a credible brand/consumer relationship, as consumers may view these as being more welcome to their personal sites than traditional forms of advertising.
- Young consumers prefer fresh, concise, creative and entertaining advertising to the staged or overly-produced ads that typically appear on television. Viewer-created advertising is perceived as more creative, personal and engaging, because this form of advertising is generated by their peers, consumers perceive the message as more credible and more real.
- YouTube is currently the most viable media target for ad-sponsored/supported video. Viewers perceive YouTube's content as inherently 'real' and therefore inherently relatable. While advertisers and marketers will benefit from a presence on the 'Go 2' site for user-generated content, it remains important that ad-supported content fit in with the casual, irreverent, unstructured style of the venue.
- Given the popularity of YouTube, video communicating and sharing is also very popular, especially humorous content. An advertiser/marketer getting consumers to stream and share their video constitutes both an endorsement and a way to build their brand via today's version of 'word of mouth'.
- Consumers want any advertising on the Internet to be integrated in an appealing way, ensuring that it does not interrupt the medium and that it enhances content. This means:
  - For the Internet – ads that visually or thematically fit in with the site's content.
  - For virtual worlds and video games – advertising that fits into the context of or storyline of the game.
  - For personal media such as mobile phones and MP 3 players – more permission and less intrusiveness. For example, consumers will most easily accept messages while they are waiting for these devices to power on/off or when they are waiting for content to download.
- Advertisers also face an additional hurdle in building relationships with today's consumers as they now have to develop a marketing strategy for various age groups since there are important distinctions in priorities and expectations from younger consumers (teens and early 20s) compared to older consumers (late 20s and up).
- Younger customers desire innovation and reliability, whereas older consumers seek familiarity and credibility. Younger consumers need to be engaged within the first few seconds, while older consumers will typically accept longer, less appealing ads if the content is relevant.
- Consumers what to know 'what's in it for me'. In an ideal world, consumer advertising would be:
  - Limited in frequency and duration – ads that are at the beginning or end of programming instead of interrupting it in the middle is preferred.
  - Better integrated and less intrusive- the ads that fit with the programming, like sports products in sports programming.
  - Customer tailored – ads that relate product and services to one's specific lifestyle and interests in a way similar to what consumers have experienced with the Facebook and Amazon.com model.
  - Informative and useful – ads that teach you about new things.
  - Memorable and entertaining – amid the clutter, consumers like ads that they remember as being funny, entertaining, unique or innovative.
  - Genuine and real – consumers seek a direct, honest approach.
  - Chosen freely – consumers want to have a say. By making advertising more interactive, consumers can control what they are exposed to.
- Advertising should be more about presence than about persistence and should set the stage for a positive brand relationship with the consumer. This is not expected to be an easy task, and will require innovation and commitment from advertisers.

Source: "Connecting with the Digital Consumer", *The Speed of Life – Consumer intelligence series,* PwC United States

Mobile Internet advertising (R millions)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Mobile Internet subscribers (millions)	0.4	0.6	1.3	2.6	4.8	7.5	10.5	13.9	17.5	
% change	—	*50.0*	*116.7*	*100.0*	*84.6*	*56.3*	*40.0*	*32.4*	*25.9*	*46.4*
Annual mobile advertising per mobile subscriber	9.59	14.00	15.21	18.32	23.11	28.28	34.62	39.04	43.33	
% change	—	*46.0*	*8.6*	*20.4*	*26.1*	*22.4*	*22.4*	*12.8*	*11.0*	*18.8*
Aggregate mobile Internet advertising (R millions)	4	8	20	48	111	212	364	543	758	
% change	—	*100.0*	*150.0*	*140.0*	*131.3*	*91.0*	*71.7*	*49.2*	*39.6*	*73.7*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total Internet advertising

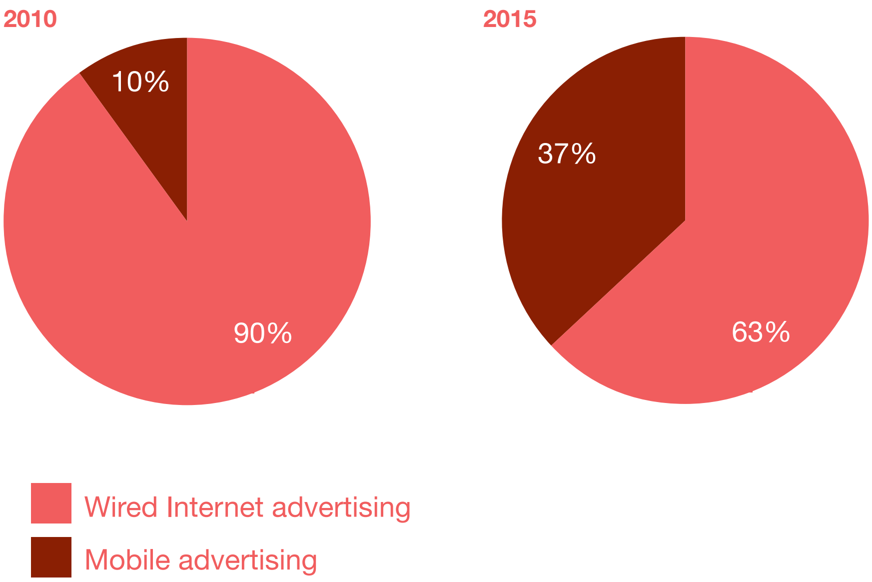
Total Internet advertising is expected to increase from R483 million in 2010 to R2.1 billion in 2015, growing at a 33.6% compound annual rate.

Mobile advertising will account for an estimated 37% of total Internet advertising in 2015 compared with 10% in 2010.

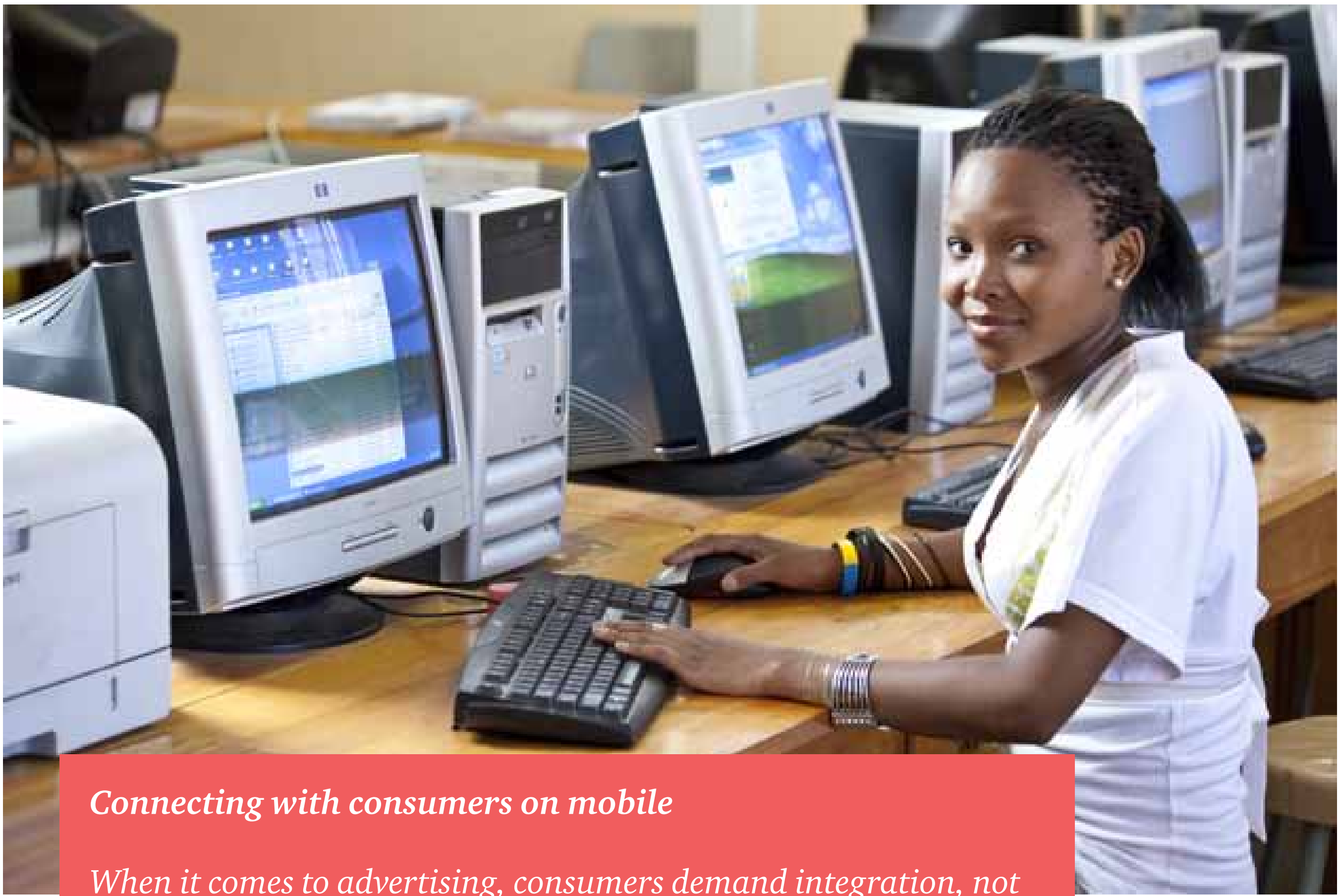
Internet advertising: wired and mobile (R millions)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Wired Internet advertising	180	255	350	365	435	550	700	900	1 100	1 300	
% change	*20.0*	*41.7*	*37.3*	*4.3*	*19.2*	*26.4*	*27.3*	*28.6*	*22.2*	*18.2*	*24.5*
Mobile advertising	—	4	8	20	48	111	212	364	543	758	
% change	—	—	*100.0*	*150.0*	*140.0*	*131.3*	*91.0*	*71.7*	*49.2*	*39.6*	*73.7*
Total advertising	**180**	**259**	**358**	**385**	**483**	**661**	**912**	**1 264**	**1 643**	**2 058**	
% change	***20.0***	***43.9***	***38.2***	***7.5***	***25.5***	***36.9***	***38.0***	***38.6***	***30.0***	***25.3***	***33.6***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Distribution of total Internet advertising spending (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Connecting with consumers on mobile

When it comes to advertising, consumers demand integration, not interruptions. This applies to advertising in general and mobile phone advertising in particular. Regardless of age, consumers want advertising that fit their needs. They want to retain control over this highly personal space by customising how, when and what type of ads are received. The subject material should be personally relevant, such as messaging about brands or products of pre-selected interest.

Consumers generally say the concept of advertising on mobile phones is unappealing, but this barrier might be broken if certain benefits or awards are involved and if the approach is not too intrusive. Remuneration via cost reduction or added services may potentially erase consumer objections – and even create interest – in receiving ads on mobile phones.

The medium is a highly desirable medium for advertisers as it is close to the point of sale, and experience has taught that the closer advertising is to the point of sale, the more effective it is. Mobile advertising is therefore a platform that advertisers are beginning to embrace.

Source: "Impact of economic downturn on media habits and acceptances of advertising on personal media devices: Greater demand for brands to deliver value, enable customisation/personalisation", *The Speed of Life – Consumer intelligence series,* PwC United States

Global trends in Internet access spending

Outlook

- We project that total global spending on wired and mobile Internet access will increase from $269.9 billion in 2010 to $407.8 billion in 2015, an 8.6% compound annual growth rate.
- Global wired broadband access is the largest component of the market, at $160.6 billion in 2010, and is projected to grow at a 9.0% compound annual rate to $246.8 billion in 2015.
- Dial-up will continue to decline, falling to $6.2 billion from $19.4 billion in 2010, a 20.3% compound annual decrease.
- Overall, total wired Internet access spending will increase at a 7.0% compound annual rate from $180.0 billion to $253.0 billion in 2015.
- Global mobile Internet access spending totalled $89.9 billion in 2010, with half of this total generated by Japan and South Korea – and with Japan alone accounting for 43% of the global total.We expect that global mobile access spending will increase to $154.5 billion in 2015, an 11.5% compound annual increase

Key drivers

- Approaching broadband saturation in many countries will lead to slower growth in broadband households.
- National broadband plans in individual regions will extend broadband infrastructure into underserved areas. As this happens, the broadband household base will expand, and declines in dial-up will accelerate.
- Broadband pricing is affected by competition and the growing share of premium broadband subscribers. On balance, average monthly broadband spending will increase in Europe, the Middle East and Africa, Latin America and Canada, but will decrease in the United States and Asia Pacific.
- Mobile broadband has become integral to national broadband plans, leading to wireless network upgrades. Competition between carriers is also stimulating investment in wireless infrastructure. Growing penetration by smartphones and tablets is expanding the potential market for mobile Internet access.

Global trends in Internet advertising

Outlook

- Overall, global spending on both wired and mobile Internet advertising will rise from $70.5 billion in 2010 to $129.9 billion in 2015, a 13.0% compound annual growth rate.
- In terms of wired Internet advertising, global spending on paid search advertising will rise to $56 billion in 2015, an 11.9% compound annual increase from $32.0 billion in 2010.
- Display, classified and other advertising will advance at a 12.8% compound annual rate from $35.7 billion in 2010 to $65.1 billion in 2015.
- Total global wired Internet advertising will reach $121.2 billion in 2015 from $67.7 billion in 2010, a 12.4% compound annual increase.
- Mobile advertising will rise strongly from a low base, increasing to $8.7 billion in 2015 from $2.8 billion in 2010, a 25.0% compound annual increase.
- Despite growing more slowly than mobile advertising, wired Internet advertising will still account for 93% of global Internet advertising in 2015.

Key drivers

- Broadband household growth will be the principal driver of wired Internet advertising.
- Paid search, a format not available in other media, will continue to attract spending to the Internet.
- Growing traffic on social network sites is attracting advertising and fuelling growth in display advertising.
- Classified advertising, a highly cyclical component of the market, will have a positive influence on overall Internet advertising as economic conditions improve.
- Growth in the mobile Internet access subscriber base will drive mobile advertising.

Source: Global entertainment and media outlook 2011 – 2015 (PwC, 2011)

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Dial-up	30 396	27 846	25 659	22 428	19 410	16 395	13 273	10 225	8 032	6 224	
% change	*-19.0*	*-8.4*	*-7.9*	*-12.6*	*-13.5*	*-15.5*	*-19.0*	*-23.0*	*-21.4*	*-22.5*	*-20.3*
Broadband	98 668	118 109	135 073	146 987	160 618	175 729	192 771	211 207	228 730	246 786	
% change	*27.7*	*19.7*	*14.4*	*8.8*	*9.3*	*9.4*	*9.7*	*9.6*	*8.3*	*7.9*	*9.0*
Total wired Internet access	3129 064	145 955	160 732	169 415	180 028	192 124	206 044	221 432	236 762	253 010	
% change	*12.4*	*13.1*	*10.1*	*5.4*	*6.3*	*6.7*	*7.2*	*7.5*	*6.9*	*6.9*	*7.0*
Mobile access	38 289	51 968	65 725	77 834	89 899	101 473	114 901	129 531	142 709	154 861	
% change	*102.0*	*35.7*	*26.5*	*18.4*	*15.5*	*12.9*	*13.2*	*12.7*	*10.2*	*8.5*	*11.5*
Total	**167 353**	**197 923**	**226 457**	**247 249**	**269 927**	**293 597**	**320 945**	**350 963**	**379 471**	**407 871**	
% change	***25.1***	***18.3***	***14.4***	***9.2***	***9.2***	***8.8***	***9.3***	***9.4***	***8.1***	***7.5***	***8.6***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Search	15 401	20 963	25 656	28 070	31 960	36 024	41 036	46 155	51 046	56 020	
% change	*51.4*	*36.1*	*22.4*	*9.4*	*13.9*	*12.7*	*13.9*	*12.5*	*10.6*	*9.7*	*11.9*
Display, classified, other	22 010	28 410	32 157	31 123	35 709	40 515	46 639	53 002	59 137	65 183	
% change	*36.0*	*29.1*	*13.2*	*-3.2*	*14.7*	*13.5*	*15.1*	*13.6*	*11.6*	*10.2*	*12.8*
Total wired Internet advertising	37 411	49 373	57 813	59 193	67 669	76 539	87 675	99 157	110 183	121 203	
% change	*42.0*	*32.0*	*17.1*	*2.4*	*14.3*	*13.1*	*14.5*	*13.1*	*11.1*	*10.0*	*12.4*
Mobile advertising	501	861	1 621	2 188	2 846	3 583	4 603	5 876	7 205	8 662	
% change	*85.6*	*71.9*	*88.3*	*35.0*	*30.1*	*25.9*	*28.5*	*27.7*	*22.6*	*20.2*	*24.9*
Total	**37 912**	**50 234**	**59 434**	**61 381**	**70 515**	**80 122**	**92 278**	**105 033**	**117 388**	**129 865**	
% change	***42.4***	***32.5***	***18.3***	***3.3***	***14.9***	***13.6***	***15.2***	***13.8***	***11.8***	***10.6***	***13.0***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Chapter 3
Television

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

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

The television advertising market consists of advertiser spending in and around TV programmes that are distributed over the air, through satellite or other TV distribution services, advertising on TV 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 broadcasting services. Terrestrial advertising consists of advertising generated by free-to-air broadcast networks that can be received through a traditional analog television receiver even if viewers can also receive such content through a satellite service.

2010 was a good year for television, with the overall market growing by 18.8%, the largest increase over the last five years.

Outlook at a glance

Television market (R millions)	2010	2015	2011-15 CAGR (%)
Broadcast advertising	8 600	12 600	7.9
Online TV advertising	9	32	28.9
Mobile TV advertising	—	22	—
Total TV advertising	8 609	12 654	8.0
Subscription spending	9 684	17 080	12.0
Public television licence fees	1 031	1 084	1.0
Mobile TV subscriptions	—	102	—
Total	19 324	30 920	9.9

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Manager
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Outlook in brief

- *Television broadcasting is moving to becoming all digital.*
- *New competition has emerged in the pay-television subscription sector.*
- *Mobile television services have been launched.*
- *Quality local content is becoming increasingly important for pay-television market.*
- *High-definition viewing is continuing to attract high-end consumers.*
- *Providers of pay-television services are providing various add-on services to attract subscribers.*
- *The availability of tablets and cheaper wireless Internet access is expected to fuel growth in the mobile television market.*
- *Broadcast advertising is expected to accelerate with faster economic growth over the next five years.*

Overview

The television market in South Africa is in transition. The over-the-air sector is moving to becoming all digital; new competition in the pay-television subscription sector has emerged; the South African Broadcast Corporation (SABC), the state-owned public broadcaster, is facing greater competition in the advertising sector, and a new mobile television sector has been introduced into the market.

Broadcasting in South Africa remains highly regulated, with limited outlets. There are currently 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 the free-to-air broadcasters. The state-owned 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.

The Government recently selected Digital Video Broadcasting-Terrestrial Second Generation (DVB-T2) with Moving Picture Experts Group (MPEG-4) compression as the digital terrestrial television (DTT) standard to be adopted by South Africa. MPEG-4, standardised in 1998, is designed to transmit video via a narrow bandwidth and can mix video with text and graphics. DVB-T2 has a higher transmission capacity than DVB-T, which will allow it to carry high-definition (HD) channels. The standard makes more efficient use of spectrum, allowing a wider range of choice in television broadcasts, better picture quality and enhanced sound.

The migration to DTT, originally planned to be completed by November 2011, has now been rescheduled for December 2013, with a commitment from the Government to switch off analog broadcasts by no later than mid 2015.

In late 2010, M-Net in collaboration with e.tv conducted a trial by installing a DTT converter (or set-top box) in 60 homes in Soweto, using the DVB-T2 standard. The results of this study have been positive and reflect that DVB-T2 is an excellent technology, which, according to Dave Hagen from M-Net 'will allow Africa not only to leapfrog technology, but constitutes an investment into the future – the standard still has a long life ahead of it and none comes close at this stage. Thus, it is the best technology for the long-term, its reliable, the results tangible'.

The analog pay-television market, continued to wane in 2010 as consumers have moved to digital, mainly in the form of compact bouquet offerings.

TopTV, the new television subscription service provided by On Digital Media (ODM), launched in May 2010 with 55 channels. By the end of 2010, TopTV had reportedly attracted approximately 200 000 subscribers.

MultiChoice expanded its satellite offering with the launch of DStv Compact, which added approximately 375 000 new subscribers during 2010. MultiChoice also benefited from subscriptions generated by viewers seeking to watch the 2010 FIFA World Cup on SuperSport, which provides 10 channels of content for the DStv platform. SuperSport shared 2010 FIFA World Cup broadcast rights with SABC for the duration of the tournament.

At the high end of the market, enhanced viewing experiences have been introduced with high-definition technology and the DStv on demand service offering.

Super 5 Media (formerly Telkom Media) had also planned a new subscription service, but in March 2011 was granted an extension of its pay-TV licence by the Independent Communications Authority of South Africa (ICASA). Its revised launch date was August 2011, but the company has since filed another application for another six month extension from ICASA, of which the outcome was still pending at the time of writing.

Private free-to-air channel, e-tv, boosted its audience by more than 15% in 2010 and has become a more formidable competitor for television advertising. Nevertheless, the state-owned SABC still dominates the broadcast television advertising market.

ICASA awarded digital terrestrial mobile TV licences on Multiplex 1 to MultiChoice and e.tv during 2010. MultiChoice has a licence for 60% of the capacity on Multiplex 1 and e.tv has the remaining 40%. MultiChoice launched DStv Mobile, a mobile TV service late in 2010. This service can be accessed through a DVB-H handset or by using the Drifta, MultiChoice's mobile TV decoder. The Drifta receives the DVB-H signal and converts it into a Wi-Fi signal for Wi-Fi enabled viewing devices, including laptops, PCs, tablets and smartphones.

During 2010, ICASA also awarded a non-commercial licence to the Mobile TV Consortium to test the Digital Multimedia Broadcasting (DMB) technology. The consortium plans to apply for a permanent licence at the conclusion of the testing phase. DMB has partnered with Sentech (a state-owned signal distributor for the South African broadcasting sector) as its signal distributor, using the Digital Audio Broadcasting (DAB) format that is already available on Sentech's broadcast towers.

While new technology is important, content – particularly sport – is still king for television operators. The growth of the industry globally has been based on sports coverage, and sporting broadcasts still underpin subscription services. Another source of high-quality, original content that is expected to underpin continued subscriber growth is movies, and they should maintain their status as a key point of difference for subscription TV. While overseas drama will remain a mainstay in the programming schedule, South African content will be of increasing importance. This has been seen in the popularity of local productions such as *The Wild*, which is screened on M-Net, *Binnelanders (*KYKNET*), 7de Laan (*SABC 2*)* and *Isidingo* (SABC 3).

The overall TV market grew 18.8% in 2010, the largest increase during the past five years. Growth was fuelled by a 25.2% increase in subscription spending, reflecting a jump in subscription households, and by a 14.7% increase in broadcast advertising, which benefited from advertising and subscriber growth associated with the 2010 FIFA World Cup.

Although the loss of advertising associated with the 2010 FIFA World Cup will affect the market in 2011, the recovering economy is expected to boost underlying growth. We project a 4.7% increase in broadcast advertising in 2011 and a 7.9% compound annual advance to R12.6 billion in 2015.

The currently small online television advertising market is expected to more than triple in size over the next five years to reach R32 million in 2015, up from R9 million in 2010. The launch of mobile TV in 2010 has created a new advertising revenue stream that we expect will reach R22 million by 2015. Together, online and mobile television advertising will total an estimated R54 million in 2015.

Television market (R millions)

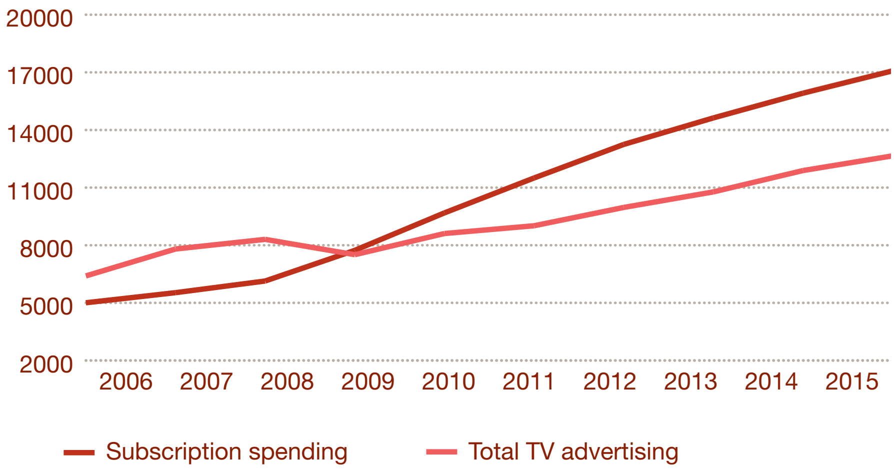
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Broadcast advertising	6 400	7 800	8 300	7 500	8 600	9 000	9 950	10 750	11 850	12 600	
% change	*18.5*	*21.9*	*6.4*	*-9.6*	*14.7*	*4.7*	*10.6*	*8.0*	*10.2*	*6.3*	*7.9*
Online TV advertising	2	3	6	8	9	12	15	19	24	32	
% change	—	*50.0*	*100.0*	*33.3*	*12.5*	*33.3*	*25.0*	*26.7*	*26.3*	*33.3*	*28.9*
Mobile TV advertising	—	—	—	—	—	2	3	7	14	22	
% change	—	—	—	—	—	—	*50.0*	*133.3*	*100.0*	*57.1*	—
Total online and mobile TV advertising	2	3	6	8	9	14	18	26	38	54	
% change	—	*50.0*	*100.0*	*33.3*	*12.5*	*55.6*	*28.6*	*44.4*	*46.2*	*42.1*	*43.1*
Total TV advertising	6 402	7 803	8 306	7 508	8 609	9 014	9 968	10 776	11 888	12 654	
% change	*18.6*	*21.9*	*6.4*	*-9.6*	*14.7*	*4.7*	*10.6*	*8.1*	*10.3*	*6.4*	*8.0*
Subscription spending	5 005	5 530	6 137	7 734	9 684	11 502	13 248	14 629	15 916	17 080	
% change	*12.7*	*10.5*	*11.0*	*26.0*	*25.2*	*18.8*	*15.2*	*10.4*	*8.8*	*7.3*	*12.0*
Public television license fees	992	1 004	1 012	1 024	1 031	1 044	1 051	1 064	1 071	1 084	
% change	*0.7*	*1.2*	*0.8*	*1.2*	*0.7*	*1.3*	*0.7*	*1.2*	*0.7*	*1.2*	*1.0*
Mobile TV subscriptions	—	—	—	—	—	9	18	38	69	102	
% change	—	—	—	—	—	—	*100.0*	*111.1*	*81.6*	*47.8*	—
Total	**12 399**	**14 337**	**15 455**	**16 266**	**19 324**	**21 569**	**24 285**	**26 507**	**28 944**	**30 920**	
% change	***14.5***	***15.6***	***7.8***	***5.2***	***18.8***	***11.6***	***12.6***	***9.1***	***9.2***	***6.8***	***9.9***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total television advertising will increase at 8.0% compound annual rate from R8.6 billion in 2010 to R12.7 billion in 2015.

During the past two years, 92% of total television growth was generated by subscription spending. Subscription spending overtook advertising in 2009 to become the largest component of the television market, generating half of total spending in 2010. We expect new services and improving economic conditions to continue to fuel subscription spending, which we project will increase at a 12.0% compound annual rate to reach R17.1 billion in 2015, up from R9.7 billion in 2010.

TV spending (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile television will also generate an incremental subscription revenue stream beyond the traditional subscription market. We project that mobile TV subscription spending will reach R102 million by 2015.

The SABC, which is funded by public television licence fees, is expected to increase by 1.0% compounded annually from R1.03 billion in 2010 to R1.08 billion in 2015.

Growth for the total television market is expected to average 9.9% compounded annually, rising from R19.3 billion in 2010 to a projected R30.9 billion in 2015.

Subscription spending

MultiChoice is the principal subscription television provider in South Africa, operating DStv, its digital satellite platform, M-Net, a terrestrial broadcast subscription channel and SuperSport, which produces 10 digital sports channels. In May 2010, a new entrant was introduced into the South African pay television market with the launch of TopTV by On Digital Media.

Star, the Indian television network, launched four channels on TopTV in 2010. The channels were available free through to the end of 2010 and from the start of 2011 have been offered on a subscription basis.

TopTV originally offered a lower-cost option compared to MultiChoice, which helped it attract subscribers early on. MultiChoice responded with the introduction of DStv Compact, its own economy package. With SuperSport broadcasting the 2010 FIFA World Cup on the DStv platform, MultiChoice also attracted subscribers wanting to watch the tournament on SuperSport due to the high-quality offering the option of high-definition (HD) and personal video recording features.

HD viewing continued to attract high-end consumers during 2010. The availability of more clarity on television sets and the emergence of LED screen technology have meant that even more emphasis is being placed on the HD offering. This has led to the inclusion of six HD channels on DStv's premium bouquet. These comprise M-Net HD, a movie channel, three sports channels and the Discovery Channel. It is expected that HD will continue to be an attraction for high-end consumers and that more channels will be added in the near future.

The PVR decoder was further refined in 2010 with the introduction of a more compact version. The personal video recording (PVR) service continues to attract consumers as part of the premium offering and provides the subscriber with the option of recording manually or performing scheduled recording of their favourite programmes. TopTV is expected to launch a PVR option to the market in late 2011.

DStv launched DStv On Demand during 2010. This service enables subscribers to view a library of the most recent, popular programming even if not recorded manually. The HD, PVR and DStv on demand features have continued to provide a complete experience to the premium DStv subscriber at a rate included in the standard premium subscription.

DStv Box Office was introduced in July 2011, giving DStv Premium PVR subscribers access to a pay-per-view movie rental service. It offers up to 15 of the latest movies with some available on the same day as their release on DVD. This will further close the gap between subscribers and the DVD market, offering consumers the latest movies at the click of a button. At a cost of R25, the movie can be viewed multiple times within 48 hours, when the viewing rights expire.

The expected release of video on demand (VOD):TV by the SouthTel Group in the last quarter of 2011 will provide added competition to the market. SouthTel's PVR device is expected to enable users to surf the Internet (including Facebook and Youtube) as well as providing access to an online store of movie content recently off the circuit.

The overall subscription household universe rose by approximately 600 000 in 2010, the largest single-year increase in South African history. In 2009 and 2010, growth in subscription households averaged 24% annually.

Competition in this market will continue to increase even further in 2011 with new technologies and product offerings entering the market. We project an approximate 550 000 additional subscribers overall in 2011.

While further pay services may enter the market in the coming years, we expect digital terrestrial television (DTT), which will largely be free, to also appeal to viewers. This 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 2014-15.

The overall number of subscription households is expected to increase from 3.0 million in 2010 to a projected 4.75 million by 2015, a 9.6% compound annual increase. Subscription household penetration will reach 66.0% in 2015 from 43.2% in 2010.

Subscription TV households (millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Subscription households (millions)*	1.67	1.80	1.95	2.40	3.00	3.55	4.00	4.30	4.55	4.75	
% change	*9.9*	*7.8*	*8.3*	*23.1*	*25.0*	*18.3*	*12.7*	*7.5*	*5.8*	*4.4*	*9.6*
Subscription penetration of TV households (%)	24.7	26.5	28.5	34.8	43.2	50.7	56.7	60.6	63.6	66.0	

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

Subscription spending

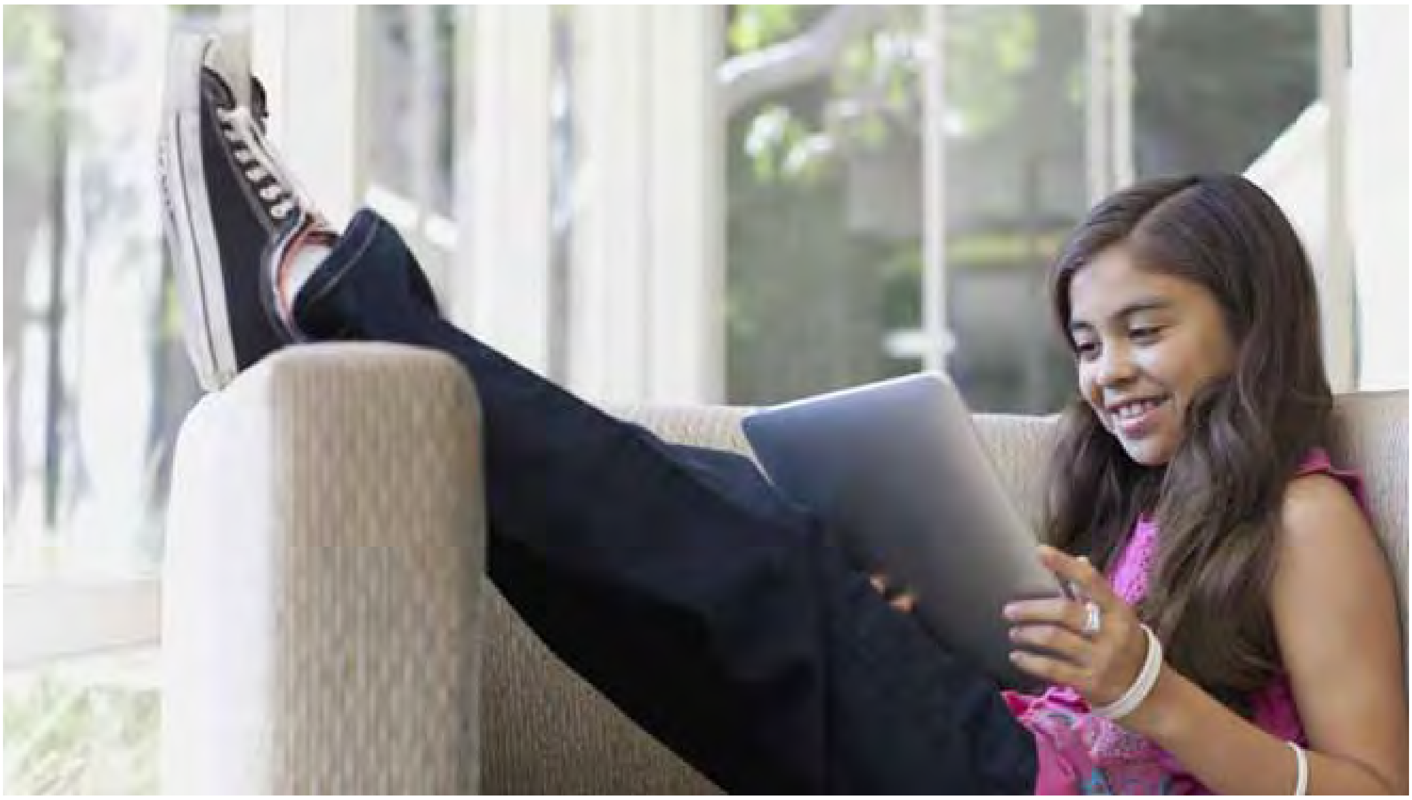
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Subscription households (millions)	1.67	1.80	1.95	2.40	3.00	3.55	4.00	4.30	4.55	4.75	
% change	*9.9*	*7.8*	*8.3*	*23.1*	*25.0*	*18.3*	*12.7*	*7.5*	*5.8*	*4.4*	*9.6*
Average monthly spending (R)	249.75	256.00	262.25	268.55	269.00	270.00	276.00	283.50	291.50	299.65	
% change	*2.6*	*2.5*	*2.4*	*2.4*	*0.2*	*0.4*	*2.2*	*2.7*	*2.8*	*2.8*	*2.2*
Subscription spending (R millions)	5 005	5 530	6 137	7 734	9 684	11 502	13 248	14 629	15 916	17 080	
% change	*12.7*	*10.5*	*11.0*	*26.0*	*25.2*	*18.8*	*15.2*	*10.4*	*8.8*	*7.3*	*12.0*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

New competition is holding down average monthly spending, a factor contributing to the growth in subscribers. In 2010, average monthly spending rose only 0.2% to R269. We expect another modest increase of 0.4% in 2011 with more focused spending on more affordable packages such as DStv Compact.

As economic conditions improve and as services include more attractive offerings such as an increase in high-definition channels and channels in general, video-on-demand and internet viewing capabilities, average monthly spending growth will increase. We project that by 2015, the average subscriber will pay R299.65 per month, a 2.2% compound annual increase from 2010.

Driven mainly by growth in the subscriber base, overall subscription spending is expected to increase at a 12.0% compound annual rate, from R9.7 billion in 2010 to R17.1 billion in 2015.



Mobile TV subscriptions

During 2007, ICASA adopted Digital Video Broadcasting – Handheld (DVB-H) as the standard for mobile TV, although licensees could use any technology based on the technology-neutral basis on which licences were granted. MultiChoice's DStv Mobile service uses DVB-H technology and can be accessed through the Drifta on any Wi-Fi enabled device or any DVB-H enabled mobile device.

The DStv mobile subscription service was initially offered free to everyone who purchased the Drifta until the end of 31 March 2011 after which subscribers, other than DStv Premium subscribers, were required to pay R9 per week (R36 per month subscription). DStv Compact subscribers who activated the mobile TV service before the end of March 2011 also received the benefit of a free subscription until the end of March 2012, after which the R36 per month charge will apply. DStv Premium subscribers are currently able to watch the service free of charge, but will possibly have to start paying for the service in the future.

DStv Mobile produces some of its own content and also makes available content provided by third parties. The bouquet, which currently includes 15 channels, is aimed at providing a combination of news (E-News and CNN) and sport channels (SuperSport 1-3 and Blitz) as well as a variety of other content (including E! Entertainment and Sony Max). DStv recently added the M-Net Series channel to the bouquet, bringing popular series programming to the device.

In July 2011, DStv launched its second generation Drifta USB decoder for viewing on laptops, PCs, tablets and other compatible devices with USB ports.

Tablets are becoming an increasingly popular platform for mobile television due to the size of their screens, portability and high video resolution. Together with various other tablet devices, both iPad models also launched in South Africa during early 2011. We expect the increasing use of tablets and smartphones to positively affect the uptake of mobile television during the forecast period.

Wireless network upgrades are also facilitating growth in the mobile TV market. Vodacom, MTN, and Cell C all improved their network speeds in 2010. Telkom launched its mobile network, 8ta, during 2010, while Sentech, the state-owned signal carrier, is planning a national wireless broadband network. This increase in wireless network connectivity is expected to improve and enhance the mobile TV experience and consequently increase its popularity. Please refer to Chapter 2 for further information about developments in Internet market.

In response to the launch of DStv Mobile, e.tv is currently testing its service with a planned launch later in 2011.

Based on early take-up rates in other countries, we expect that 0.05% of wireless telephone subscribers will subscribe to mobile TV in 2011, a share we project will rise to 0.5% by 2015. Based on this assumption, we estimate there will be 20,000 mobile TV subscribers in 2011, rising to 250,000 by 2015.

We expect subscribers to spend approximately R30 per month on mobile TV in the first year, with spending edging up to R34 by 2015 as mobile TV carriers provide more premium content. These amounts are based on the average between the actual monthly fee (currently standing at R36) and the free offering granted to premium subscribers.

By 2015 mobile TV subscription spending will total an estimated R102 million.

Mobile TV subscription market

	2011	2012	2013	2014	2015
Wireless telephone subscribers (millions)	48.0	48.5	49.0	49.5	50.0
% change	–	*1.0*	*1.0*	*1.0*	*1.0*
Percentage accessing mobile TV (%)	0.05	0.10	0.20	0.35	0.50
Mobile TV subscribers (millions)	0.02	0.05	0.10	0.17	0.25
% change	–	*102.1*	*102.1*	*76.8*	*44.3*
Average monthly spending (R)	30	31	32	33	34
% change	–	*3.3*	*3.2*	*3.1*	*3.0*
Aggregate annual spending (R millions)	9	18	38	69	102
% change	–	*100.0*	*111.1*	*81.6*	*47.8*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Broadcast advertising

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	201-15 CAGR (%)
Broadcast advertising (R millions)	6 400	7 800	8 300	7 500	8 600	9 000	9 950	10 750	11 850	12 600	
% change	*18.5*	*21.9*	*6.4*	*-9.6*	*14.7*	*4.7*	*10.6*	*8.0*	*10.2*	*6.3*	*7.9*
Advertising per TV household (R)	948	1,147	1 212	1 087	1 237	1 286	1 411	1 514	1 657	1 750	
% change	*17.6*	*21.0*	*5.7*	*-10.3*	*13.8*	*4.0*	*9.7*	*7.3*	*9.4*	*5.6*	*7.2*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Advertising

Broadcast advertising

In 2010, broadcast advertising benefited from an improving economic climate following the 2009 recession and was bolstered by advertising associated with the 2010 FIFA World Cup. After falling by 9.6% in 2009, advertising rose 14.7% during the year to reach R8.6 billion.

Greater competition in the over-the-air market and an increase in the number of HD channels should stimulate television advertising over the long run. In 2010, e.tv became a stronger competitor for viewers and advertisers, helped by popular shows such as *Rhythm City*, *eKasi: Our Stories*, *Scandal, and eNews Prime Time*, which contributed to the 2.2 million increase in viewership.

New stations will also expand the potential market. In 2011, for example, Platinum TV, the first provincial television station, began broadcasting in the North West province in each of the official spoken languages of the province. In Pretoria, Tshwane Television (TTV) finally launched its community station in 2011 after years of seeking a broadcast licence. Various other community stations exist, including Soweto TV (STV) and Cape Town TV (CTV). By law, community television stations must serve a particular community, be run by a non-profit organisation and involve members of the community in the selection and production of programming. In 2010, legislation enabled the issuing of longer-term licences of up to seven years. However, as a result of the digital migration that is in process and the limited frequency available, ICASA has placed a moratorium on the issuing of further community TV licences for the time being. As increased emphasis is placed on tailored content and local news, the additional frequency spectrum that will become available as a result of the migration to DTT, will see more community stations launching. This will result in increased competition in the television market towards the end of the forecast period.

MultiChoice launched its first HD channel on DStv in 2008 and the offering has since grown to six HD channels. As the terrestrial market converts to digital through the launch of DTT services, more HD channels are expected to be introduced. HD households tend to watch more TV than standard definition homes do, and these higher viewing levels should translate into higher advertising levels.

Broadcast advertising will also be fuelled by faster economic growth during the next five years as compared with 2009-10. In 2011, however, a portion of the advertising associated with the 2010 FIFA World Cup will leave the market as will the non-recurring boom in advertising expenditure in the final quarter of 2010 due to the restrictions on advertising that occurred during the World Cup. Based on this, we project a relatively modest 4.7% increase in 2011.

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, a return to double-digit growth in 2014 as the FIFA World Cup in Brazil enlarges the TV advertising market, with a 6.3% increase projected for 2015.

Advertising in 2015 will total an estimated R12.6 billion, a 7.9% increase compounded annually from 2010.

Broadcast advertising per TV household rose from R1 087 in 2009 to R1 237 in 2010, a 13.8% increase. While we do not anticipate further double-digit advances, we project spending per TV household to grow at a 7.2% compound annual rate to reach R1 750 by 2015.

Online TV advertising

The bulk of online TV advertising currently consists of advertising on local television station Web sites that are maintained by broadcasters. These are popular destinations for local news and local television programming information. Online ad sales are currently insignificant at an estimated R9 million in 2010.

There are several developments that could lead this market to become more meaningful. Most notably, South Africa's broadband market is beginning to generate momentum. We expect the number of broadband households to more than quadruple during the next five years.

Online television advertising (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Online television advertising	2	3	6	8	9	12	15	19	24	32	
% change	–	*50.0*	*100.0*	*33.3*	*12.5*	*33.3*	*25.0*	*26.7*	*26.3*	*33.3*	*28.9*

Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile TV advertising market

	2011	2012	2013	2014	2015
Mobile TV users (millions)	0.02	0.05	0.10	0.17	0.25
Average annual advertising spend per mobile TV user (R)	64	71	76	83	88
Mobile TV advertising (R millions)	2	3	7	14	22

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Online advertising growth is associated with broadband growth because broadband users spend more time online and engage in more online activities than dial-up users. As broadband penetration becomes significant in South Africa, we expect online advertising to soar, including online advertising on TV Web sites.

In 2011, Vodacom launched the Vodafone Webbox, a plug and play keyboard that provides an Internet connection to the TV set. Internet-connected TVs also facilitate the streaming of online shows directly to the television set, eliminating the need to watch programmes on a smaller computer screen. We expect that as online streaming becomes more widely available for television sets, usage will increase. Because advertisers follow the audience, usage growth will lead to advertising growth.

The emergence of new television stations, new programmers and new websites will further expand the market.

We expect this market to more than triple in size over the next five years to reach R32 million in 2015. Even at this level, however, online TV advertising will not become a material component of the overall TV market during the forecast period.

Mobile TV advertising

The emergence of mobile television will be accompanied by the emergence of mobile television advertising. Viewers of mobile TV are an appealing audience for advertisers as they are generally younger and more affluent than the average television viewer.

As an emerging market, however, the mobile TV audience will remain small throughout the forecast period, which limits its advertising potential. Moreover, a mobile TV ad can only be viewed by an individual, while a standard TV ad can reach multiple viewers in a household.

Because of the limitations of its reach, we expect that annual advertising per mobile viewer will be only a fraction of that of annual broadcast advertising per TV household. We expect that advertisers will pay only approximately R64 annually per mobile viewer in 2011, a figure we project will rise to R88 by 2015, as the audience increases and as the medium develops.

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Public TV licence fees (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Public TV licence fees	992	1 004	1 012	1 024	1 031	1 044	1 051	1 064	1 071	1 084	
% change	*0.7*	*1.2*	*0.8*	*1.2*	*0.7*	*1.3*	*0.7*	*1.2*	*0.7*	*1.2*	*1.0*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Public TV licence fees

Television households pay an annual licence fee to support public broadcasting. The SABC generates approximately 18% of its revenues from licence fees, which totalled R1.03 billion in 2010.

Growth averages approximately 1% annually, fuelled by TV household growth, an improvement in collection policies and modest rate increases every alternate year.

We expect the general historical pattern to continue during the next five years and project public TV licence fees to increase by 1.0% compounded annually to reach R1.08 billion in 2015.

Outlook

Television subscription and licence fees

- The global television subscription and licence fee market will increase from $203.1 billion in 2010 to $285.2 billion in 2015, a compound annual growth rate of 7.0%.
- Subscription spending was the principal component of the market at $163.4 billion in 2010, representing 80% of the total. This is expected to increase at a 7.6% compound annual rate to reach $235.8 billion in 2015.
- Over-the-top services in North America and Europe, the Middle East and Africa (EMEA) will generate $2.0 billion in 2015, up from $244 million in 2010, a 51.6% compound annual increase.
- Pay-per-view services globally will total $4.2 billion in 2015, a 0.2 p% compound annual decline from $4.3 billion in 2010.
- Video-on-demand will rise from $4.9 billion in 2010 to $9.2 billion in 2015, a 13.6% compound annual increase.
- Public TV licence fees will grow by 1.0% annually to $30.7 billion in 2015 from $29.2 billion in 2010.
- Mobile TV subscription spending will climb to $3.4 billion in 2015 from $1.1 billion in 2010, a 25.1% increase compounded annually, albeit from a relatively low base.

Television advertising

- Improving economic conditions and the related rebound in advertising spend saw the global television advertising market grow by 10.2% in 2010, more than offsetting the 7.3% decrease in 2009.
- The market as a whole will sustain this growth during the forecast period, increasing at a 6.5% compound annual rate to reach $232.6 billion in 2015 from $169.8 billion in 2010.
- Terrestrial advertising – the dominant component of total television advertising, at $112.8 billion in 2010 – will increase to $144.2 billion in 2015, a 5.0% compound annual increase.
- Multichannel advertising will grow at an 8.5% compound annual rate from $45.1 billion in 2010 to reach $67.6 billion by 2015.
- Total broadcast television1 advertising – terrestrial and multichannel combined – will rise from $166.2 billion to $221.9 billion, a 5.9% increase compounded annually.
- Online television advertising will increase at a 22.6% compound annual rate to $7.9 billion in 2015 from $2.8 billion in 2010. Mobile television advertising will rise from $690 million to $2.9 billion, a 33.0% increase compounded annually.
- As a result, growth in total online and mobile television advertising will average 24.9% compounded annually over the five-year forecast period, up from $3.5 billion in 2010 to $10.7 billion in 2015.

Key drivers

Television subscription and licence fees

- Approaching saturation in North America and competition from free digital terrestrial television (DTT) in EMEA will limit subscription spending growth in those regions, while continued expansion in the subscription household universe in the Asia-Pacific region and Latin America will drive subscription spending.
- Over-the-top services in North America will attract users who have relatively little interest in a wide range of channels and are looking to save money.
- TV providers are countering competition from over-the-top services with TV Everywhere packages that provide content for subscribers on all platforms. Nevertheless, we expect competition from the emerging over-the-top market to cut into subscription spending growth in North America.
- The migration to digital will drive the video-on-demand market, with early release windows providing an additional boost in North America.
- Wireless network upgrades will lead to increased availability of mobile TV, principally through hybrid models combining free service for standard programmes and subscriptions for premium content.

Television advertising

- A recovering economy and increased usage of television to drive sales and market share will stimulate the overall television advertising market. Television will also benefit from being one of the few media that is experiencing audience growth globally.
- Broadcast advertising will also benefit from more channels coming from new or expanded multichannel platforms – including DTT launches – and from rising levels of viewing generated by growing HD penetration.
- Increased streaming in all regions, the availability of Web-connected TV sets in North America and EMEA, and rising levels of viewing of online TV on computers in the Asia-Pacific region will fuel online television advertising.
- Mobile TV rollouts, the launch of apps for mobile TV on tablets and smartphones, together with growing penetration by smartphones and tablets, will expand mobile television usage and advertising.

Source: Global entertainment and media outlook 2011-2015 (PwC, 2011)

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Subscriptions	120 968	132 400	142 660	153 107	163 394	176 701	191 249	205 568	220 489	235 764	
% change	*8.4*	*9.5*	*7.7*	*7.3*	*6.7*	*8.1*	*8.2*	*7.5*	*7.3*	*6.9*	*7.6*
Over-the-top	—	—	48	119	244	420	641	961	1 399	1 954	
% change	—	—	—	*147.9*	*105.0*	*72.1*	*52.6*	*49.9*	*45.6*	*39.7*	*51.6*
Pay-per-view	3 880	4 211	4 533	4 381	4 273	4 239	4 227	4 199	4 200	4 224	
% change	*11.5*	*8.5*	*7.6*	*-3.4*	*-2.5*	*-0.8*	*-0.3*	*-0.7*	*0.0*	*0.6*	*-0.2*
Video-on-demand	2 384	3 250	4 061	4 382	4 870	5 734	6 731	7 578	8 409	9 215	
% change	*36.8*	*36.3*	*25.0*	*7.9*	*11.1*	*17.7*	*17.4*	*12.6*	*11.0*	*9.6*	*13.6*
Public TV licence fees	26 684	27 474	27 622	28 708	29 205	29 350	29 751	30 233	30 474	30 697	
% change	*1.5*	*3.0*	*0.5*	*3.9*	*1.7*	*0.5*	*1.4*	*1.6*	*0.8*	*0.7*	*1.0*
Mobile TV	267	608	914	1 002	1 097	1 256	1 610	2 035	2 681	3 365	
% change	—	*127.7*	*50.3*	*9.6*	*9.5*	*14.5*	*28.2*	*26.4*	*31.7*	*25.5*	*25.1*
Total	**154 183**	**167 943**	**179 838**	**191 699**	**203 083**	**217 700**	**234 209**	**250 574**	**267 652**	**285 219**	
% change	***7.7***	***8.9***	***7.1***	***6.6***	***5.9***	***7.2***	***7.6***	***7.0***	***6.8***	***6.6***	***7.0***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Global television advertising market by component (US$ millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Terrestrial television advertising	112 066	113 463	113 661	102 944	112 844	114 185	125 226	128 493	142 274	144 156	
% change	*2.8*	*1.2*	*0.2*	*-9.4*	*9.6*	*1.2*	*9.7*	*2.6*	*10.7*	*1.3*	*5.0*
Multichannel television advertising	36 072	39 085	41 260	40 674	45 064	48 182	53 112	57 582	63 361	67 627	
% change	*7.0*	*8.4*	*5.6*	*-1.4*	*10.8*	*6.9*	*10.2*	*8.4*	*10.0*	*6.7*	*8.5*
Total broadcast television advertising†	157 414	162 214	163 991	151 343	166 237	170 952	187 288	195 362	215 419	221 905	
% change	*6.4*	*3.0*	*1.1*	*-7.7*	*9.8*	*2.8*	*9.6*	*4.3*	*10.3*	*3.0*	*5.9*
Online television advertising	774	1 316	1 896	2 199	2 843	3 489	4 348	5 439	6 677	7 870	
% change	*121.1*	*70.0*	*44.1*	*16.0*	*29.3*	*22.7*	*24.6*	*25.1*	*22.8*	*17.9*	*22.6*
Mobile television advertising	20	88	354	539	690	939	1 315	1 809	2 338	2 873	
% change	—	*340.0*	*302.3*	*52.3*	*28.0*	*36.1*	*40.0*	*37.6*	*29.2*	*22.9*	*33.0*
Total online and mobile television advertising	794	1 404	2 250	2 738	3 533	4 428	5 663	7 248	9 015	10 743	
% change	*126.9*	*76.8*	*60.3*	*21.7*	*29.0*	*25.3*	*27.9*	*28.0*	*24.4*	*19.2*	*24.9*
Total television advertising	**158 208**	**163 618**	**166 241**	**154 081**	**169 770**	**175 380**	**192 951**	**202 610**	**224 434**	**232 648**	
% change	***6.7***	***3.4***	***1.6***	***-7.3***	***10.2***	***3.3***	***10.0***	***5.0***	***10.8***	***3.7***	***6.5***

†Germany and Spain are not included in the terrestrial and multichannel figures but are included in the total.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

While new technology is important, content, particularly sport, is still king for television operators.

Chapter 4

Filmed entertainment

The filmed entertainment market consists of consumer spending at the box office for theatrical motion pictures as well as spending on rentals of videos at video stores and other retail outlets (the ‘in-store rental’ market), and the purchase of physical home video products in retail outlets (the ‘sell-through’ market). Cinema advertising, which consists of on-screen ads prior to the movie, is also included. It also includes electronic distribution, online film rental subscription services and streaming services in which films and TV shows are downloaded via a broadband or wireless Internet connection and can be viewed on a PC, a TV, a tablet or any other compatible device.

The figures do not include music videos (which are covered in the Music chapter) or video-on-demand and pay-per-view (both of which are covered in the Television chapter). The figures also do not include movies or other content licensed to pay TV or other television content providers. Concession sales of beverages and refreshments in theatres are not included.

Local films did very well in 2010, with some very successful South African film releases. In 2010, South African films comprised about 11% of the market as compared to an average 1% in prior years.

Outlook at a glance

Filmed entertainment market	2010	2015	2011-15 CAGR (%)
Cinema			
Box office	967	1 340	6.7
Cinema advertising*	240	385	9.9
Total cinema	1 207	1 725	7.4
Home video			
Physical sell-through	963	1 101	2.7
In-store rentals	700	748	1.3
Home video total	1 663	1 849	2.1
Total	2 870	3 574	4.5

*Included for the first time in the filmed entertainment total revenues

Outlook in brief

- *The box office market benefited from a large increase in the number of digital and 3D screens, as consumers will pay a premium to enjoy the 3D experience.*
- *Local films showed a strong performance in 2010, with "Schuks Tshabalala's Guide to South Africa" being the highest grossing film in South Africa in 2010.*
- *Local film production is benefiting from increased assistance from government, co-production treaties with various countries and the extraordinary success of local films.*
- *The sell-through and in-store rental market is facing increasing competition with the introduction of video-on-demand and online streaming services.*
- *A key challenge for the sell-through and rental market is to find the optimal theatrical-to-home-video window release period.*
- *The emergence of tablets will further drive the electronic film market.*

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Filmed entertainment market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Box office	673	668	714	837	967	1 047	1 121	1 195	1 267	1 340	
% change	*2.0*	*-0.7*	*6.9*	*17.2*	*15.5*	*8.3*	*7.1*	*6.6*	*6.0*	*5.8*	*6.7*
Cinema advertising*	265	245	255	205	240	265	295	325	355	385	
% change	*-33.8*	*-7.5*	*4.1*	*-19.6*	*17.1*	*10.4*	*11.3*	*10.2*	*9.2*	*8.5*	*9.9*
Total cinema	938	913	969	1 042	1 207	1 312	1 416	1 520	1 622	1 725	
% change	*-11.5*	*-2.7*	*6.1*	*7.5*	*15.8*	*8.7*	*7.9*	*7.3*	*6.7*	*6.4*	*7.4*
Physical sell-through	815	850	873	959	963	982	1 021	1 067	1 091	1 101	
% change	*5.2*	*4.3*	*2.7*	*9.9*	*0.4*	*2.0*	*4.0*	*4.5*	*2.2*	*0.9*	*2.7*
In-store rentals	708	709	704	701	700	710	721	732	741	748	
% change	*-3.4*	*0.1*	*-0.7*	*-0.4*	*-0.1*	*1.4*	*1.5*	*1.5*	*1.2*	*0.9*	*1.3*
Home video total	1 523	1 559	1 577	1 660	1 663	1 692	1 742	1 799	1 832	1 849	
% change	*1.0*	*2.4*	*1.2*	*5.3*	*0.2*	*1.7*	*3.0*	*3.3*	*1.8*	*0.9*	*2.1*
Filmed entertainment total	**2 461**	**2 472**	**2 546**	**2 702**	**2 870**	**3 004**	**3 158**	**3 319**	**3 454**	**3 574**	
% change	***-4.2***	***0.4***	***3.0***	***6.1***	***6.2***	***4.7***	***5.1***	***5.1***	***4.1***	***3.5***	***4.5***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates
*Previously not included within the filmed entertainment total revenues

Overview

Filmed entertainment spending rose 6.2% in 2010, matching the increase in 2009. The cinema component of the market rose 15.8%, while home video edged up only 0.2%.

Local films did very well in 2010. The box office market also benefited from a large increase in the number of digital and 3D screens, which in turn boosted spending on 3D Hollywood releases. Overall, box office spend rose 15.5% in 2010.

Although local films may not always perform as strongly as they did in 2010, upgrades of existing cinemas and the construction of new cinemas with digital and 3D capabilities will improve the box office infrastructure and contribute to growth in admissions and box office spend.

Cinema advertising rebounded in 2010 with a 17.1% advance following a 19.6% plunge in 2009. The recovering economy combined with rising attendance will continue to fuel cinema advertising during the next five years.

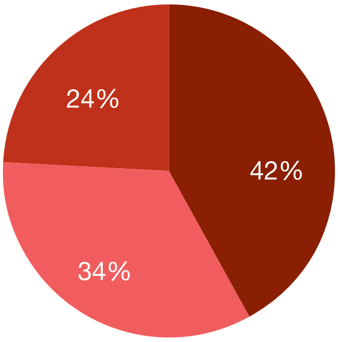
In the home video market, deep discounting is helping to fuel physical sell-through unit sales but is cutting into revenue growth. Sell-through spending rose just 0.4%, the smallest gain during the past five years. While price declines will continue to limit spending growth, more modest price decreases will result in somewhat faster spending increases.

The in-store rental market has been relatively stable in recent years and spending dipped 0.1% in 2010. We expect other low-cost rental alternatives to lead to marginally larger gains during the next five years. However, the introduction of video-on-demand (VOD) will place pressure on this market and limit the growth to low single-digit numbers.

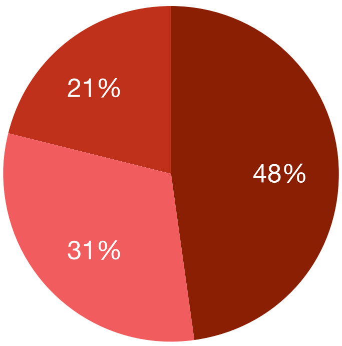
We project that filmed entertainment as a whole will expand at a 4.5% compound annual rate during the next five years, rising to an estimated R3.6 billion in 2015 in comparison to R2.9 billion in 2010. We expect that total cinema spend (box office plus cinema advertising) will total an estimated R1.7 billion in 2015, up 7.4% compounded annually from R1.2 billion in 2010. Total home video is expected to rise from R1.66 billion in 2010 to R1.85 billion in 2015, a 2.1% compound annual gain.

Share of filmed entertainment market per sub industry

2010



2015



Box office In-store rentals

Physical sell-through

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Cinema

Box office

The cinema market in South Africa is becoming increasingly digital. The number of digital screens rose from 11 in 2008 to 95 in 2010. By the end of 2010, there were more than 80 3D screens in the country.

The proliferation of 3D screens had a significant impact on box office spend in 2010. Six of the top-10 releases in 2010 were 3D films, compared with two in 2009. 3D films generated R265 million in box office sales, representing 27% of total box office spend in 2010, compared with only 4% in 2009.

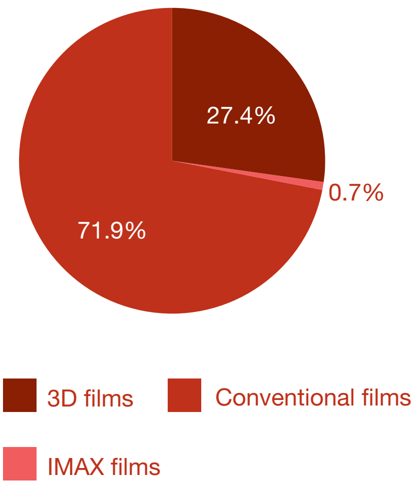
As the agreement between IMAX Corporation and the local managing agent, Old Mutual Investment Group Property Investments, to operate IMAX theatres ended on 30 June 2010, 2010 was the last year where we expected to see IMAX theatres generating any revenue in South Africa.

2010 Revenue split by film format

Category	2010 revenue (R millions)	Share (%)
3D films	265	27.4
IMAX films	7	0.7
Standard films	695	71.9
Total	**967**	**100.0**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Revenue split by film format 2010



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Only about 14% of all screens in South Africa are currently 3D screens. In total, these generated a disproportionate 27% of total box office revenue in 2010. This is due mainly to the premium that consumers pay to enjoy the 3D experience.

New multiplexes with 3D capabilities are entering the market. In early 2011, for example, the New Killarney Mall CineCentre opened with five 3D screens.

Also notable in 2010 was the strong performance of local films. In the past, South African films typically comprised about 1% of the market. In 2010, as a result of some very successful South African film releases, these accounted for approximately 11% of total box office spend. *Schuks Tshabalala's Guide to South Africa* was the top film in 2010 among all titles, generating R38 million in box office sales, which was R10.5 million higher than the revenues generated by *The Twilight Saga: Eclipse*, the second most popular film. *Spud,* which raked in R16.7 million, was another South African film in the top 10. A number of Afrikaans films were also successful in 2010, generating a combined R25.6 million in box office sales, which represents 26.1% of the local titles distributed in 2010. Of particular interest was the screening of the Afrikaans musical, *Liefling*, which counted among the highest grossing films in the history of South African films.

The top-10 films generated revenues of R223.3 million in 2010, comprising 23% of total box office spend. *Toy Story 3*, *Shrek Forever After*, *Alice in Wonderland*, *Step Up 3-D* and *How to Train Your Dragon* were the 3D films which featured in the top 10. When exhibited on 3D screens, these films commanded premium prices, which contributed to their box office totals. *Iron Man 2* and *Harry Potter and the Deathly Hallows: Part I* rounded out the top-10 films in 2010.

Top-10 films of 2010 in South Africa

Film	Box office revenues (R millions)
Schuks Tshabalala's Guide to South Africa	38.0
The Twilight Saga: Eclipse	27.5
Toy Story 3	23.9
Shrek Forever After	23.8
Alice in Wonderland	23.4
Step Up 3-D	20.0
Iron Man 2	17.8
Spud	16.7
How to Train Your Dragon	16.2
Harry Potter and the Deathly Hallows: Part I	16.0

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

Top-10 films of 2010	
Africa and the Middle East	**Global**
The Twilight Saga: Eclipse	Toy Story 3
Inception	Alice in Wonderland
Shrek Forever After	Harry Potter and the Deathly Hallows: Part I
Harry Potter and the Deathly Hallows: Part I	Inception
Toy Story 3	Shrek Forever After
Alice in Wonderland	The Twilight Saga: Eclipse
Prince of Persia: Sands of Time	Iron Man 2
Clash of the Titans	Tangled
Schuks Tshabalala's Guide to South Africa	Despicable Me
Robin Hood	How to Train Your Dragon

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Six of the top-10 films in South Africa — *The Twilight Saga: Eclipse, Shrek Forever After, Harry Potter and the Deathly Hallows: Part I, Toy Story 3, Alice in Wonderland,* and *Schuks Tshabalala's Guide to South Africa* — were also among the top-10 for all of Africa and the Middle East. *Inception, Prince of Persia: Sands of Time, Clash of the Titans and Robin Hood* were the remaining films in the top-10 in Africa and the Middle East.

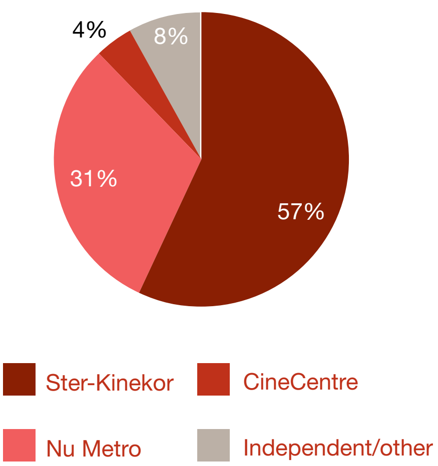
Ster-Kinekor is the largest exhibition chain in South Africa with more than 400 screens. In 2010, it made a major investment in upgrading to 3D and benefitted from the growth in overall 3D spend. Ster-Kinekor's share of total box office spending rose to an estimated 57% in 2010 from 47% in 2009.

Nu Metro is the second-largest chain with approximately 200 screens. Nu Metro also added 3D screens in 2010 and raised its share to 31% of box office spending from 30% in 2009.

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 4% of 2010 box office spending, down from 5% in 2009.

There are also a number of independent exhibitors not affiliated with a national chain. These theatres lost share in 2010, falling to 8% of box office spending from 18% in 2009. This trend suggests that consumers are seeking additional value for money spent and emphasises the importance of theatre chains keeping up with technological advancements in the industry.

Share of box office spending by theatre chain (2010)



Sources :PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

There was an increase in the number of films produced in South Africa in 2010, in part stemming from incentive packages offered by the Department of Trade and Industry (DTI). The South African Rebate Programme cap increased from R10 million to R20 million in 2010.

The South African Film and Television Production and Co-Production Incentive offers financial support to South African productions and official treaty co-productions with budgets of at least R2.5 million (about US$370 000). The incentive offers a 35% rebate on the cost of films and full-length television programmes.

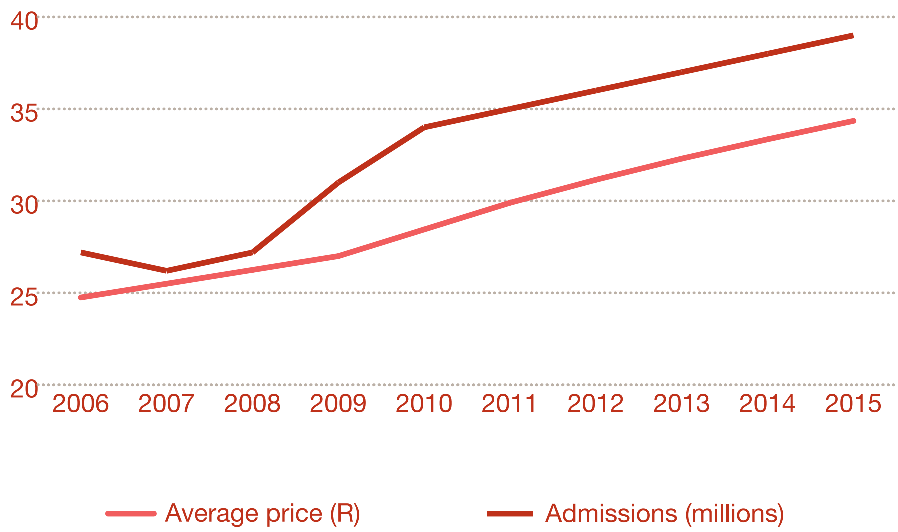
In order to be eligible for the rebate, specific requirements need to be met to be considered a Qualifying South African Production. The maximum rebate for each project will be R20 million in order to attract an optimum number of productions.

The South African Treasury recently announced an increase in the budget allocation for the National Film and Video Foundation (NFVF) – an additional R135 million over the period 2011-2013 has been allocated. Over the last 10 years South Africa has entered into co-production treaties with Canada, Germany, United Kingdom, Italy, France and Australia. This means that any official co-production is regarded as a national production of each co-producing country, making it eligible for any benefits or programmes of assistance available in either country[1]. This is expected to result in a significant increase in locally-produced films.

The recent 64th Cannes International Film Festival provided solid proof that the South African film industry, and the Afrikaans genre in particular, is becoming a force to be reckoned with. *Skoonheid*, a film by South African director Oliver Hermanus, became the first Afrikaans film ever to be screened at Cannes. *Skoonheid* was selected for the 'Un Certain Regard' section, as one of 20 films from various countries.

1 Source: Sally Fink, "Record number of local films to be released in 2011", *www.thecallsheet.co.za/daily_news/view/2273*, (accessed August, 23, 2011)

Box office admissions and average price



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

The number of South African produced films is also increasing. More South African films are being earmarked for international release including *Life, Above All* and *Jock of the Bushveld,* which are both being released in the United States. The remake of *Judge Dredd* was recently completed at The Cape Town Film Studios in Faure. This is the first 3D film shot on location in Africa. In 2011, 35 local films are expected to be released as compared to 23 films in 2010.

The *Bang Bang Club*, released in South Africa and overseas, is a Canadian-South African co-production.The story of news photographers working in townships during the last days of apartheid, stars major international screen stars, including Ryan Phillippe, together with local actors and was directed by South African director, Steven Silver.

Overall admissions rose 9.7% in 2010 to reach 34 million people. The growing share of 3D films in the admissions mix resulted in a 5.4% increase in the average price. During 2006-09, price growth averaged 3.0% annually. Total box office spend rose 15.5% in 2010 to R967 million.

As conversion to digital and 3D continues, the appeal of going to the movies is likely to increase, which will have a positive impact on admissions. At the same time, the novelty value of 3D, which contributed to the large increases during the past two years, will eventually diminish as films are now routinely released in the format. Because of the higher price point for 3D releases, people may become more selective in choosing to go to 3D films. Consequently, we do not expect gains in admissions during the next five years to match the increases in 2009-10. Nevertheless, we believe 3D will have a long-term positive impact on admissions because it helps distinguish the theatrical experience from the home video and online viewing experiences.

In the United States, in addition to 3D holdovers such as *Avatar,* there were 23 new 3D releases in 2010, and 36 are scheduled for 2011. *Titanic* is scheduled to be re-released in 3D in 2012.

The question is out as to whether all 2D blockbuster films can and will be converted into 3D and re-released. Although conversion can produce a satisfying, successful product if the conversion is anticipated from the beginning and throughout the production and post-production phase, taking a film designed and shot in 2D and converting it into 3D can have catastrophic results. While it was initially thought that 3D films could easily be used to make money, consumers demand quality content and they are only prepared to pay a premium for a quality 3D experience.

At the same time, the shortening of the home video window may be having a negative impact on admissions. On average, the theatrical-to-home video window dropped to 4 months and 7 days in 2010 from 4 months and 11 days in 2009 and 4 months and 19 days in 2007. Compared with 2000, when the window was 5 months and 16 days, films now reach home video more than a month sooner than at the beginning of the decade. Studios are actively reconsidering their current window strategies in an attempt to optimise revenues.

Disney released *Alice in Wonderland* in home video only 12 weeks after the film's theatrical opening and experienced brisk home video sales in what otherwise was a weak home video market. The experience will likely encourage studios to release films in home video even sooner.

On balance, we expect that the positive impact of 3D will offset the negative impact of rising prices and shorter release windows and we project a modest growth in admissions.

We expect admissions to rise at a projected 2.8% compound annual rate during the next five years to reach 39 million in 2015. These estimates do not take into account the appeal of actual releases that can significantly enhance or reduce admissions in any given year. In 2009, for example, an exceptionally strong roster of Hollywood films contributed to a 14% increase in admissions, while in 2010 a very strong local slate contributed to a 9.7% increase in admissions.

Films in 3D command premium prices and are becoming a large enough share of the market to affect overall pricing. We expect ticket prices to continue to increase at faster rates compared with the historical pattern prior to 3D. We project the average price to rise by 5.1% in 2011 and by an additional 4.2% in 2012.

We then anticipate that price growth will moderate as incremental growth in 3D moderates. We expect the average price will rise by less than 4% annually during 2013-15. By 2015, the average price for a cinema admission will reach an expected R34.35 from R28.45 in 2010, a 3.8% compound annual increase.

Overall box office spending is projected to rise to R1.3 billion in 2015, a 6.7% increase compounded annually from 2010.

Box office market

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Admissions (millions)	27.2	26.2	27.2	31.0	34.0	35.0	36.0	37.0	38.0	39.0	
% change	*-1.1*	*-3.7*	*3.8*	*14.0*	*9.7*	*2.9*	*2.9*	*2.8*	*2.7*	*2.6*	*2.8*
Average price (R)	24.75	25.50	26.25	27.00	28.45	29.90	31.15	32.30	33.35	34.35	
% change	*3.1*	*3.0*	*2.9*	*2.9*	*5.4*	*5.1*	*4.2*	*3.7*	*3.3*	*3.0*	*3.8*
Box office spending (R millions)	673	668	714	837	967	1 047	1 121	1 195	1 267	1 340	
% change	*2.0*	*-0.7*	*6.9*	*17.2*	*15.5*	*8.3*	*7.1*	*6.6*	*6.0*	*5.8*	*6.7*

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

Cinema advertising

Cinema advertising consists of on-screen advertising shown prior to the movie and product placement advertising. Like all advertising outlets, cinema advertising spend also suffered during the recession, falling by 19.6% in 2009.

Cinema advertising rides on the back of the box office market as the audience for on-screen ads is determined and limited to the number of people who purchase tickets.

Although admissions rose in 2009, the impact of the recession was far more evident in the reduction of advertising budgets. In 2010, however, with the economy beginning to rebound and with admissions rising, cinema advertising rose 17.1%.

During the next five years, cinema advertising is likely to benefit from a number of positive developments. Improved economic conditions will be the most important factor, while the expectation of ongoing admissions growth will also enhance the appeal of cinema advertising.

The digitalisation of cinemas allows advertisers to send ads in digital format, which is substantially less expensive than producing and distributing an ad on a film print. Digital distribution should make cinema advertising a more attractive option for advertisers.

Cinemas offer advertisers a captive audience of viewers, who are generally focussing on what is on the screen, and the opportunity to deliver longer messages than the 30-second or 60-second ads seen on television.

Cinemas also provide a vehicle to reach young people who are becoming increasingly difficult to reach through most other media. With 3D proliferating, 3D ads are now available, which provide an attractive platform for advertisers.

Product placement, or embedded marketing, is still secondary to the traditional form of on-screen advertising. Product placement advertising is a form of advertising in which branded goods or services are placed in a feature film and though it is not typically perceived to be an advertising medium, it is.

Product placement is a growing market in South Africa. Some notable product placements in locally- produced films include the SABC, Vodacom and Sony advertising in *District 9* and Resolution Health and Optimum Financial Services in *Hansie*. The top grossing movie from 2010,

On-screen cinema advertising (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Cinema advertising	265	245	255	205	240	265	295	325	355	385	
% change	*-33.8*	*-7.5*	*4.1*	*-19.6*	*17.1*	*10.4*	*11.3*	*10.2*	*9.2*	*8.5*	*9.9*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total cinema market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Box office	673	668	714	837	967	1 047	1 121	1 195	1 267	1 340	
% change	*2.0*	*-0.7*	*6.9*	*17.2*	*15.5*	*8.3*	*7.1*	*6.6*	*6.0*	*5.8*	*6.7*
Cinema advertising	265	245	255	205	240	265	295	325	355	385	
% change	*-33.8*	*-7.5*	*4.1*	*-19.6*	*17.1*	*10.4*	*11.3*	*10.2*	*9.2*	*8.5*	*9.9*
Total cinema	**938**	**913**	**969**	**1 042**	**1 207**	**1 312**	**1 416**	**1 520**	**1 622**	**1 725**	
% change	***-11.5***	***-2.7***	***6.1***	***7.5***	***15.8***	***8.7***	***7.9***	***7.3***	***6.7***	***6.4***	***7.4***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Schuks Tshabalala's Guide to South Africa, featured product placement for a number of leading brands, including Pick 'n Pay, Nando's and Sasol.

We expect that advertisers will continue to be attracted to the cinema as an appealing way to reach target customers. Although cinema advertising is still only a small component of the overall advertising market, we expect that it will be among the faster growing, rising at a projected 9.9% compound annual rate to reach R385 million in 2015.

Total cinema market

The total cinema market in South Africa will grow at a projected 7.4% compound annual rate to reach R1.7 billion in 2015 from R1.2 billion in 2010.

Home video

Sell-through

The sell-through market is expected to undergo a transformation following the introduction of streaming services through DSTv Box Office, launched in July 2011. The effect of the introduction of this service will not have an immediate impact, but may well lead to lower-cost rental gaining ground. In future, we expect the demand for TV shows on home video to be eroded by the availability of filmed entertainment through streaming services.

While the shortening of the theatrical-to-home-video window will benefit sell-through as films reach that market sooner, the window between home video and video-on-demand will virtually disappear. This could have a negative impact on the physical market. On balance, we expect the earlier availability on video-on-demand (available in South Africa through DSTv Box Office) will offset the positive impact of the shrinking home video window.

An added challenge that the South African market is faced with is piracy. Piracy is a major problem as bootlegged DVDs, which sell at a fraction of the price of genuine product, together with illegal downloads, limit legitimate sell-through spending.

Nevertheless, legitimate unit sales have been expanding at healthy rates, particularly during the past two years. After averaging 4.9% growth during 2006-08, unit sales rose 9.5% in 2009 and soared by 17.2% in 2010. The popularity of films at the box office likely contributed to home video sales growth, as films that attract large audiences in theatres also tend to sell the most videos. The advancement of technology that allows for the legitimate download of film to tablets and computers via broadband will in future contribute to the growth in the home video market. However, broadband infrastructure still remains a barrier for this form of film access.

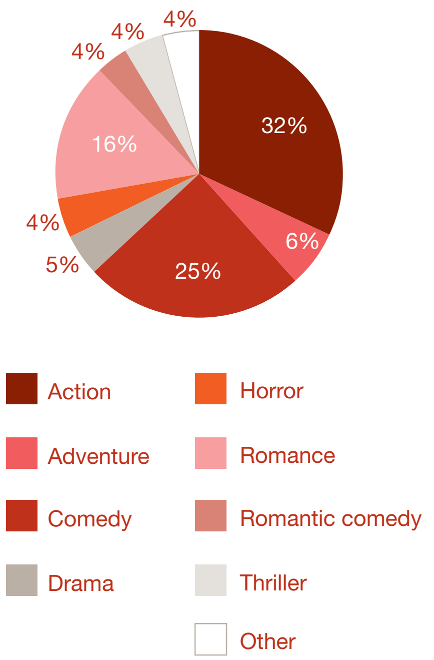
Physical sell-through market

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Unit sales (millions)	7.80	8.25	8.55	9.36	10.97	12.29	13.39	14.33	15.04	15.75	
% change	*5.4*	*5.8*	*3.6*	*9.5*	*17.2*	*12.0*	*9.0*	*7.0*	*5.0*	*4.7*	*7.5*
Average price (R)	104.49	103.03	102.11	102.46	87.78	79.90	76.25	74.46	72.54	69.90	
% change	*-0.2*	*-1.4*	*-0.9*	*0.3*	*-14.3*	*-9.0*	*-4.6*	*-2.3*	*-2.6*	*-3.6*	*-4.5*
Sell-through spending (R millions)	815	850	873	959	963	982	1 021	1 067	1 091	1 101	
% change	*5.2*	*4.3*	*2.7*	*9.9*	*0.4*	*2.0*	*4.0*	*4.5*	*2.2*	*0.9*	*2.7*

Sources: Aquidneck Consulting, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Despite the global trend of increasing adoption of Blu-ray, Blu-ray sales in South Africa made up only 2% of all unit sales, with 98% of sales still in the traditional DVD format.

Unit sales by movie genre (2010)



Source: Aquidneck Consulting

Growth in unit sales in 2010 was also fueled by a 14.3% drop in the average price as heavy discounting attracted buyers. The availability of videos at supermarkets and other outlets where they are sold at discount rates, together with lower prices available through online stores compared with video stores, is driving down average prices.

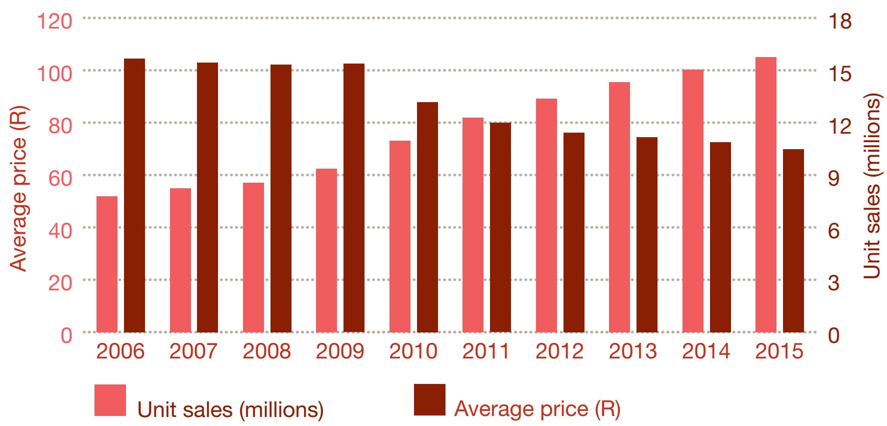
A further 9.0% decline in average price is projected for 2011, which will be accompanied by another double-digit increase in unit sales, which is projected at 12.0%. Thereafter, more modest price declines are projected, which will be accompanied by more modest increases in unit sales.

The average video cost R87.78 in 2010, down from R102.46 in 2009. By 2015, the average price is expected to drop to R69.90, a 4.5% compound annual decrease from 2010.

Unit sales are likely to increase from 11 million in 2010 to a projected 15.8 million in 2015, a 7.5% increase compounded annually.

Spending in 2015 will total an estimated R1.1 billion, a 2.7% compound annual increase from R963 million in 2010.

Physical sell-through market for DVDs



Sources: Aquidneck Consulting, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Behaviours and attitudes related to pirating content

PwC in the United States has an ongoing consumer research programme, through which we gain directional insights on consumer attitudes and behaviours in the rapidly changing media landscape. The key findings from a survey about online piracy of movies, TV, and videos, which addresses consumer perceptions, behaviours, and reasons for pirating, as well as their concerns about pirating is set out below. To explore this topic, a multi-question online survey was carried out in September 2010 to participants between the ages of 18 and 59 who acknowledged their participation in online piracy within the last six months.

Today's consumers can access an astonishing variety of movies, videos, and television shows – on multiple platforms – faster than ever before. With so much content at their fingertips, what compels some consumers to commit online piracy by downloading or streaming content illegally?

The main reason is obvious: price. Many consumers who say they commit online piracy are enticed by free content. But other factors also contribute to the growing prevalence of piracy, including earlier access to content, a perception that 'everyone is doing it' and the proliferation of ad-supported websites that offer free content.

Meanwhile, mobile piracy appears poised to escalate. Already, these consumers say they use mobile devices, such as smartphones, to access pirated content. And potential business models that call for charging consumers a significant up-charge to access content sooner than traditional release windows allow may not appeal to these consumers, who strongly desire free content and say they'd only be willing to pay a maximum of $3 for a movie and $1 for a television show.

For entertainment companies struggling to combat piracy, there is some good news: Consumers expressed concern about potential piracy pitfalls, including the poor quality of some pirated content and the possibility of downloading a virus or facing legal trouble, so anti-piracy messages that focus on those concerns may resonate.

Summary of key findings

- ***Pirating behaviour will continue, despite consumers' concerns about their actions.*** Most (81%) of the consumers who admitted to pirating TV, movie, and video content (such as UGC, mash-ups and YouTube videos) say they will likely continue to do so, even though two out of three also noted concerns about at least one of the following:
  - Computer viruses
  - Getting into trouble for doing something that may be illegal
  - Inferior quality/fidelity of the content
- ***'Free' drives behaviour.*** Not surprisingly, the key motivator to pirate is the reward of free content and the belief that buying hard copies or paying to download content is either unnecessary or has become too expensive. It was noted that:
  - **Owning content is not a motivator:** More than half of consumers who said they pirate don't feel the need to own a physical copy (such as a DVD).
  - **Pirating is not driven by a grudge toward the content owners**. While many said costs to buy or download content – especially movies – is high, most said they do not pirate in an effort to detract from studio profits.
- ***Not paying has become mainstream.*** More than half agreed that 'everyone does it'. What's more, family and/or friends – presumably trusted sources – were frequently how consumers learned about websites that offer pirated content in the first place.
- ***Consumers may pay a nominal amount to access content sooner.*** Although they are accustomed to getting content free, most (76%) said they are somewhat willing to pay a nominal fee if the content can be accessed closer to its release date. However:
  - Consumers said they were willing to pay no more than $3 to download a movie and less than $1 for a TV programme.
  - 83% of those willing to pay want the content within one month (or less) of the theatrical release window.

- ***The growing number of ad-supported websites is contributing to increased piracy.*** Such sites may be causing confusion as to what is pirated content and what is legitimate, free content. Most (70%) of those who pirate also acquire free content legally from ad-supported websites.
- Most pirates are not concerned about the economic impact of their actions. Only about one out of three consumers who pirate worry that piracy may drive up costs.
- Streaming is preferable to downloading, but both methods are widely used. Both methods also generate considerable concern about viruses; however, more consumers (80%) worry about downloading than streaming (65%).
- Mobile piracy is here and will likely increase:
  - As the number of consumers who access content via mobile devices increases, mobile pirating may also increase.
  - 40% of those who report 'pirating' content via traditional methods said they will probably also pirate on mobile devices within the next six months.
  - This is consistent with mobile research conducted by PwC in July 2010, which indicated that consumers increasingly access content on their mobile devices. Those findings included:
    - Given the proliferation of smartphones, consumers are increasingly using their mobile devices to access the Internet – 35 times per week on average.
    - Mobile provides freedom of access –anytime, anywhere – and the opportunity to explore more and be entertained during what otherwise would be down time.

Source:"Discovering behaviours and attitudes related to pirating content ", The Speed of Life – Consumer intelligence series, PwC United States, October 2010

In-store rental market

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Rental turns (millions)	31.0	31.5	31.5	31.5	32.0	33.0	34.1	35.2	36.3	37.4	
% change	*-3.1*	*1.6*	*0.0*	*0.0*	*1.6*	*3.1*	*3.3*	*3.2*	*3.1*	*3.0*	*3.2*
Average price (R)	22.85	22.50	22.35	22.25	21.88	21.50	21.15	20.80	20.40	20.00	
% change	*-0.2*	*-1.5*	*-0.7*	*-0.4*	*-1.7*	*-1.7*	*-1.6*	*-1.7*	*-1.9*	*-2.0*	*-1.8*
Rental spending (R millions)	708	709	704	701	700	710	721	732	741	748	
% change	*-3.4*	*0.1*	*-0.7*	*-0.4*	*-0.1*	*1.4*	*1.5*	*1.5*	*1.2*	*0.9*	*1.3*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In-store rental

Rental spending has been relative steady during the past five years, fluctuating between R709 million and R700 million. Spending edged down 0.1% in 2010 to R700 million as a 1.6% increase in the number of rental transactions was offset by a 1.7% decrease in the average price.

The effect of DStv Box Office launched recently will not have an immediate impact on the rental pricing structure. The price per movie at launch of the service was R25, with a viewing window of 48 hours. The DStv Box Office functionality is available only to PVR subscribers, which forms a small proportion of the overall population. DVDs can be obtained at kiosks and discount outlets for less than R20, although selection at this price is limited to older films.

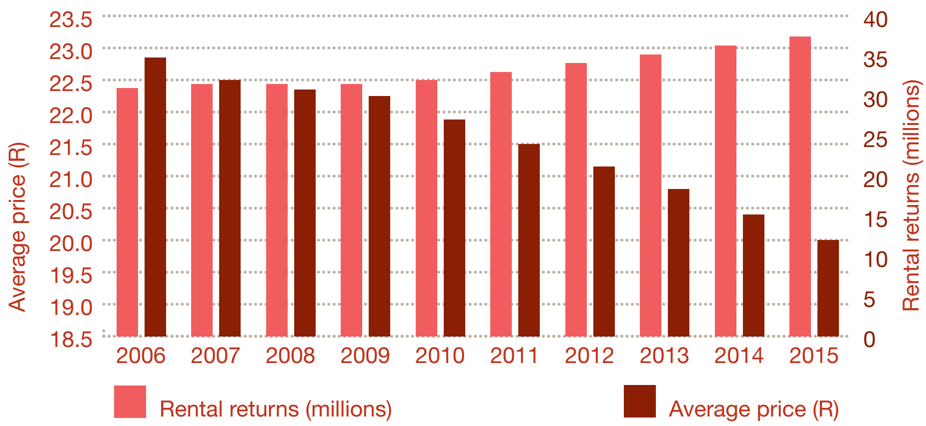
As lower-cost transactions gain share, the overall average price will decline. We expect the average rental to cost R20 in 2015, down 1.8% on a compound annual basis from R21.88 in 2010.

Declining prices will stimulate rental transactions. We project the number of rental turns to increase to 37.4 million in 2015, a 3.2% compound annual increase from 32 million in 2010.

Rental spending will rise to a projected R748 million by 2015, growing at a 1.3% compound annual rate.

The market is made up of a large number of stores that individually do not contribute significant revenue to the in-store rental market. The above in-store rental market includes only those video chain outlets that exist in South Africa.

In store rental market for DVDs



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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Home video market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Sell-through	815	850	873	959	963	982	1 021	1 067	1 091	1 101	
% change	*5.2*	*4.3*	*2.7*	*9.9*	*0.4*	*2.0*	*4.0*	*4.5*	*2.2*	*0.9*	*2.7*
In-store rentals	708	709	704	701	700	710	721	732	741	748	
% change	*-3.4*	*0.1*	*-0.7*	*-0.4*	*-0.1*	*1.4*	*1.5*	*1.5*	*1.2*	*0.9*	*1.3*
Home video total	**1 523**	**1 559**	**1 577**	**1 660**	**1 663**	**1 692**	**1 742**	**1 799**	**1 832**	**1 849**	
% change	***1.0***	***2.4***	***1.2***	***5.3***	***0.2***	***1.7***	***3.0***	***3.3***	***1.8***	***0.9***	***2.1***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Overall home video market

The overall home video market rose by 0.2% in 2010, its smallest gain during the past five years.

We expect somewhat faster growth beginning in 2011. Spending during the next five years is expected to increase at a 2.1% compound annual rate, rising to R1.85 billion in 2015 from R1.66 billion in 2010.

Seeing it now: The hidden value of digital rights lockers

For today's tech-savvy consumers, the shift from physical media to online distribution is all about gaining the ability to access and manage content on demand. They want to access content from multiple devices: mobility is key. They also want – and expect – the ability to download, share, and store everything from videos and music files to full-length movies.

Enter digital rights lockers (DRLs). Based on cloud storage technology, DRLs have unlimited storage capacity, allow for lightning fast downloads and improve the ability to access and share content across multiple devices.

Recently, Apple launched its iCloud service, storing user content and making it available across all Apple devices. This has significantly changed the way consumers store information and access new media content.

A key finding from insight sessions conducted by PwC in the United states with consumers aged 18-30 is that even tech-savvy consumers appear to have little awareness and understanding of proposed commercial uses of DRLs to manage media and entertainment content. This finding is summarised below.

- ***Consumers have little awareness and understanding digital rights storage.*** There is a basic need for businesses to clearly explain the value of DRLs. While consumers appear to be somewhat familiar with the concept of cloud storage, they do not have a solid understanding of the benefits and advantages. However, they appear interested in learning more, especially in relations to:
  - ***Unlimited storage capacity.*** Consumers expressed an interest in the possibility of storage beyond their current hard drives – and cloud-based storage is the ideal way to access additional storage without replacing your hard drive.
  - ***Speed.*** The ability to rapidly access and download to multiple devices is highly appealing. ('Having something that's instantly saved and archived, ready for you, is great.')
  - ***Unlimited ability to access/share content and improved interoperability of devices.*** This is critical to promotion of digital rights lockers. For most, the ability to share content – especially across multiple platforms – is a huge benefit. Digital rights lockers shift the burden of transcoding and storing extremely large video files away from individual users.
- When asked to envision the future of movie ownership, consumers consistently identify several key themes, including:
  - One place to store everything;
  - Ability to share content with peers (especially important among younger group);
  - Ability to download instantly to any and all devices without restriction;
  - Ability to access anywhere – mobility remains key; and
  - Quality is undiminished and not restricted by device.
- Consumers still have concerns and questions about digital rights storage. Key concerns include:
  - ***Ownership:*** Who is responsible for maintaining the locker?
  - ***Obsolescence:*** What happens to the content of your locker if the next big storage option comes along? Will you have to pay for your content all over again?
  - ***Interoperability:*** What if all the major studios and device manufacturers don't participate in a common DRL approach? Will we have another platform battle like Blu-Ray/HD-DVD or VHS/Beta? Malware? As one consumer said, 'What if somebody uploads a virus? Then you'd have a virus on a multitude of things.'
  - ***Theft:*** Concern that someone could amass content in a locker, then sell the password.

The implication for the providers of DRLs is to address these concerns is such a way that the benefits for the consumer exceed the cost thereof.

Source: " Seeing it now: The hidden value of digital rights lockers ", The Speed of Life – Consumer intelligence series, PwC United States

Electronic distribution

The ability to stream or download content to any device, including tablets such as the iPad, makes electronic delivery an attractive option. However, costing and capacity constraints as a result of poor infrastructure, along with piracy, still hinder the digital download market in South Africa. The Internet landscape is nevertheless changing rapidly, with significant impact for traditional content delivery models.

There is great focus on growing broadband penetration in South Africa, which will expand the potential market for streaming and downloading content. Consequently, we expect a significant increase in electronic distribution over the forecast period. Contributing to this will be the recently implemented West African Cable Systems (WACS), together with other cables to the continent, which will bring additional capacity to Africa, including South Africa.

Broadband penetration is expected to be at 40% in the G8 countries, which includes South Africa, by 2015.

In territories such as the United States, Asia-Pacific and Europe, where broadband penetration and bandwidth availability are not an issue, the electronic distribution market is a rapidly growing segment of the market, with many new products being introduced and much experimentation taking place. In these regions, videos can be obtained directly over the Internet through digital downloading and streaming services – some of which are subscription based – and through online rental subscriptions. As services like Netflix combine physical rentals with streaming in the same subscription service, it becomes difficult to separate the two, although the physical rental component is rapidly declining, while the streaming component is rapidly increasing.

Netflix, the leading online rental subscription service in the United States, is transitioning its market to a streaming service. Apple TV is also transforming its service, shifting from a download-to-own model to a streaming rental model. Also in the United States, Microsoft launched its Zune video marketplace in late 2010, through the XB360 platform. Playstation 3 and Amazon launched a subscription video service that provides movies and TV shows. This service is not yet available in South Africa.

Digital lockers, which are cloud-based services that let subscribers access content from any device in any location, are attracting interest with advances in digital rights management. Users can buy content and store it in a digital locker to be viewed as many times as desired. Content can be downloaded or streamed to a registered device.

The emergence of tablets will further drive the electronic market because tablets provide good viewing platforms for content.

The increasing availability of Web-enabled TV sets will also expand the market by making it easier to download a movie from the Internet and watch it on television, and will become more widespread as broadband penetration increases.

Global trends in the filmed entertainment industry

Outlook

- We project that total global spending on filmed entertainment will rise at a 5.9% compound annual rate over the next five years, reaching $114.8 billion in 2015 from $86.2 billion in 2010.
- Global box office spending will increase from $33.0 billion in 2010 to $48.7 billion in 2015, an 8.1% compound annual increase.
- Cinema advertising will grow nearly as fast with a projected 7.5% compound annual gain to $2.9 billion in 2015 from $2.0 billion in 2010.
- Physical sell-through spending will total $36.1 billion in 2015, up from $30.4 billion in 2010, a 3.5% increase compounded annually. In-store spending will total $14.9 billion in 2015, an 0.6% decrease on a compound annual basis from $15.5 billion in 2010.
- Electronic distribution will expand at a 18% compound annual rate to $12.1 billion from $5.3 billion in 2010.
- Overall home video spending will expand at a projected 4.3% compound annual rate to $63.2 billion from $51.2 billion in 2010.

Key drivers

- Box office spending will be boosted by growth in 3D screens, which will raise average prices while dampening admissions growth. Rising prices will be the principal driver of box office spending, enhanced by modest growth in admissions.
- Favourable demographics and an expanding box office market will boost cinema advertising.
- As content owners and distributors continue to deal with industry dynamics such as piracy and evolving distribution technologies, there has been an increased focus on re-evaluating the current release window system. Some studios have communicated that they are in favour of collapsing certain windows to maximise profitability and various testing is in place.
- Shorter release windows will benefit video-on-demand, but will have an adverse impact on box office.Home video will benefit from a shorter window following box office but will be hurt by the near contemporaneous video-on-demand release.
- Growth in Blu-ray will offset declines in DVDs and propel the sell-through market.
- The proliferation of new electronic distribution services, the availability of content on tablets and other devices, together with growing broadband penetration, will drive electronic spending. Increased competition from electronic distribution services will cut into the physical rental market.
- Piracy will continue to hold down spending, particularly in the Asia-Pacific region and Latin America as well as a number of countries in Europe, the Middle East and Africa.

Source: Global entertainment and media outlook 2011-2015 (PwC, 2011)

Global filmed entertainment market by component (US$ millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Box office	26 131	27 185	28 128	31 114	33 033	35 722	38 964	42 287	45 519	48 659	
% change	*6.3*	*4.0*	*3.5*	*10.6*	*6.2*	*8.1*	*9.1*	*8.5*	*7.6*	*6.9*	*8.1*
Cinema advertising	1 697	1 871	1 855	1 831	2 028	2 167	2 343	2 540	2 721	2 905	
% change	*4.6*	*10.3*	*-0.9*	*-1.3*	*10.8*	*6.9*	*8.1*	*8.4*	*7.1*	*6.8*	*7.5*
Physical sell-through	35 746	35 657	33 783	31 087	30 434	30 708	31 661	33 066	34 661	36 128	
% change	*-0.6*	*-0.2*	*-5.3*	*-8.0*	*-2.1*	*0.9*	*3.1*	*4.4*	*4.8*	*4.2*	*3.5*
In-store rentals	16 044	16 093	15 295	15 346	15 446	15 370	15 356	15 275	15 140	14 979	
% change	*-0.2*	*0.3*	*-5.0*	*0.3*	*0.7*	*-0.5*	*-0.1*	*-0.5*	*-0.9*	*-1.1*	*-0.6*
Electronic	1 486	2 275	3 098	4 037	5 281	6 655	8 075	9 507	10 810	12 088	
% change	*26.7*	*53.1*	*36.2*	*30.3*	*30.8*	*26.0*	*21.3*	*17.7*	*13.7*	*11.8*	*18.0*
Home video total	53 276	54 025	52 176	50 470	51 161	52 733	55 092	57 848	60 611	63 195	
% change	*0.1*	*1.4*	*-3.4*	*-3.3*	*1.4*	*3.1*	*4.5*	*5.0*	*4.8*	*4.3*	*4.3*
Filmed entertainment total	**81 104**	**83 081**	**82 159**	**83 415**	**86 222**	**90 622**	**96 399**	**102 675**	**108 851**	**114 759**	
% change	***2.1***	***2.4***	***-1.1***	***1.5***	***3.4***	***5.1***	***6.4***	***6.5***	***6.0***	***5.4***	***5.9***

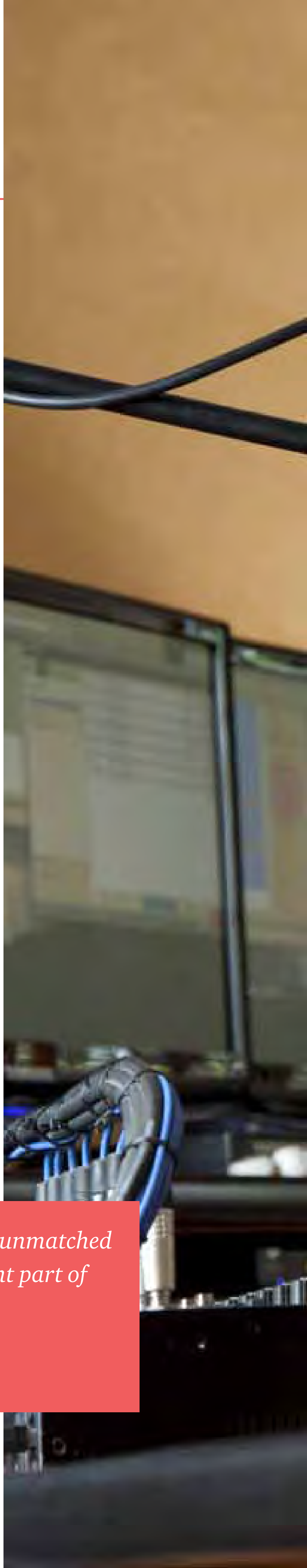
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Despite the global trend of increasing adoption of Blu-ray, Blu-ray sales in South Africa made up only 2% of all unit sales, with 98% of sales still in traditional DVD format.

Chapter 5

Radio

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



Radio provides a reach and frequency that is unmatched by any other medium, making it an important part of any advertising budget.

Outlook at a glance			
Radio market (R millions)	**2010**	**2015**	**2011-15 CAGR (%)**
Advertising	3 019	4 230	7.0
Public funding	442	464	1.0
Total	**3 461**	4 694	6.3

Ayesha Chotia
Senior Manager
PwC Southern Africa

Charles Stuart
Senior Manager
PwC Southern Africa

Outlook in brief

- *Radio advertising was boosted by the 2010 FIFA World Cup.*
- *The goal of the Department of Communications is to have a community radio station in each of the country's municipalities.*
- *ICASA is in the process of announcing the successful bidders for three new commercial radio broadcasting licences.*
- *Ukhozi FM, a Zulu-language station, is the country's most popular station with over six million listeners per week, while 94.7 Highveld Stereo attracted the most advertising in 2010.*
- *Digital broadcasting is not expected to take-off in South Africa although Internet radio has taken off and is being embraced by radio listeners.*
- *Radio stations are increasingly using social networks as communication platforms with their listeners.*
- *Needletime royalties are expected to have a significant impact on the radio broadcasting industry.*

Radio market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Advertising	2 119	2 422	2 650	2 664	3 019	3 200	3 400	3 650	3 925	4 230	
% change	*16.0*	*14.3*	*9.4*	*0.5*	*13.3*	*6.0*	*6.3*	*7.4*	*7.5*	*7.8*	*7.0*
Public funding	425	430	434	439	442	447	450	456	459	464	
% change	*0.7*	*1.2*	*0.9*	*1.2*	*0.7*	*1.1*	*0.7*	*1.3*	*0.7*	*1.1*	*1.0*
Total	**2 544**	**2 852**	**3 084**	**3 103**	**3 461**	**3 647**	**3 850**	**4 106**	**4 384**	**4 694**	
% change	***13.2***	***12.1***	***8.1***	***0.6***	***11.5***	***5.4***	***5.6***	***6.6***	***6.8***	***7.1***	***6.3***

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

Overview

Radio is the most popular form of media in South Africa, reaching urban centres as well as remote rural areas. There are more than 10 million households with radios and many more listeners in the country. On a weekly basis, radio reaches approximately 88.9% of all South Africans above the age of 15.

Within the radio market, advertising is the dominant sector, accounting for 87% of spending in 2010. Improved economic conditions in 2010 are reflected in the significant improvement compared to 2009. In addition, radio advertising was boosted by the FIFA World Cup. As a result, radio advertising increased by 13.3% in 2010, its largest increase since 2007.

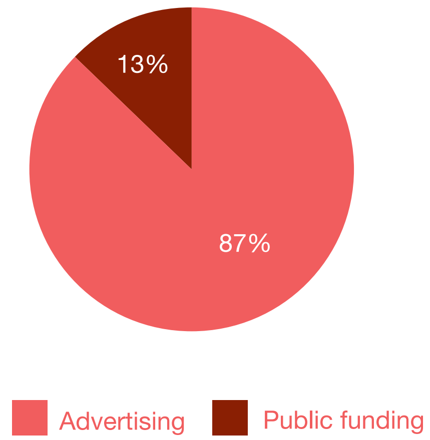
Continued strong economic growth as well as the expansion of community stations and the addition of the three new commercial stations will spur the above-average expected increase in advertising spending over the forecast period. Radio advertising is projected to increase 7% on a compound annual rate from R3.0 billion in 2010 to reach R4.2 billion in 2015.

Public funding, which excludes advertising revenue earned by public stations, rose by 0.7% in 2010, continuing its pattern of growth fluctuating around 1.0% annually. Public funding is projected to expand at a 1.0% compound annual rate resulting in a combined 6.3% compound annual growth rate for the market overall.

A snapshot of the radio industry

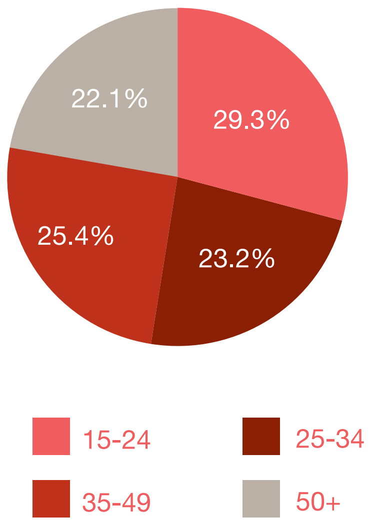
The South-African market is made up of an almost even split between male and female listeners, but displays a diverse listenership according to age, with people of all ages tuning in.

Sources of income (2010)



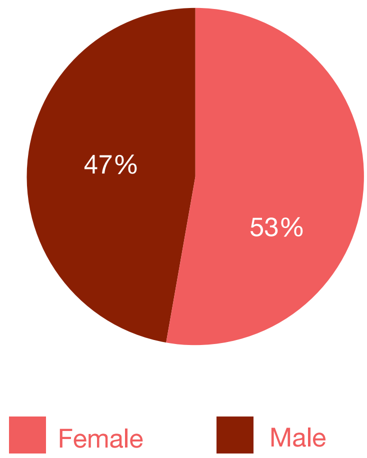
Sources: Radio Advertising Bureau, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Average age of listenership (June 2011)



Source: Source: South African Advertising Research Foundation, RAMS June 2011

Listenership by gender (June 2011)



Source: Source: South African Advertising Research Foundation, RAMS June 2011

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

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

English is the dominant language in South Africa radio listening accounting for 43% of all listening in 2010. Zulu is next at 12.5%, followed by Afrikaans at 9.6%.

Market share of radio by broadcast language (2010)

Language	Market share (%)
English	43.0
Zulu	12.5
Afrikaans	9.6
Xhosa	7.5
Setswana	6.5
Sesotho	6.1
Sepedi	5.5
Ndebele	2.6
Swazi	2.5
Tsonga	2.0
Venda	1.8
Other	0.4

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Various types of music, including contemporary, traditional, gospel and classical dominate the airwaves. Some stations air phone-in talk shows, current affairs and news programming.

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

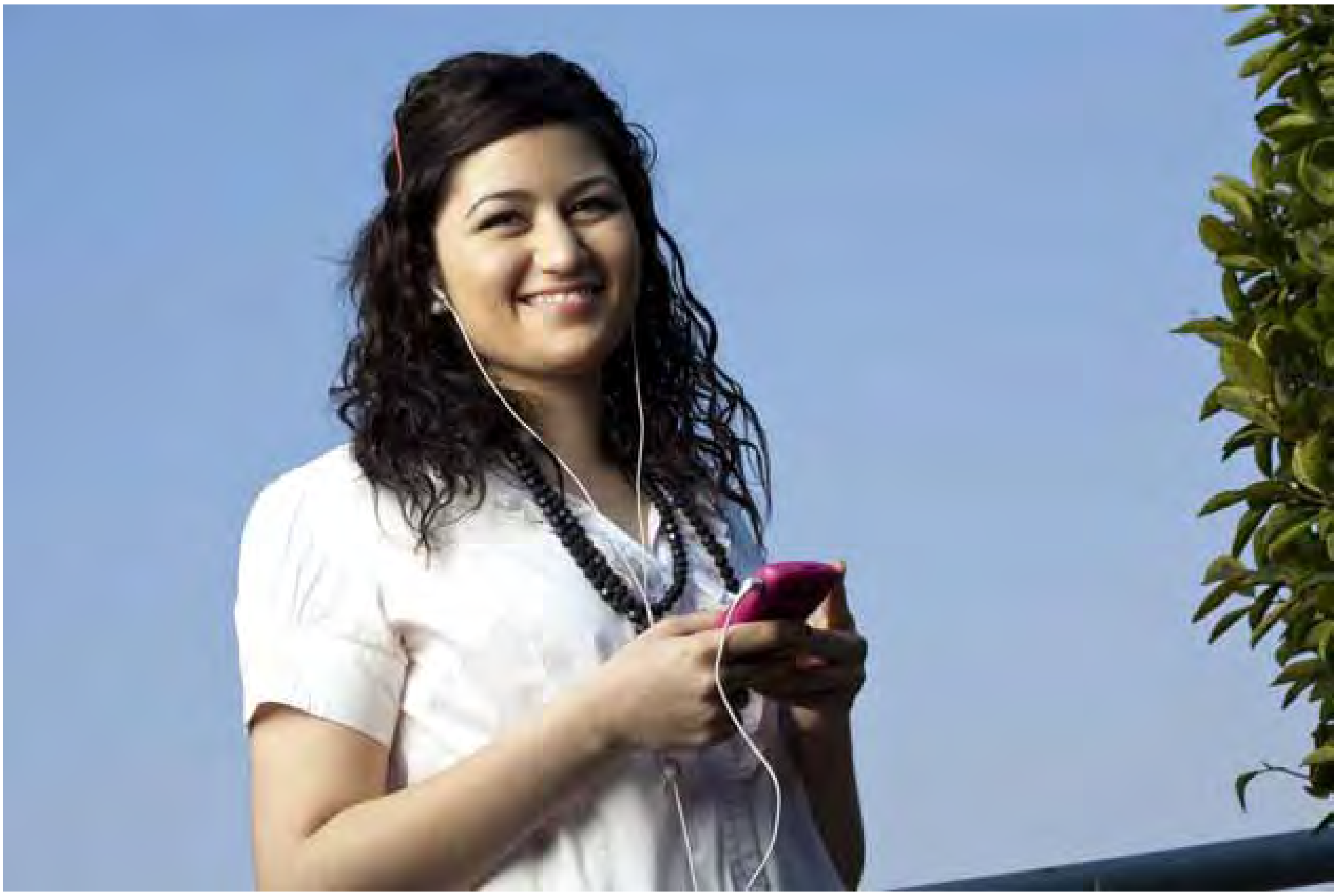
The South African Broadcasting Corporation (SABC) is the public broadcaster. Although state-owned, the SABC is funded both by advertising as well as public funding. The SABC operates both commercial and public service stations, with the allowance for these commercial stations to help subsidise the public service stations. The commercial stations include Metro FM, the largest national commercial station in South Africa, which broadcasts in English, targeting black urban young adults with contemporary music; 5FM, a national English station geared to the nation's youth; and Good Hope FM, an adult contemporary station based in Cape Town.

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. SABC's isiZulu cultural service, Ukhozi FM, is the most popular station in the country with more than six million listeners each week. Umhlobo Wenene, the isiXhosa cultural service, the second-largest public station, broadcasts news and information as well as music programmes.

During the apartheid era, there were only two independent commercial radio stations, Radio 702 and Capital Radio. The number of commercial stations grew in the late 1990s with six regional SABC stations being privatized 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 94.2, broadcasting mainly in the Gauteng, Limpopo, North West and Mpumalanga provinces, is the largest regional independent commercial station, reaching two million listeners weekly with easy listening adult contemporary music and news. East Coast Radio, the second-largest regional station, broadcasts a combination of music and news in Durban and throughout the province of KwaZulu-Natal.

Community radio began in 1994 when small community groups across the country were granted licences by the broadcasting authority. The Broadcasting Act of 1999 defines a community broadcasting service as one that is controlled by a non-profit entity that serves a particular community. It may be funded by donations, sponsorships, membership fees or advertising.



There are more than 130 community radio stations that provide diverse programming in different languages for the local areas. These stations range from small stations in remote areas and college stations reaching a thousand listeners to Jozi FM in Soweto, which reaches approximately 500 000 listeners. Alfred Nzo, a relatively new community station in the Mount Ayliff area in Eastern Cape, has grown since it went on the air in 2007 to become one of the major community stations with 300 000 listeners.

In general, community radio stations struggle to attract advertising and often require private donations and government support to stay afloat. Nevertheless, listenership of community radio stations continues to increase, with approximately eight million people tuning in each week. This represents more than a quarter of the overall listening audience. Community radio allows advertisers to target their commercials to very specific audiences in their own language.

In 2011, the Department of Communications (D0C) announced that it was allocating R10 million to support the development of content for community radio stations. The DoC's goal, via the Media Development and Diversity Agency, is to eventually have a community radio station in each municipality. Although many community radio stations are struggling financially and often require volunteers to keep their operations functioning, they remain an important part of the broadcasting environment as they provide diversity for listeners as well as local information for specific communities.

The industry is regulated by the Independent Communications Authority of South Africa (ICASA), whose role it is to issue broadcast licences, monitor licencees' adherence to licence conditions, ensure universal access and hear disputes brought against licencees.

In March 2009, ICASA issued invitations to apply for three new commercial radio licences in the primary markets of Gauteng, Durban and Cape Town. ICASA is in the process of announcing the successful bidders for these licences.

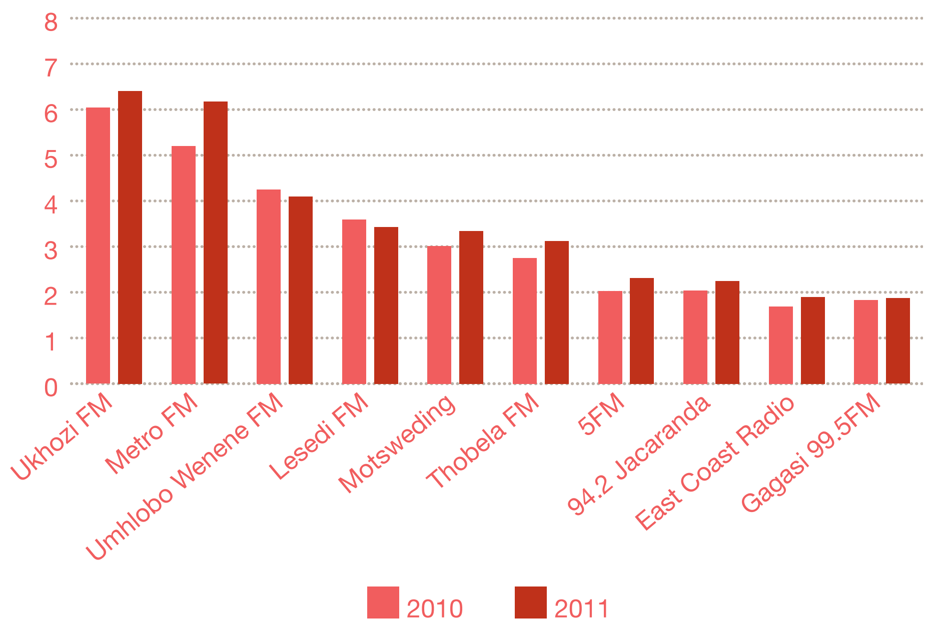
Radio provides a reach and frequency that is unmatched by any other medium, making it an important part of any advertising budget. Since radio stations cater to specific audiences, they provide an effective means to reach a geographically or demographically targeted audience.

Advertising

Radio is a ubiquitous medium in South Africa, reaching almost 90% of the population each week. There is a wide variety of stations available in most areas.

Ukhozi FM, the SABC Zulu station, was the top rated station by audience size in 2010. It was followed by Metro FM, the English-language SABC station programming contemporary black-oriented music, and Umhlobo Wenene FM, a station targeted to Xhosa speakers.

Listenership (June 2011 – millions)



Source: South African Advertising Research Foundation

Top 10 radio stations by listeners (2010)
Ukhozi FM
Metro FM
Umhlobo Wenene FM
Lesedi FM
Motsweding FM
Thobela FM
5FM
94.2 Jacaranda
East Coast Radio
Gagasi 99.5

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

The Radio Audience Measurement Survey (RAMS) issued by the South African Advertising Research Foundation (SAARF) in June 2011, stated that time spent listening to radio declined by four minutes daily from last year to three hours and 42 minutes. Weekly penetration increased from 87.4% of the population aged 15 and up in June 2010 to 88.9% currently.

As a group, the African language stations, operated by the SABC, have the largest audiences. Metro FM continues to be the most popular national station, with approximately six million listeners above the age of 15 per week, followed by 5FM with around two million listeners. Among the regional non-African language stations, Jacaranda 94.2 is the leader with about two million listeners per week.

Community radio stations attract much smaller audiences than commercial or public stations. Overall, community stations attract more than eight million listeners weekly with Jozi FM leading with about 500 000 listeners, followed by Unitra Community Radio and Radio 786, with more than 300 000 listeners each. The June 2011 RAMS report estimates that the total radio industry attracted more than 30 million listeners above the age of 15 every week, a 2% increase from the comparable time period a year earlier.

Jacaranda 94.2 is the top radio station for the bilingual Afrikaans/English market in four provinces, including Gauteng, with about 28% audience market share in the report. Based on audience research, the station adjusted some of its programming and added new shows to increase its audience. The station was also one of the first South African stations to adopt, on a test basis, a Radio Data System (RDS) that can transmit song information such as the song title and name of the artist to car radios. The station also installed RDS displays on digital billboards on major highways enabling drivers to see which songs are currently being broadcast.

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

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

The key findings of the study as reported in *RAB Connect* (January 2011) are:

- Radio can target customers with a message right at the time they are considering a purchase;
- Radio is able to reach the key decision makers within households;
- Creativity remains of paramount importance in the effectiveness of a campaign;
- There needs to be consistency of message and delivery;
- Radio's 'virtual TV' effect makes a highly cost-efficient contribution towards maintaining brand awareness and 'share-of-mind' scores; and
- Radio has a unique ability to establish strong emotional bonds with an audience, and imbue them with perceptions of greater emotional 'warmth'.

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

Loerie Awards CEO, Andrew Human, provides some food for thought:

I think a critical oversight of media owners today is the importance of quality material – not for content but for commercials. Traditionally, radio stations divide broadcast time between content and advertising – with a programme manager looking after the content and a sales manager selling the 'black holes'. The programme manager doesn't consider the ads as content and the sales manager doesn't particularly concern himself or herself with what the actual ad sounds like. The end result is a 'commercial break' during which the listener (remember him?) changes station or makes tea.

Now imagine this scenario: treat ads like content. Imagine if the listener actually likes the ad. Better yet, all the ads. Everybody wins because the listener is happy and doesn't change stations, the marketer is happy because the effectiveness of their ad increases and the media owner is happy because the value of their commercial space increases.

Digital radio

Digital radio is a more efficient use of radio spectrum as more stations can be broadcast using the same amount of spectrum. Additionally, since interference is reduced, the sound quality of digital radio is superior to that of traditional radio with the quality of an FM station approaching that of a CD. Digital radio also provides a data stream that can be transmitted along with the music allowing the station to provide information about the songs. The biggest drawback to converting to digital radio is that all existing receivers would become obsolete and would need to be replaced.

Although it has been running a digital audio broadcasting (DAB) pilot test for some time, South Africa does not have a commercial radio digital broadcasting system. Currently, the spectrum available for DAB is being used by analog television stations. The country originally planned for a switch to digital television in November 2011, but the date has now been pushed back and it is now expected to be completed by December 2013, with a commitment from Government to switch off analog broadcasts by no later than mid 2015, at which time the spectrum could be available for the introduction of digital radio.

It is unlikely that digital radio broadcasting will take off in South Africa in the near future as there are currently no plans to replace FM service with digital service. As a result, we do not expect digital radio to have a meaningful impact on the South African market in the foreseeable future. Even in the UK, where digital radio has been deployed for many years and as household penetration is now approaching 40%, it has still failed to make a significant impact on advertising revenues.

Internet radio

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

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

Many commercial and public stations, and even some community stations, are transmitting simulcasts of their broadcasts over the Internet, thereby enabling listening throughout the country and the world. In this way, consumers can listen to their favourite programmes on their computers or smartphones at work or while travelling. Archives of podcasts are also posted online allowing listeners to revisit broadcasts. In addition to simultaneously streaming a conventional broadcast, it is possible to develop Internet-only niche stations, thereby increasing the advertising potential.

In a first for South Africa, Ja.fm, a music-only Afrikaans sub-brand of Jacaranda 94.2, was launched in 2011, as an Internet only station that enables online listeners to vote for the next song to be heard. As a result, the service created an effective song popularity measurement tool. Press articles abound with an overwhelming confirmation that the Internet will play an increasing role in the future of radio.

Although for traditional broadcasters and Internet-only broadcasters online advertising represents a very small portion of radio advertising, it is a growing segment of the radio advertising market and with time will prove more important to the industry. At present, only licensed radio stations are measured in terms of the RAMS surveys and this measurement includes their Internet listenership. As purely Internet-based radio stations are not currently reported on, this may limit their advertising potential.

Radio stations have been utilising the digital world to foster their relationships with the listening audience. Most stations are using social networks such as Twitter and Facebook as communication platforms. Stations are enhancing their websites to provide more information about their DJs and are sometimes providing online video feeds of the studios to provide listeners a more intimate glimpse of their talent. The Breakfast Xpress team on 94.7 Highveld Stereo are using a channel on YouTube to deliver off-air content.

South African stations are using their websites effectively to generate increased audience loyalty. The stations are also encouraging more interactivity with their audiences by hosting contests and quizzes as well as inviting listeners to request specific songs. This increased interaction and sharing of information enables stations to ‘flesh’ out their listeners and this enhanced understanding allows for improved targeting from an advertising perspective.

Although wired broadband penetration is still low in South Africa and inhibiting the growth of online listening on computers, mobile wireless penetration is comparable to that in the United States. This provides an opportunity to listen to radio via apps on smartphones and tablets, which are becoming more and more popular given the improving bandwidth on offer.

Radio stations are increasingly getting listeners to interact with them using their mobile devices. These interactions are measurable and provide the stations invaluable information that they can use to enhance their programming.

Digital technology is also enabling companies like Audio Audit and Afstereo to accurately track commercials that air. These compliance certification services provide independently audited proof of correct flighting of commercials. In this way, advertisers can monitor the actual broadcast of their commercials, guaranteeing that they get what they paid for. In general, more research regarding audience delivery and actual airing of the commercials provides a better environment for advertisers. The overriding consideration for radio, however, remains that advertisers are increasingly looking for the most effective advertising campaign and as a result the station offering the best value (in terms of audience reach, innovation, creativity and price) will normally win the campaign.

Satellite radio

Satellite radio is an analogue or digital radio signal that is transmitted via a geostationary satellite and has a much larger geographical footprint than terrestrial FM stations. In the United States, satellite radio entered the marketplace to resolve some of the limitations of traditional radio, including limited range and poor transmission. For instance, travelers cannot listen to their favourite programming outside their local region. With satellite radio, travellers can listen to their favourite programming with clear transmissions wherever they are. They can also listen to niche programming in a commercial-free environment. Services provided by companies such as Sirius XM offer this service in the United States and Canada. In South Africa, satellite radio is still very insignificant and no financial information has therefore been included in this publication. Digital decoders, primarily used for satellite television, also offer access to a large number of radio stations thereby increasing radio's reach.

Radio advertising revenues

Revenues for public stations include both advertising and public funding. From a purely advertising perspective, in 2010 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 (2010)
94.7 Highveld Stereo
Metro FM*
94.2 Jacaranda
KFM
East Coast Radio
Ukhozi FM*
5FM*
Talk Radio 702
Umhlobo Wenene FM*
Lesedi FM*

Source: PricewaterhouseCoopers LLP, RAB Revenue Report (* Public radio station)

After slowing to a 0.5% increase in 2009, which reflected the weak economy, radio advertising rose by 13.3% in 2010. The increase was attributable to improved economic conditions combined with the added boost provided by the 2010 FIFA World Cup.

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Radio advertising (R millions)											
South Africa	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Advertising	2 119	2 422	2 650	2 664	3 019	3 200	3 400	3 650	3 925	4 230	
% change	*16.0*	*14.3*	*9.4*	*0.5*	*13.3*	*6.0*	*6.3*	*7.4*	*7.5*	*7.8*	*7.0*

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

Continuing improvement in economic conditions will spur advertising growth by an estimated 6.0% in 2011, well below the level achieved in 2010, as the additional benefit of the World Cup will be absent.

For the remainder of the forecast period, we expect growth to improve, with annual increases slightly in excess of 7% from 2013 to 2015. The increases are predicated on a continued strong economy, enabling technology and the addition of more community stations and new commercial stations entering the market.

For the five-year forecast period as a whole, we expect radio advertising to rise from R3.0 billion in 2010 to R4.2 billion in 2015, a 7% increase compounded annually.

Public funding

Public broadcasting, which includes radio, is funded by advertising, Government grants and TV licence fees. Public funding, which excludes advertising revenues earned by public stations, is allocated between television and radio. In 2010, public radio received an estimated R442 million in allocated public funding.

The continuous growth in the number of television households combined with modest fee increases every other year have increased the amount of funding for public broadcasting.

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

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

We expect public funding to reach R464 million by 2015, growing at a modest 1.0% on a compound annual basis from the R442 million registered in 2010, a similar growth pattern as that exhibited over the last five years.

Total radio market

We project the radio market, as a whole, to increase to an estimated R4.7 billion in 2015 from R3.5 billion in 2010, a 6.3% compound annual increase.

Public funding (R millions)											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Public funding	425	430	434	439	442	447	450	456	459	464	
% change	*0.7*	*1.2*	*0.9*	*1.2*	*0.7*	*1.1*	*0.7*	*1.3*	*0.7*	*1.1*	*1.0*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Challenges facing the radio industry

The National Association of Broadcasters (NAB) remains in dispute with the South African Music Performance Rights Association (SAMPRA) regarding needletime royalties payable for the broadcast of sound recordings. It has been suggested by SAMPRA that radio stations, depending on their content played, be required to pay up to 10% of their net broadcasting revenue to song writers based on a formula proposed by SAMPRA. Applying the percentage, currently used by a number of the large music broadcasters, to their net revenues arising in 2010, the estimated needletime expense for last year would be in the region of R26 million.

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.

Global trends in the radio industry

Outlook

- Globally, the radio market will increase by 3.5% compounded annually to reach $53.1 billion in 2015 from $44.8 billion in 2010.
- Within this total, global radio advertising will increase by 3.8% compounded annually to $36.7 billion in 2015 from $30.4 billion in 2010, as revenues recover from the effects of the economic downturn.
- Public radio licence fees will rise at a modest 0.9% annual rate from $11.5 billion in 2010 to $12.1 billion in 2015.
- Satellite radio subscriptions will be the fastest-growing component of the radio market globally, averaging growth of 9.0% compounded annually to reach $4.4 billion from $2.9 billion in 2010.

Key drivers

- Improved economic conditions worldwide in 2010 are reflected in significant improvements compared with 2009. Growth will continue through the forecast period at slightly lower rates.
- Terrestrial broadcasters are trying to increase their number of listeners by expanding into the newer technologies of digital radio and online radio. However, those technologies are not expected to add significant revenues in the near future.
- Satellite radio will boost spending in North America.
- Modest increases in public radio licence fees will help maintain the radio markets in EMEA and the Asia-Pacific regions.

Source: *Global entertainment and media outlook 2011 – 2015* (PwC, 2011)

Global radio market by component (US$ millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Radio advertising	34 677	34 902	33 274	28 765	30 403	31 313	32 631	33 947	35 266	36 678	
% change	*2.9*	*0.6*	*-4.7*	*-13.6*	*5.7*	*3.0*	*4.2*	*4.0*	*3.9*	*4.0*	*3.8*
Public radio license fees	10 751	11 025	11 174	11 409	11 545	11 593	11 671	11 897	11 976	12 067	
% change	*1.3*	*2.5*	*1.4*	*2.1*	*1.2*	*0.4*	*0.7*	*1.9*	*0.7*	*0.8*	*0.9*
Satellite radio subscriptions	1 360	1 999	2 432	2 517	2 852	3 287	3 619	3 857	4 142	4 381	
% change	*79.2*	*47.0*	*21.7*	*3.5*	*13.3*	*15.3*	*10.1*	*6.6*	*7.4*	*5.8*	*9.0*
Total radio	**46 788**	**47 926**	**46 880**	**42 691**	**44 800**	**46 193**	**47 921**	**49 701**	**51 384**	**53 126**	
% change	***3.8***	***2.4***	***-2.2***	***-8.9***	***4.9***	***3.1***	***3.7***	***3.7***	***3.4***	***3.4***	***3.5***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Chapter 6
Music

The music market consists of recorded music and live music. Recorded music includes consumer spending on album and single sound recordings and music videos as well as licensed digital music distributed online and to mobile devices. Live music consists of concerts and music festivals. Spending on concerts and music festivals consists of ticket sales, spending at the events on merchandise and food, and sponsorship support.

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.

The recorded music market in South Africa has now reached the point that many countries had reached at the beginning of the century – with spending shifting from physical to digital distribution.

Outlook at a glance			
Music market (R millions)	2010	2015	2011-15 CAGR (%)
Recorded music			
Physical distribution	1 407	804	-10.6
Digital distribution	155	480	25.4
Live music			
Concerts/music festivals	650	940	7.7
Total	2 212	2 224	0.1

Outlook in brief

- *The digital music market in South Africa is becoming more significant and steeper declines in the physical market are expected in the coming years.*
- *Increased broadband access and the increasing penetration of smartphones and tablets are driving growth in the digital market.*
- *Digital piracy is an increasing concern in the recorded music market.*
- *Suppliers will need to determine the optimal revenue model, whether it be single unit sales, live streaming or another approach.*
- *Digital lockers will transform the way in which consumers store music.*
- *Local artists account for nearly half of all music sales in South Africa and sustain interest in both the physical and digital market.*
- *The live music market in South Africa is dominated by local artists and music festivals, but is also benefitting greatly from the increasing number of international acts playing in South Africa.*

Sharon Horsten
Associate Director
PwC Southern Africa

Candace van Binsbergen
Manager
PwC Southern Africa

The transition from physical to digital initially has a negative impact on total spending because digital prices are much lower than physical prices. Over time, this is expected to change as digital becomes a significant component of total sales. As the digital market expands, at some point it becomes large enough so that increases in digital play an important role in total spending.

At the same time, as the physical market declines, at some point it will become so small that declines in physical spending will have a diminished impact on total spending. At that point, growth in digital will offset declines in physical and overall spending will begin to turn around.

Overview

Total spending fell 4.0% in 2010, as an accelerating decline in recorded music offset a rebound in the live music market. Spending on recorded music fell 7.7% in 2010, the third consecutive year of decrease, while live music rose 6.6%, rebounding from decreases during the previous two years.

In the recorded music market, overall physical spending declined by 10.3%, while digital spending increased by 24.0%. In the live music market, end-user spending increased by 6.0% and the small sponsorship market rose by 20.0%.

The 7.7% decrease in recorded music spending in 2010 was less than the 10.6% decline predicted in last year's *Outlook*. A factor that contributed to the relatively stronger performance was the popularity of recordings associated with the 2010 FIFA World Cup.

In contrast with most other countries, where physical spending had been falling for a decade or more, the physical market in South Africa had been increasing through to 2007. It was only in 2008 that physical spending began to decline.

The physical market has held up better in South Africa than in other countries in large part because of limited digital competition. The digital infrastructure has not been sufficiently developed to provide opportunities for digital distributors in South Africa. Specifically, broadband penetration is much lower in South Africa than in other countries, which has limited the potential market for digital sales. Consequently, there are relatively few licensed digital providers in the market.

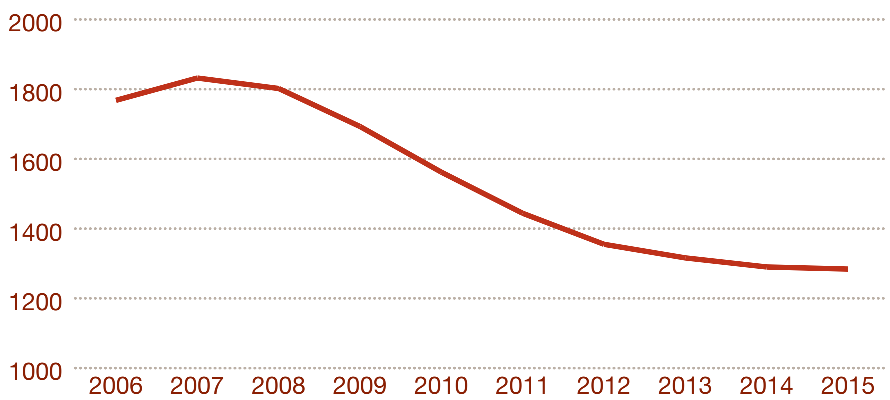
South Africa also has a relatively strong roster of local artists that have sustained interest in both physical and digital music. Local artists account for nearly half of all music sales in South Africa.

The digital music market in South Africa is now beginning to become more meaningful. Broadband access is growing, which will expand the potential online base, while smartphones and tablets are stimulating digital distribution to mobile devices.

As digital becomes a more viable option, the physical market will experience steeper declines.

In South Africa, the digital market is still small and we do not expect the turnaround to occur during the forecast period. However, the digital market will become large enough by the latter part of the forecast period to limit declines in overall spending. We expect declines to moderate in 2013 and by 2015 we project total recorded music spending to fall by only 0.5%.

Recorded music market (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Music market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Physical distribution	1 714	1 757	1 698	1 568	1 407	1 249	1 105	991	890	804	
% change	*2.0*	*2.5*	*-3.4*	*-7.7*	*-10.3*	*-11.2*	*-11.5*	*-10.3*	*-10.2*	*-9.7*	*-10.6*
Digital distribution	54	75	104	125	155	195	250	325	400	480	
% change	*350.0*	*38.9*	*38.7*	*20.2*	*24.0*	*25.8*	*28.2*	*30.0*	*23.1*	*20.0*	*25.4*
Total recorded music	1 768	1 832	1 802	1 693	1 562	1 444	1 355	1 316	1 290	1 284	
% change	*4.5*	*3.6*	*-1.6*	*-6.0*	*-7.7*	*-7.6*	*-6.2*	*-2.9*	*-2.0*	*-0.5*	*-3.8*
Concerts/music festivals	599	653	640	610	650	710	765	824	882	940	
% change	*13.7*	*9.0*	*-2.0*	*-4.7*	*6.6*	*9.2*	*7.7*	*7.7*	*7.0*	*6.6*	*7.7*
Total music	**2 367**	**2 485**	**2 442**	**2 303**	**2 212**	**2 154**	**2 120**	**2 140**	**2 172**	**2 224**	
% change	***6.7***	***5.0***	***-1.7***	***-5.7***	***-4.0***	***-2.6***	***-1.6***	***0.9***	***1.5***	***2.4***	***0.1***

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

For the forecast period as a whole, the physical recorded music market is expected to decline at a 10.6% compound annual rate, falling to R804 million in 2015 from R1.4 billion in 2010.

Digital recorded music spending is projected to more than triple from R155 million in 2010 to R480 million in 2015, averaging a 25.4% growth on a compound annual basis.

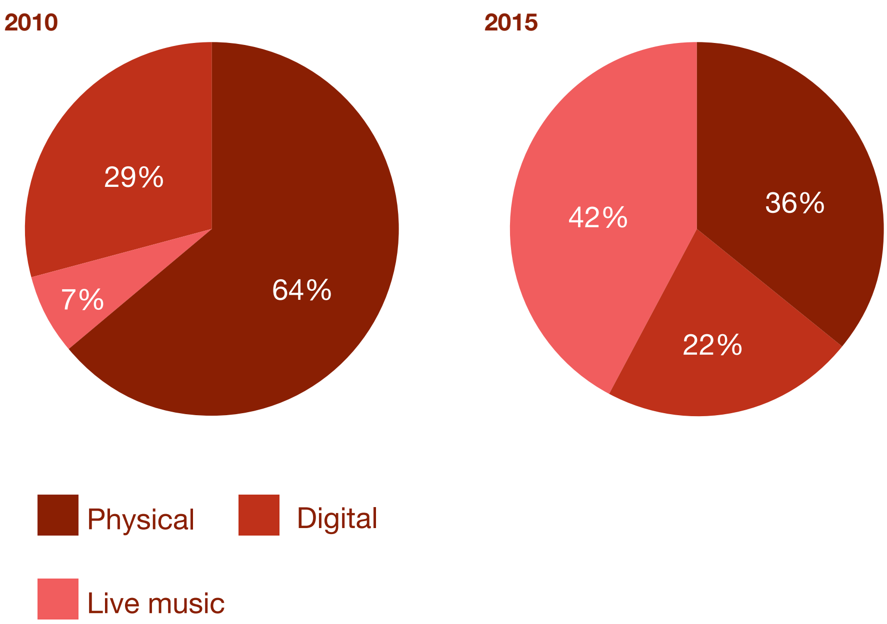
We project overall recorded music spending to fall from R1.6 billion in 2010 to R1.3 billion in 2015, a 3.8% compound annual decline.

The recorded music market in South Africa has now reached the point that many other countries had reached at the beginning of the century, with spending shifting from physical to digital distribution. South Africa is beginning to catch up in its shift to digital, which means that it will experience sharper declines in spending when compared with other countries during the next few years.

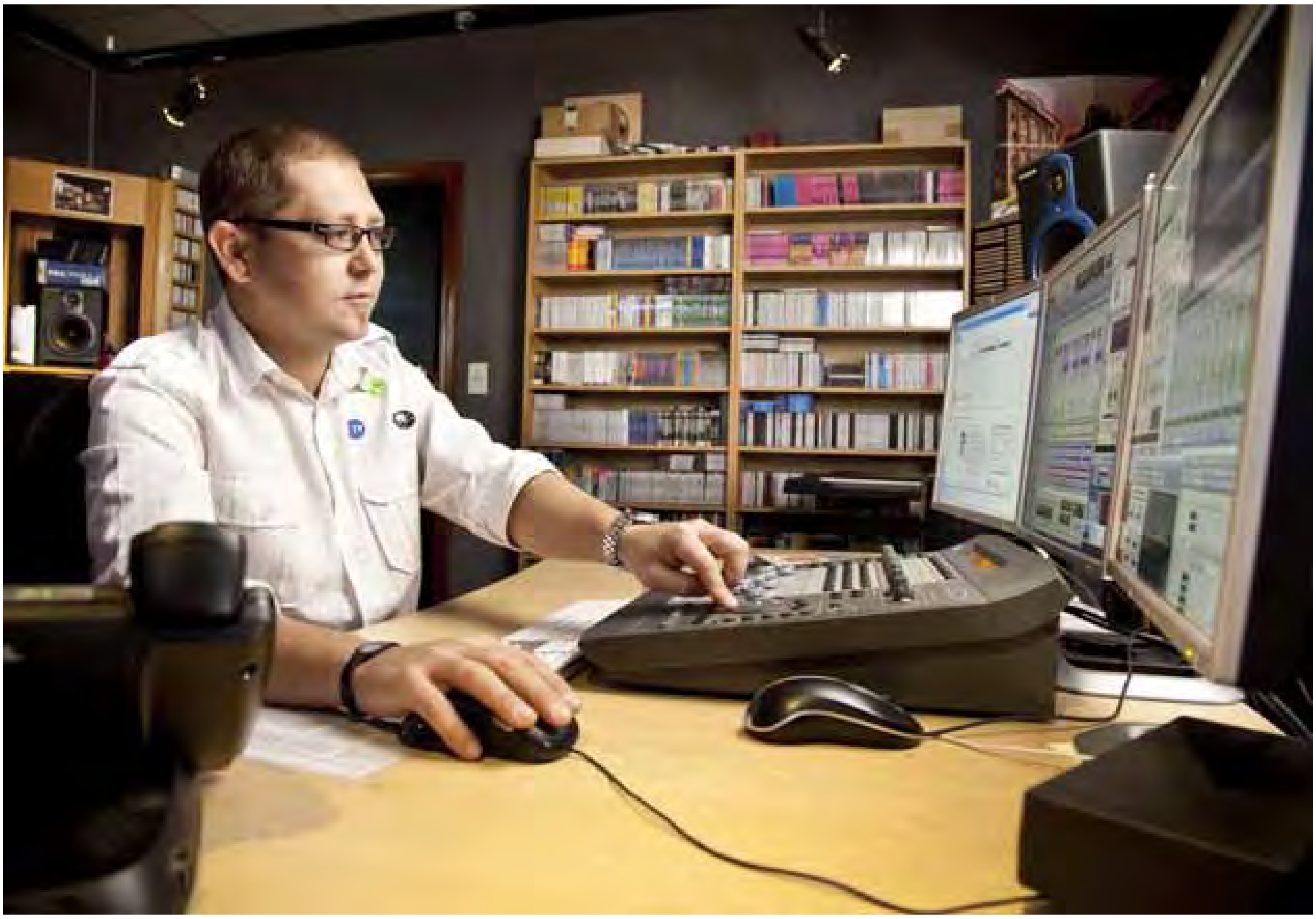
The live music market in South Africa will benefit from more international acts playing in South Africa and from an expanding economy. Spending is projected to increase at a 7.7% compound annual rate to R940 million in 2015 from R650 million in 2010.

Beginning in 2013, growth in live music will offset declines in recorded music and total spending will grow at low single-digit rates. Total music spending will rise to R2.22 billion, a 0.1 percent compound annual increase from 2010.

Share of music market



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Recorded music

Licensed digital distribution

Digital is not new but it has revolutionised the music industry. The CD as we know it has been around for about 30 years and is formatted with a laser using a digital system of computer code. Within the past decade, however, digital technology has changed so much that now entire libraries, which once existed as crates and shelves of CDs and vinyl can now be stored on a hard drive.

In the digital age, broadband Internet rivals the radio as a broadcast medium. It allows consumers to source popular music more quickly than in the past and for a fraction of the price. Instead of buying expensive sound systems with large CD racks, all one needs is a computer and an iPod to create a personal library. All of a sudden, the revenue models that have supported recording studios worldwide are under threat.

Many fans are no longer willing to buy entire albums and have turned to online music stores to buy singles, or simply pirate music via peer-to-peer and torrent networks. Understandably, many recording artists and studios are outraged by copyrights breaches.

Low broadband penetration limits the licensed digital market in South Africa. There were only 10 licensed digital music services available in South Africa in 2010, with an 11th, OMusic, launched by MultiChoice at the end 2010. By contrast, Spain, which has a comparable population to South Africa, has 30 licensed digital music services. Apple's iTunes Music Store, which jumpstarted the digital music market in many countries, is not available in South Africa nor are emerging streaming services such as Spotify, which are proving to be very popular in Western Europe.

Only 6.2% of households in South Africa had a broadband connection in 2010. By contrast, 50.3% of households in all of EMEA accessed the Internet via broadband. In most countries, digital music is principally obtained online. In South Africa, the digital music market, such as it is, is principally a mobile market.

Licensed digital music services in South Africa
DJs Only
GETMO
Jamster
Just Music
MTN Loaded
Music Station
Ovi Music
Look & Listen
Pick 'n Play
Rhythm Online
OMusic
Vodafone Live

Source: International Federation of the Phonographic Industry (IFPI)

Top 10 downloaded songs for 2010

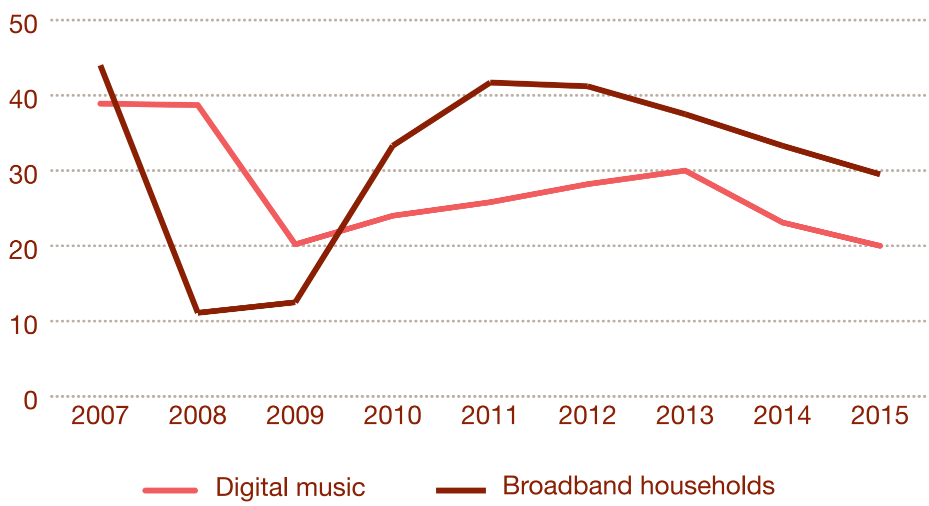
Rank	Title	Artist/Act
1	Waka Waka (This Time For Africa)	Shakira
2	I Want To Know What Love Is (LP Version)	Mariah Carey
3	Shout SA	Artists for a Safer South Africa
4	Try Sleeping With A Broken Heart	Alicia Keys
5	Piano Man	Brandy Norwood
6	Umlilo	Big Nuz
7	Fairytale Oscillations	Liquideep
8	Zulu Love Letter	Skomplazi
9	Sondelani	Rebecca Malope
10	Nababantwana (feat. DJ Cleo)	DJ Mzi

Source: Aquidneck Consulting

The impact of the 2010 FIFA World Cup in South Africa can be seen even in the digital music market – the number 1 downloaded song for 2010 was Shakira's 'Waka Waka'.

The opening of new international undersea fibre-optic cables is dramatically expanding capacity and reducing broadband prices, which in turn is expanding broadband penetration. We expect that by 2015, nearly 30% of households in South Africa will have broadband. While still low by EMEA standards, where broadband penetration is expected to reach 72% by 2015, this development represents a significant increase for South Africa. Nearly five times as many households will have broadband in 2015 than in 2010. As broadband penetration grows, the potential market for digital music will also grow.

Broadband household and Digital music spending growth (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

While there is no penetration shortage with respect to mobile phones, mobile broadband in South Africa is still limited, which has limited mobile digital music services. This is beginning to change. Wireless network upgrades are providing faster speeds and the National Wireless Broadband Network is being rolled out. This will extend mobile broadband into areas not currently served.

Smartphones and tablets are also expanding the potential market for digital music. These devices make it easy to download or stream music, and download non-music applications.

Digital recorded music market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Licensed digital spending	54	75	104	125	155	195	250	325	400	480	
% change	*350.0*	*38.9*	*38.7*	*20.2*	*24.0*	*25.8*	*28.2*	*30.0*	*23.1*	*20.0*	*25.4*

Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Even if piracy is eliminated, which we do not expect will happen, the physical market will still experience a long-term decline. Digital music is less expensive than physical music and more convenient to purchase.

As the digital infrastructure improves and as smartphones and tablets become more popular, we expect streaming services to enter the market in South Africa, providing an incremental boost to digital spending.

Internationally, the traditional market as we are seeing in South Africa which consists of ringtones, ring backs and full music tracks is fading away, but streaming services that can be accessed by any device are entering the market and looking to attract mobile consumers. For example, in early 2011 Apple and Amazon announced the introduction of iCloud, a cloud service that will offer online storage for media content and enable it to be accessed from all Apple devices.

Users will be able to buy content and store it in a digital locker to be listened to as many times as desired. Storage of music purchased through Amazon will not count against the quota. The service is intended to encourage people to purchase digital music, as they will be able to play music on a device of their choice.

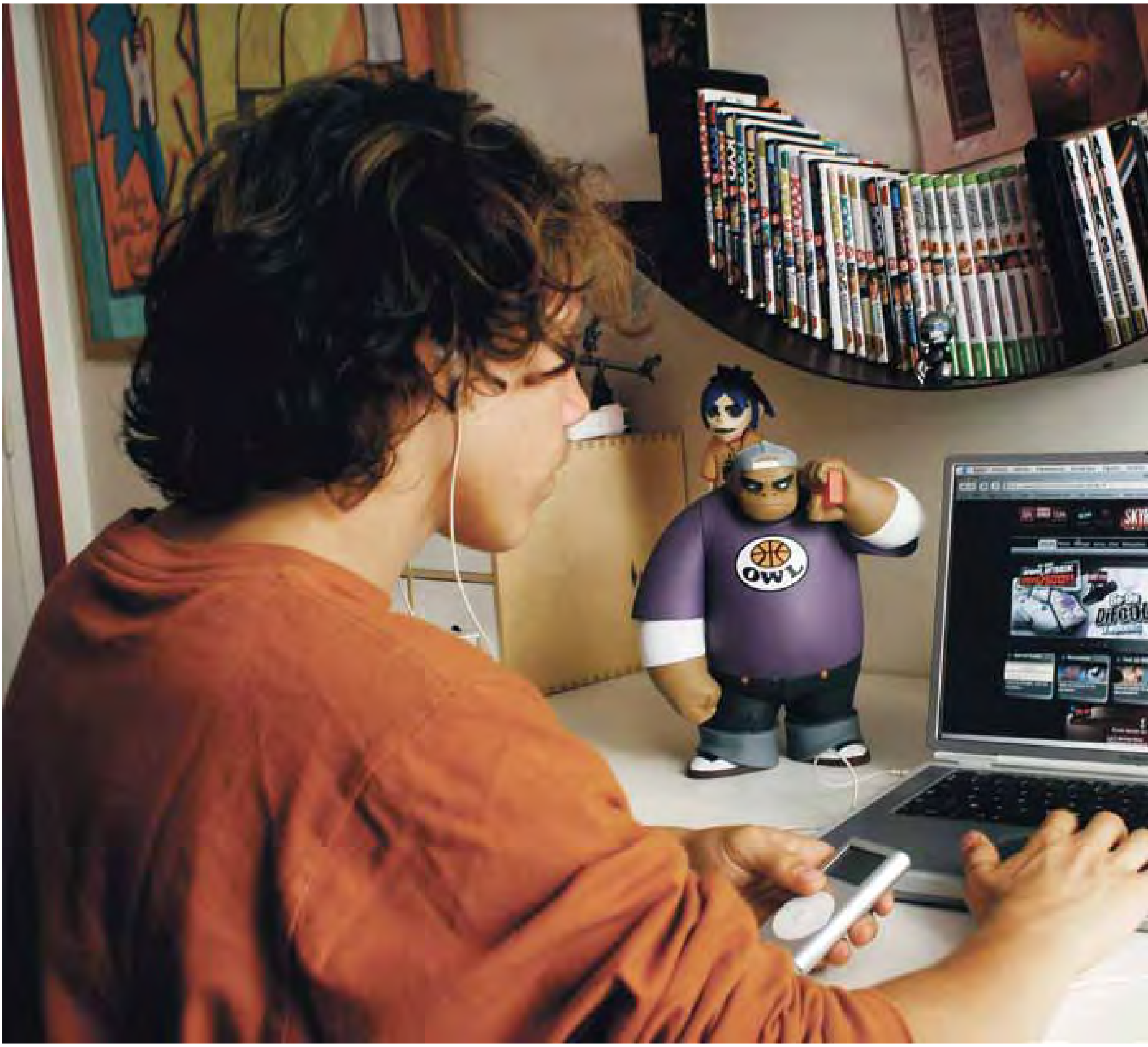
The streaming model avoids piracy and allows labels to reach potential users through virtually any device. What has yet to be determined is whether there is a viable demand for streaming services. So far, the typical streaming model is to offer services free on an ad-supported basis and migrate users to an ad-free subscription service, because advertising is generally not sufficient to support streaming services by itself.

Digital piracy is a problem in South Africa, as it is in most countries. Growth in broadband penetration will likely lead to an increase in digital piracy as more people will be able to illegally download music. Internationally the threats of piracy have resulted in the adoption of more effective anti-piracy initiatives, the most effective of which is the graduated-response approach.

Graduated response typically involves a three-step process. Infringers are initially given a warning. If the practice continues, a formal letter is sent. The third step is to cut off Internet access for a specified period, with infringers subject to stiff fines and jail terms.

While growth in digital piracy will cut into legitimate digital spending, we still expect significant growth in licensed digital spending. Digital piracy is prevalent in countries that are simultaneously experiencing large increases in legitimate digital spending. We expect South Africa will follow this pattern. In fact, piracy can sometimes stimulate legitimate spending by exposing people to music that they subsequently want to purchase through licensed channels because the quality is superior.

We project licensed digital spending to increase to a projected R480 million in 2015, a 25.4% compound annual increase from R155 million in 2010.



Physical distribution

South Africa retains a vibrant retail market for physical music. Musica is the largest retail chain, generating more than 40% of CD sales. Game, Makro, CNA, Look & Listen and Pick 'n Pay are some of the other more popular music and entertainment retailers.

The recording industry is also suffering from the general trend toward digital purchasing that is occurring in books, video games and other media. Digital access is convenient and generally less expensive, and it offers products that might otherwise be unavailable. Individual tracks, for example, are for the most part not available in physical formats. The retail market has not been immune to this trend as has been evidenced by the decline in physical sales. In 2009, Music for Pleasure, a leading music distributor, was placed in liquidation.

At the same time, we believe there is a core market of people who will continue to purchase music in the physical formats and will not migrate to digital, even as more digital services become available. 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.

The strength of local artists and limited competition from licensed digital services has helped sustain the physical music market in South Africa.

Rank	Title (release date)	Artist/Act
1	*Now 56* (2010)	Various Artists
2	*Now 54* (2010)	Various Artists
3	*Listen Up! The Official 2010 FIFA World Cup Album* (2010)	Various Artists
4	*Now 55* (2010)	Various Artists
5	*Crazy Love* (2009)	Michael Bublé
6	*Engel Van My Hart* (2010)	Juanita du Plessis,
7	*My World* (2010)	Justin Bieber
8	*Need You Now* (2010)	Lady Antebellum
9	*Sun In My Pocket* (2010)	Locnville
10	*Element Of Freedom* (2009)	Alicia Keys

Top 10 physical music sales of 2010

Source: Aquidneck Consulting

Four of the top-five physical sales in 2010 were related to the FIFA World Cup and the leading digital sales also had FIFA World Cup associations.

Physical piracy is also a major problem for the physical distribution market. Pirated CDs can be purchased for R25, which is less than half the R69.50 average cost for a CD purchased in a store.

The physical market benefits from an active music environment in South Africa. There is a thriving live market that features local bands playing in club venues. Johannesburg, Durban, Bloemfontein and Cape Town are centres for the music club scene. This environment helps develop local talent and eventually stimulates music sales.

Physical recordings with a FIFA World Cup theme particularly supported the physical market. Instead of the 13.7% decline projected in last year's *Outlook*, physical sales fell 10.2%.

The physical market, however, has been affected by the recession. The weakening economy contributed to the modest decline in physical sales in 2008 and to the larger decline in 2009 as the full effects of the slowdown began to be felt. By 2010, a digital market had emerged that led to an even steeper decline despite the improvement in the economy.

Album unit sales fell 9.8% in 2010 to 17.5 million and music videos declined by 14.3% to 1.8 million. The singles market had fallen to just 20 000 in 2009 and remained at that level in 2010.

As the digital market expands, the physical market will face increased competition, which we expect will lead to greater erosion in physical sales. At the same time, improving economic conditions will boost discretionary income, which will benefit entertainment, including music.

Physical recorded music unit sales (millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Albums	21.4	21.7	21.0	19.4	17.5	15.5	13.7	12.2	10.9	9.8	
% change	*2.4*	*1.4*	*-3.2*	*-7.6*	*-9.8*	*-11.4*	*-11.6*	*-10.9*	*-10.7*	*-10.1*	*-10.9*
Singles	0.07	0.07	0.04	0.02	0.02	0.01	0.01	0.01	0.01	0.01	
% change	*-41.7*	*–*	*-42.9*	*-50.0*	*–*	*-50.0*	*–*	*–*	*–*	*–*	*-12.9*
Music videos	2.1	2.4	2.3	2.1	1.8	1.6	1.4	1.3	1.2	1.1	
% change	*40.0*	*14.3*	*-4.2*	*-8.7*	*-14.3*	*-11.1*	*-12.5*	*-7.1*	*-7.7*	*-8.3*	*-9.4*
Total	**23.6**	**24.2**	**23.3**	**21.5**	**19.3**	**17.1**	**15.1**	**13.5**	**12.1**	**10.9**	
% change	***4.7***	***2.5***	***-3.4***	***-7.8***	***-10.2***	***-11.4***	***-11.7***	***-10.6***	***-10.4***	***-9.9***	***-10.8***

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

Taking these various factors into account, we project album unit sales to fall at a 10.9% compound annual rate during the next five years, a somewhat faster decline compared with the decrease in 2010. By 2015, album unit sales will total an estimated 9.8 million.

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 in 2011 and to stabilise at that level.

We also expect a decline in music videos with unit sales falling to 1.1 million by 2015, a 9.4% compound annual decrease from 2010.

Total physical unit sales will fall to an estimated10.9 million in 2015 from 19.3 million in 2010, a 10.8% compound annual decrease.

The average album cost R69.50 in 2010, up 0.4% from 2009. We expect continued modest increases of 0.4% annually during the next five years with the average album price rising to R70.75 in 2015.

The average singles price declined 4.5% in 2010 to R21.00. Between 2006 and 2010, the average price of a physical single fell by 26.5%. We look for the average price to fall to R20 in 2011 and to stabilise at that level.

The average music video (DVD) cost R106 in 2010, down 0.9% from 2009. We expect continued declines in the average price at approximately the same rate, with the average music video costing R101 in 2015, a 1.0% compound annual decline from 2010.

The overall average price for all physical configurations is expected to increase from R72.83 in 2010 to R73.69 in 2015, up 0.2% on a compound annual basis.

Physical recorded music average prices (R)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Albums	68.08	68.89	69.00	69.25	69.50	69.75	70.00	70.25	70.50	70.75	
% change	*-2.3*	*1.2*	*0.2*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*
Singles	28.57	28.57	23.00	22.00	21.00	20.00	20.00	20.00	20.00	20.00	
% change	*14.3*	*–*	*-19.5*	*-4.3*	*-4.5*	*-4.8*	*–*	*–*	*–*	*–*	*-1.0*
Music videos	121.43	108.33	108.00	107.00	106.00	105.00	104.00	103.00	102.00	101.00	
% change	*-17.2*	*-10.8*	*-0.3*	*-0.9*	*-0.9*	*-0.9*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*
Total	**72.72**	**72.69**	**72.75**	**72.86**	**72.83**	**73.00**	**73.13**	**73.35**	**73.49**	**73.69**	
% change	***-2.5***	***0.0***	***0.1***	***0.2***	***0.0***	***0.2***	***0.2***	***0.3***	***0.2***	***0.3***	***0.2***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Physical recorded music market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Albums	1 457	1 495	1 449	1 343	1 216	1 081	959	857	768	693	
% change	*—*	*2.6*	*-3.1*	*-7.3*	*-9.5*	*-11.1*	*-11.3*	*-10.6*	*-10.4*	*-9.8*	*-10.6*
Singles	2	2	1	†	†	†	†	†	†	†	
% change	*-33.3*	*—*	*-50.0*	*—*	*—*	*—*	*—*	*—*	*—*	*—*	*—*
Music videos	255	260	248	225	191	168	146	134	122	111	
% change	*15.9*	*2.0*	*-4.6*	*-9.3*	*-15.1*	*-12.0*	*-13.1*	*-8.2*	*-9.0*	*-9.0*	*-10.3*
Total	**1 714**	**1 757**	**1 698**	**1 568**	**1 407**	**1 249**	**1 105**	**991**	**890**	**804**	
% change	***2.0***	***2.5***	***-3.4***	***-7.7***	***-10.3***	***-11.2***	***-11.5***	***-10.3***	***-10.2***	***-9.7***	***-10.6***

†Less than R500 000

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

Spending on physical albums is expected to decline at a 10.6% compound annual rate to R693 million in 2015 from R1.2 billion in 2010. Music video sales are projected to drop from R191 million in 2010 to R111 million in 2015, a 10.3% decrease compounded annually. Spending on singles fell to less than R500 000 in 2009 and we do not expect a rebound.

We project overall physical spending to decline at a 10.6% compound annual rate during the next five years, falling to an estimated R804 million in 2015 from R1.4 billion in 2010.

Live music

The live music market in South Africa is dominated by local artists and music festivals. Until recently, South Africa has not been a major draw for international tours because of the long distances that need to be traveled to play in South Africa and to the next destination thereafter. Moreover, revenue opportunities in South Africa are relatively limited as only Johannesburg, Durban and Cape Town can support large concerts. Few local acts can attract enough people to fill stadiums or large arenas.

The appeal of South Africa as an international destination may be improving. In 2009, Live Nation, the major international concert promoter, teamed up with BIG Concerts, the largest promoter in South Africa, to promote international acts with BIG Concerts becoming the exclusive promotion partner for Live Nation in South Africa. The FIFA World Cup in 2010 showcased South Africa and in 2011 South Africa has attracted major international artists such as U2, Coldplay, Kings of Leon, Roxette, James Blunt and Kylie Minogue. A concert featuring The Parlotones, a popular South African act, was shown worldwide on Facebook in July 2011, further showcasing South Africa's talent.

This alliance provides us with a world-class partner to expand our global concert platform into South Africa as the region emerges as an increasingly important touring destination for artists.

– Michael Rapino, Live Nation President and CEO

Source: Duncan Alfreds, "BIG Concerts goes bigger", *News24,* www.news24.com/Entertainment/SouthAfrica/BIG-Concerts-goes-bigger-20090624 (accessed Aug. 25, 2011).

Music festivals

There is an active music festival market in South Africa. Joy of Jazz and Arts Alive, the Tribute Festival, the Cape Town International Jazz Festival, Oppikoppie, Macufe, the National Arts Festival, Diamonds & Dorings and Aardklop are among the larger festivals, while Splashy Fen, Klein Karoo Nasionale Kunstefees, Rocking The Daisies, the Afrikaanse Music Festival, the Uplands Festival, Mapungubwe Arts & Culture Festival, the Woodstock Festival and the Cape Town Festival are other popular festivals in South Africa. In all, there are more than 40 annual music festivals in South Africa. These festivals showcase local artists and ultimately lead to an increase in physical spending.

Labels in South Africa have been less active than in other countries in promoting concerts and in entering into 360° deals with artists in which they share concert revenues. While recorded music revenues in many countries has been declining over the

Live music (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
End-user spending	575	625	610	585	620	675	725	780	835	890	
% change	*13.9*	*8.7*	*-2.4*	*-4.1*	*6.0*	*8.9*	*7.4*	*7.6*	*7.1*	*6.6*	*7.5*
Sponsorships	24	28	30	25	30	35	40	44	47	50	
% change	*9.1*	*16.7*	*7.1*	*-16.7*	*20.0*	*16.7*	*14.3*	*10.0*	*6.8*	*6.4*	*10.8*
Total concerts/ music festivals	**599**	**653**	**640**	**610**	**650**	**710**	**765**	**824**	**882**	**940**	
% change	***13.7***	***9.0***	***-2.0***	***-4.7***	***6.6***	***9.2***	***7.7***	***7.7***	***7.0***	***6.6***	***7.7***

Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

past decade, by 2007 the recorded music market in South Africa was still expanding, which limited the incentive for local labels to expand their relationships with artists. This is now changing as recorded music revenues are now falling and live music is being viewed as an expanding revenue stream.

Disposable income is the key driver of end-user spending. Consequently, the market has been affected by the economy. End-user spending began to decline in 2008 as the economy weakened and fell at a faster rate in 2009. In 2010, the improved economy and concerts that were held in conjunction with the FIFA World Cup led to a 6.0% increase.

We project end-user spending to increase at a 7.5% compound annual rate during the next five years, reaching R890 million in 2015 from R620 million in 2010.

Sponsorships

The concert and music festival market also attracts sponsorships. Companies use sponsorships to counteract audience fragmentation in traditional media and ad skipping on television. Sponsorships allow companies to differentiate themselves from other advertisers and to associate themselves with events with which the target audience closely identifies. Sports attract the most sponsorship revenue, but music festivals also are appealing.

Financial services companies, mobile phone providers and liquor brands are major sponsors. Standard Bank sponsors the Cape Town International Jazz Festival and the Joy of Jazz festival among others. Old Mutual sponsors Old Mutual Music in the Gardens, a festival held annually in Johannesburg. Clover also recently announced a R30 million sponsorship over five years for the popular arts and music festival, Aardklop.

The sponsorship market slowed in 2008 and declined in 2009, reflecting the impact of the recession. The market rebounded in 2010, helped by the improving economy and the impact of concerts associated with the FIFA World Cup. As economic conditions become stronger and as the concert and music festival market expands, we project double-digit increases in sponsorship support during the next three years, followed by mid-single-digit gains in 2014-15 as the market begins to mature. Sponsorship spending will rise to a projected R50 million in 2015 from R30 million in 2010, a 10.8% compound annual increase.

Total end-user and sponsorship spending for concerts and music festivals will reach R940 million in 2015 from R650 million in 2010, growing at a 7.7% compound annual rate.

It takes five things to pull off a successful event – a happy audience, acknowledgement from artists that the tour was successful and professionally run, sponsors who get a return on their investment, good media appraisal and last but not least, money in the bank for the promoter. There have been times when I've had the first four, but not the last one, and the reason is usually ticket sales.

– Attie van Wyk, BIG Concerts CEO

Source: "Success Stories - Big Concerts: Attie Van Wyk", *Entrepreneur South Africa*, www.entrepreneurmag.co.za/advice/success-stories/entrepreneur-profiles/big-concerts-attie-van-wyk/(accessed August 25, 2011).

Global trends in the recorded music industry

Outlook

- Global spending on recorded music fell 7.7% in 2010.
- Moderating declines are projected for the next three years with low single-digit gains expected in 2014 and 2015 as gains in digital spending begin to offset ongoing declines in physical spending.
- While we expect the market to stabilise, we are not projecting a return to prior levels, and spending in 2015 will remain 33.9% lower than in 2006.
- For the forecast period as a whole, spending will decline at a 1.1% compound annual rate to $22.1 billion in 2015 from $23.4 billion in 2010.
- Digital distribution will increase from $7.2 billion in 2010 to $12.4 billion in 2015, an 11.6% compound annual advance. Physical distribution will decline at a 9.8% compound annual rate to $9.7 billion in 2015 from $16.2 billion in 2010.
- Globally, physical distribution will fall behind digital distribution in 2014. Spending on physical distribution will have fallen by a cumulative 67.5% between 2006 and 2015.

Key drivers

- Physical distribution will decline in each region because of competition from legitimate digital services and piracy. 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.
- Volume changes rather than price changes will account for most of the growth in digital spending and most of the decline in physical spending during the next five years in most countries.
- New services will fuel growth in digital distribution, helped by increasing broadband, smartphone and tablet penetration.
- The traditional mobile market is declining in many countries while streaming services are beginning to attract subscribers.
- The adoption of graduated response systems, which involve ISPs issuing warnings to file sharers that escalate in severity with the ultimate threat of disconnecting a person's Internet access, is proving to be a significant deterrent to piracy in the countries in which such measures have been implemented.
- Assuming new forms of piracy do not emerge, success in combating online piracy through graduated response programmes should boost legitimate digital spending.
- With recorded music sales declining, touring and associated revenues from merchandising have become a more important component of the market. Labels have entered into 360 deals with artists where they participate in concert and merchandizing revenues along with recorded music revenues.
- While revenues from "mechanical" publishing rights have declined with the fall in sales of physical music, most other music publishing revenues are expanding, which is cushioning the impact of declining physical sales.

Sources: Global entertainment and media outlook 2011-2015 (PwC, 2011)

Global recorded music market by component (US$ millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Physical distribution	29 863	25 730	21 442	18 664	16 249	14 133	12 744	11 533	10 540	9 706	
% change	*-8.9*	*-13.8*	*-16.7*	*-13.0*	*-12.9*	*-13.0*	*-9.8*	*-9.5*	*-8.6*	*-7.9*	*-9.8*
Digital distribution	3 629	5 154	6 144	6 729	7 191	7 978	9 011	10 120	11 259	12 421	
% change	*75.4*	*42.0*	*19.2*	*9.5*	*6.9*	*10.9*	*12.9*	*12.3*	*11.3*	*10.3*	*11.6*
Total	**33 492**	**30 884**	**27 586**	**25 393**	**23 440**	**22 111**	**21 755**	**21 653**	**21 799**	**22 127**	
% change	***-3.9***	***-7.8***	***-10.7***	***-7.9***	***-7.7***	***-5.7***	***-1.6***	***-0.5***	***0.7***	***1.5***	***-1.1***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We expect that nearly five times as many households in South Africa will have broadband access in 2015 than in 2010. As broadband penetration grows, the potential for digital music will also grow.

Chapter 7

Consumer magazine publishing

The consumer magazine publishing market consists of spending by advertisers in consumer print magazines and on magazine online Web sites, magazine mobile Web sites, and magazines distributed to tablets and other mobile devices in electronic formats. Consumer magazine publishing includes spending by readers to purchase magazines via subscriptions or at retail outlets as well as paid digital circulation principally through downloads to tablets and smartphones. Figures do not include licensing or other ancillary revenues. Trade magazines are covered in Chapter 10, Business-to-business publishing.

Every publisher should thank God every day that Steve Jobs is rescuing the publishing industry with the iPad.

– Mathias Döpfner, CEO of German newspaper publisher, Axel Springer

Outlook at a glance

Consumer magazine publishing market (R millions)	2010	2015	2011-15 CAGR (%)
Print	2 150	3 000	6.9
Digital	8	41	38.7
Total advertising	2 158	3 041	7.1
Print	1 890	1 920	0.3
Digital	—	48	—
Total circulation	1 890	1 968	0.8
Total	4 048	5 009	4.4

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Manager
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Manager
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Outlook in brief

- *The growing popularity of tablet devices is stimulating the digital market.*
- *The circulation market will be adversely affected by the availability of free content on the Internet, while publishers are faced with the challenge of monetising digital consumers.*
- *Special interest titles will be less vulnerable to online competition.*
- *Publishers are expected to continue to increase their presence in the online environment. However, print is not only here to stay for the next five years it is expected to show steady growth too.*
- *The improving economic climate is inducing publishers to launch new titles.*
- *In order to retain readership, publishers are investigating innovative ways to increase interaction with their readers and build brand loyalty.*

Consumer magazine publishing market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Print	1 985	2 176	2 265	2 085	2 150	2 200	2 375	2 575	2 790	3 000
Digital	2	3	6	6	8	11	17	23	31	41
Total advertising	1 987	2 179	2 271	2 091	2 158	2 211	2 392	2 598	2 821	3 041
Print	1 620	1 750	1 880	1 825	1 890	1 900	1 915	1 920	1 920	1 920
Digital	—	—	—	—	—	—	2	6	19	48
Total circulation	1 620	1 750	1 880	1 825	1 890	1 900	1 917	1 926	1 939	1 968
Total	**3 607**	**3 929**	**4 151**	**3 916**	**4 048**	**4 111**	**4 309**	**4 524**	**4 760**	**5 009**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Overview

Consumer magazines are often luxury products that suffer when economic conditions are difficult, but thrive when the economy is growing. Consumer magazines benefitted from the rebound in the economy following the 2009 recession. Following a steep 5.7% decline in 2009, the consumer magazine market showed signs of improvement in 2010 with a 3.4% increase. Advertising rose 3.2%, making up part of the spending lost in 2009 when advertising fell sharply by 7.9%. Circulation spending increased 3.6%, more than offsetting the 2.9% decline in 2009.

The improving economy will continue to have a positive impact on the magazine industry. As the economy returns to a full expansion, we expect print advertising to return to high single-digit growth.

A digital circulation market is emerging. The popularity of the iPad in South Africa has created a new opportunity for magazine publishers to create cutting-edge online products and is proving to be a popular platform for magazines. Tablets accommodate video content, full colour, the convenience of a mobile device and offer better picture quality than a computer screen, allowing for a range of content that is not available in print versions.

The digital circulation spending market will be stimulated by the growing penetration of tablets, smartphones, and electronic reading devices. We expect digital circulation to start to cut into print circulation growth during the latter part of the forecast period.

Growth in broadband and mobile penetration will lead to growth in readership on digital platforms, which in turn will stimulate digital advertising. We look for rapid growth in digital advertising from a small base.

Consumer magazines face an adverse demographic pattern as the size of the key magazine readership component of the population declines. This decrease will limit overall growth. At the same time, the improving economic environment is encouraging publishers to launch new titles, which represents a shift from 2009, when the focus was on reducing costs and discontinuing marginal titles.

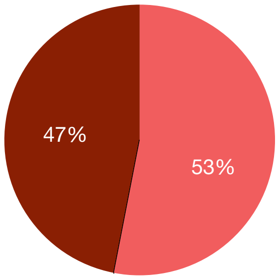
We project total spending on consumer magazines to grow at a projected 4.4% compound annual rate, rising to R5.0 billion in 2015 from R4.0 billion in 2010.

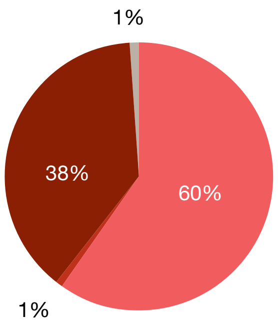
Print advertising is expected to increase at a 6.9% compound annual rate and a small digital advertising market will boost overall advertising growth to a projected 7.1% compounded annually.

Print circulation spending growth will not keep pace with the increase in 2010 as readers shift to digital alternatives. Distribution to tablets will cut into the print market during the latter part of the forecast period and we project print circulation to be flat in 2014-15. Growth for the forecast period as a whole is projected to average 0.3% compounded annually.

We expect digital circulation spending to total an estimated R48 million in 2015, which will boost overall circulation spending growth to 0.8% on a compound annual basis.

Consumer magazine publishing market (% of revenues)





Digital circulation | Digital advertising | Print circulation | Print advertising

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer magazine publishing market growth (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR
Print	12.8	9.6	4.1	–7.9	3.1	2.3	8.0	8.4	8.3	7.5	6.9
Digital	—	50.0	100.0	—	33.3	37.5	54.5	35.3	34.8	32.3	38.7
Total advertising	13.0	9.7	4.2	–7.9	3.2	2.5	8.2	8.6	8.6	7.8	7.1
Print	8.7	8.0	7.4	–2.9	3.6	0.5	0.8	0.3	—	—	0.3
Digital	—	—	—	—	—	—	—	200.0	216.7	152.6	—
Total circulation	8.7	8.0	7.4	–2.9	3.6	0.5	0.9	0.5	0.7	1.5	0.8
Total	**11.0**	**8.9**	**5.7**	**–5.7**	**3.4**	**1.6**	**4.8**	**5.0**	**5.2**	**5.2**	**4.4**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer magazines have a relatively young demographic skew, which makes them appealing to advertisers, but the problem is that young people are leaving the market. Teenagers are spending more time online, or with their mobile devices and have become accustomed to getting their content free.

It is not just teenagers who are cutting back on buying magazines. Among adults, competition from the Internet is also slowly starting to cut into circulation. Readers are getting much of the information available in magazines online, limiting their need to purchase a print issue.

Circulation spending

Print

Print circulation spending rebounded in 2010 with a 3.6% increase following a 2.9% decline in 2009. The market was hurt by the recession in 2009, but benefitted from the improvement in the economy in 2010.

An improving economic environment should help the print circulation market. Single-copy purchases at newsstands are discretionary purchases that tend to be affected by the economy. Unlike single-copy sales, the subscription market consists of readers who have made commitments to selected titles, and they are unlikely to cancel a subscription before the subscription runs out. Renewals, on the other hand, are becoming more difficult to sustain because there is so much competition from free sources.

Publishers put much more emphasis on readership than circulation. Magazines are now passed around and shared more than in the past, which has hurt circulation spending, but magazine readership has held up relatively well.

The circulation market will be adversely affected by the availability of free content on the Internet, some of which can be accessed from publishers' Web sites. Although some publishers are beginning to charge for online content, there is still a substantial amount of content that is free. Celebrity magazines and news magazines are particularly at risk because information in real time is so readily available. Special-interest titles, on the other hand, face less online competition and should show improvement as the economy strengthens.

At the same time, niche titles are holding up relatively well, because these titles serve targeted interests that are not as conveniently served in other media or online.

In South Africa, low broadband penetration has limited the shift of readers from print to the Internet, resulting in print circulation not suffering to the same degree as has been seen in the United States and the rest of EMEA. Print circulation spending rose at high single-digit rates through 2008 before the recession led to the 2009 decrease. Print circulation spending in 2010 was 16.7% higher than in 2006. In all of EMEA, by contrast, print circulation spending fell by 6.6% between 2006 and 2010.

Drill down through data across segments and components.

www.pwc.com/za/outlook

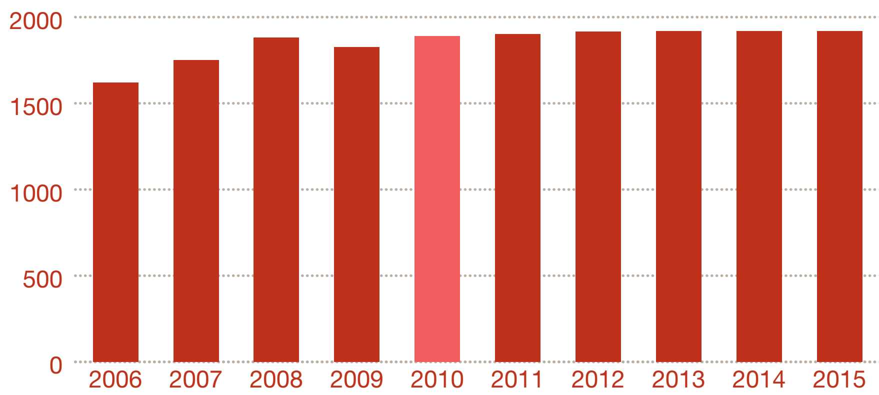
With broadband penetration in South Africa projected to expand rapidly, we expect that the shift in readers from print to digital that has occurred in other countries will also begin to occur at a more accelerated pace in South Africa.

We anticipate the emergence of a digital circulation spending stream that will begin competing with print circulation during the latter part of the forecast period.

Taking all of these factors into account, we project print circulation growth to drop to less than 1% annually during the next three years, and to be flat in 2014-15.

For the forecast period as a whole, growth is expected to average 0.3% compounded annually, with spending rising to R1.92 billion from R1.89 billion in 2010.

Consumer magazine print circulation market (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Digital

A digital circulation market is emerging. The popularity of the iPad in South Africa has created a new opportunity for magazine publishers to create cutting-edge, online products and is proving to be a popular platform for magazines. Tablets accommodate video content, full colour, the convenience of a mobile device, and offer better picture quality than a computer monitor, allowing for content that is not available in print versions.

In countries with more developed digital circulation markets, publishers have introduced tablet versions on a paid basis and we expect more publishers in South Africa will begin to follow this trend.

In South Africa, Ramsay Media together with Zinio, a global leader in digital publishing technology, was the first to provide e-magazines to South African consumers using iPad's innovative platform. The publisher made the e-magazine versions of *Car* and *Getaway* available on iPad at a lower price than the print edition. The iPad's touchscreen is particularly well suited for e-book, e-magazine and e-newspaper reading, with graphics, music, games and production applications being high among its attractions.

In early 2011, Apple announced that iPad users would be able to subscribe to magazines through its iBooks app from the latter part of the year. It would be downloaded to their devices in the same way as the Zinio app. Apple plans to retain 30% of the subscription fee, with the publisher getting 70%. Some publishers are considering using a Google version, which will only retain 10% of the profit.

Zinio has also had to make updates to its iPad app to comply with Apple fee rules, with in-app purchases now made through users' iTunes accounts. With iPad purchases, publishers would not have access to customer information and, initially, are resisting this model and looking for alternative outlets.

In addition, with more and more tablets being released, this arena is expected to become more popular to both publishers and readers. This is due to the speed of delivery, lower price, the ability to access a whole archive from one app and the user's ability to access magazines that might not ordinarily be available in the country in which they live.

Furthermore, the user experience will also drive popularity. The user experience is, however, different from one magazine to the next. Most magazines, for example those that you can obtain through Zinio, are fairly similar to reading PDF files on the iPad and there is little interaction other than clicking on hyperlinks and zooming.

Other magazines, such as the iPad version of *Wired*, allow for a lot more interaction from the reader with features including videos, touchscreen infographics, slideshows and music. As publishers embrace new technological innovations, it is expected that this market will become a lot more competitive.

In principle, a subscription model in which subscribers automatically receive downloads of the next issue and are billed through their account would likely generate a much larger take-up rate compared to single-copy offerings.

Consumers in South Africa are becoming accustomed to paying less for digital content than print/recorded books and music. We expect that this trend will also apply to magazines, although enhanced content such as videos, interactive capabilities and access to archived information could command a premium price.

In the music and e-book markets, business models have evolved over time until a workable solution was reached, which led to significant expansion of the market. We anticipate a similar evolution in digital magazines and expect that the subscription model with digital subscriptions priced at a discount to print subscriptions will ultimately become the norm.

Electronic newspapers and magazines – the development so far

Newspaper and magazine publishers have been affected by the same trend for many years: circulation figures are declining and advertising budgets are increasingly being shifted online. In addition, readers are going online more frequently and demanding their news in a digital format, but are not prepared to pay for such a service. In order to open up new sources of revenue, compensate for falling circulation figures and stagnating advertising revenues, as well as making themselves more independent of advertising business, publishers are increasingly focussing on paid content for their online products and digital revenue models.

For example, in August 2010 *USA Today* announced a strategy that places digital content at the centre of all its activities. Apple is considered to be the solution in this respect because its App Store has been the first to make paid content acceptable. Apps for mobile devices are expected to curtail users' expectations of free content from the Internet and to create new revenue streams for publishers. The App Store is proving to be fertile ground for publishers, as is the Kindle, which allows customers to buy single copies or subscriptions to newspapers and magazines.

No wonder publishers were excited when Apple announced the iPad, a tablet that resembles an iPhone, but with a larger screen. In the weeks leading up to the iPad's launch, it was virtually impossible to find a newspaper, website, blog, TV station or radio that did not mention the device.

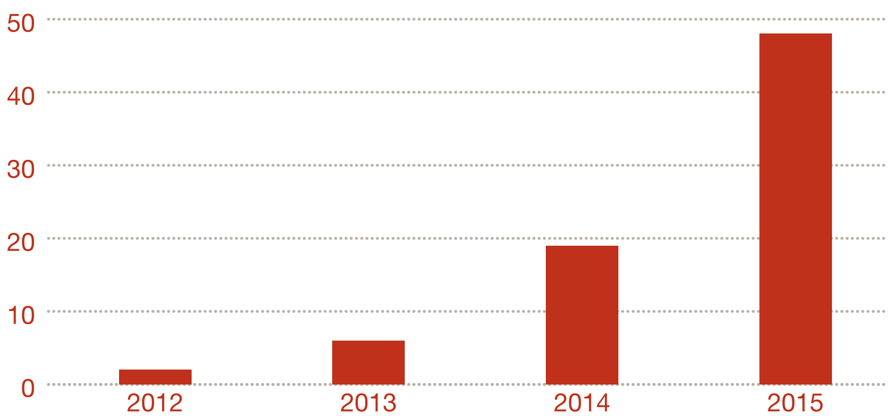
Source:"*Turning the Page: The Future of eBooks*", PwC Germany, 2010.

Declining tablet prices will lead to increased tablet penetration, which in turn will expand the potential market and stimulate spending on magazine apps. Growing familiarity with magazines on tablets will make consumers more comfortable with the technology.

As mobile technologies evolve, the need for greater broadband capacity will increase. Mobile traffic is soaring and putting pressure on wireless networks to accommodate growing data demands. Carriers are investing heavily in wireless infrastructure to expand capacity and provide faster speeds. To the extent that traffic growth exceeds capacity growth, download speeds will be affected, which may in turn affect the demand for digital downloads.

We project digital circulation spending to generate R2 million in 2012 and to rise to R48 million by 2015.

Consumer magazine digital circulation market (R millions)



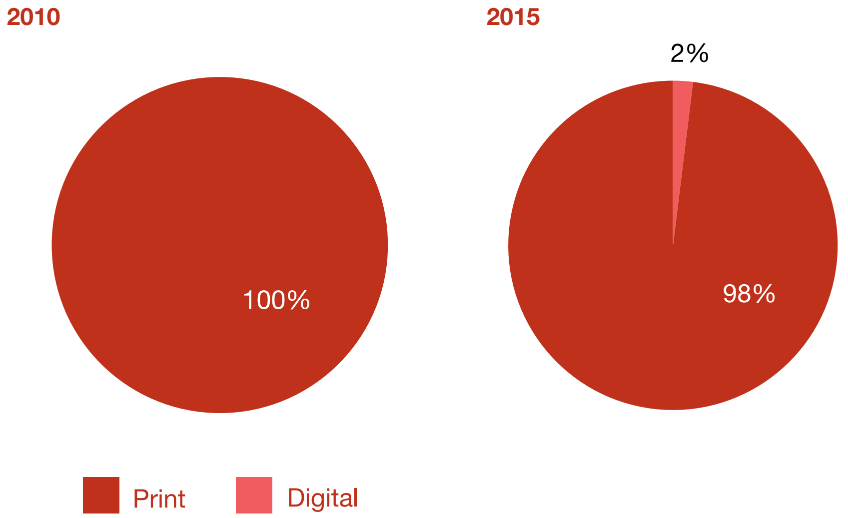
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total circulation spending

The addition of digital circulation spending will lead to a 0.8% compound annual increase in total circulation spending during the next five years, more than twice the growth of print alone, although this is off a much lower base. Competition from the Internet and from the distribution to mobile devices will lead to flat print circulation that will begin to be offset by the emerging digital circulation market as overall readership begins to migrate from print to digital.

Digital will account for 62% of total circulation spending growth and will generate 2.4% of total circulation spending in 2015.

Total circulation spending (% of revenues)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Advertising

Print

The income of readers of consumer magazines is generally higher than for consumers of newspapers, television, and radio. Consequently, consumer magazines are used by advertisers of upscale products to a greater degree.

Print consumer magazines are amongst the most cyclically sensitive advertising media, in large part because luxury products constitute a significant component of the market. High-quality glossy paper, rich colours, and targeted content make magazines an attractive environment to display high-quality products. Advertising for high-fashion clothing, for example, is concentrated in consumer magazines. Magazines are also an effective medium for reaching niche audiences.

Between 2004 and 2007, print advertising growth averaged 10.9% compounded annually.

In 2008, as the economy weakened, print advertising growth slowed to 4.1% with spending declining by 7.9% in 2009 as the full impact of the recession was felt. In 2010, as the economy began to recover, consumer magazine print advertising rose 3.1%.

The FIFA World Cup was expected to provide a significant boost to consumer magazines in 2010. While there was a large increase in overall advertising in 2010, most of the increase occurred in other media platforms and consumer magazines experienced only a mild lift.

Nevertheless, the improving economic climate is inducing publishers to launch new titles. Launches in 2011 include:

- *Good Housekeeping* from Associated Magazines, which is published in both English and Afrikaans;
- *Whisky* from Integrated Media, which is being distributed on a subscription-only basis;
- *Playboy* South Africa in a licence agreement with Sciofon;
- *Loocha Magazine*, a youth magazine targeted to people in the 16-36 age group from Khwinisa Media and Uhuru Communications;
- *HQ Pony,* a title targeted to young riders from *HQ Magazine* from Panorama publications;
- *True Love Bride*, an addition to *True Love* Magazine from Media 24;
- *Braintainment*, a magazine with fascinating facts from Panorama Publications;
- *FeelSA*, from Two Ocean Lifestyle CC, a title published in English and German covering politics, the economy and South African culture, and intended to encourage readers to live, work, and invest in South Africa; and
- *Mom & Me* from Panorama Publications, a title for parents with children under 10.

There have also been some casualties – Avusa Magazines closed *SoccerLife 442* in early 2011 after seven years, but announced that it expects to launch new titles in coming years.

There were 10 titles that averaged more than a million readers per issue in 2010, led by *Bona* and *True Love* with more than three million, and *Drum*, *Kick Off*, *You*, *Huisgenoot* and *Move!* with more than two million.

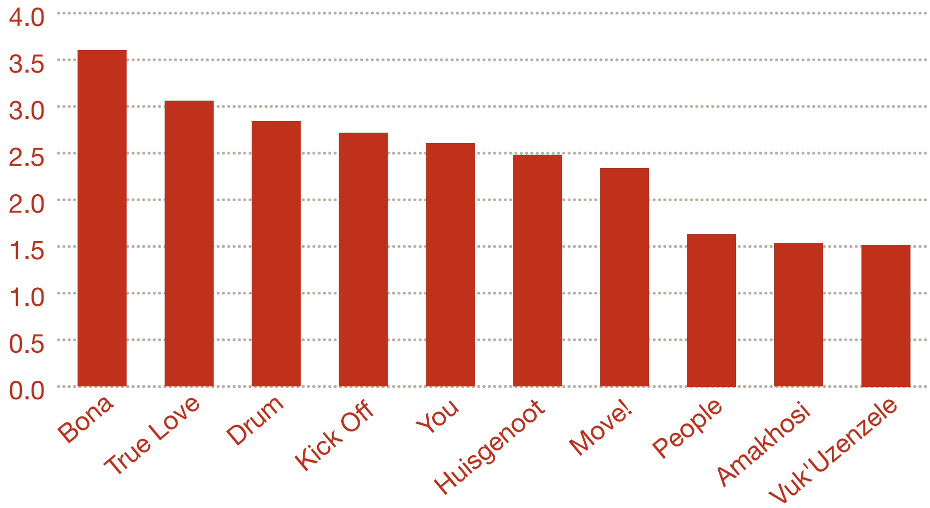
Readership has been favourably affected as a result of publishers creating new magazines by extending successful and often 'best-selling' brands. Examples include *Huisgenoot Tempo* and *Huisgenoot Pols*, both inspired by the original *Huisgenoot* magazine, and *Sarie Bruid, Sarie Woon, Sarie Gesond* and *Sarie Kos*, which are an extension of the original *Sarie* magazine.

While the economic downturn limited innovation in 2009, the industry is aware that it must adapt and innovate to return to positive growth over the forecast period. Innovation, knowledge of customers and the ability to leverage the historical strengths of magazines will be the key to success. Advertisers and publishers are experimenting with new formats. *Car*, for example, featured augmented reality and quick response codes in its May 2011 issue. Augmented reality gives the reader the ability to find and buy products from the ad itself. Quick response, now available in selected magazines, allows users to scan the QR codes with their smartphones and have additional information sent to their smartphones.

Community events allow publishers to interact with consumers and improve the relationship. In order to retain readership, publishers need to increase interaction with their readers to build greater brand loyalty.

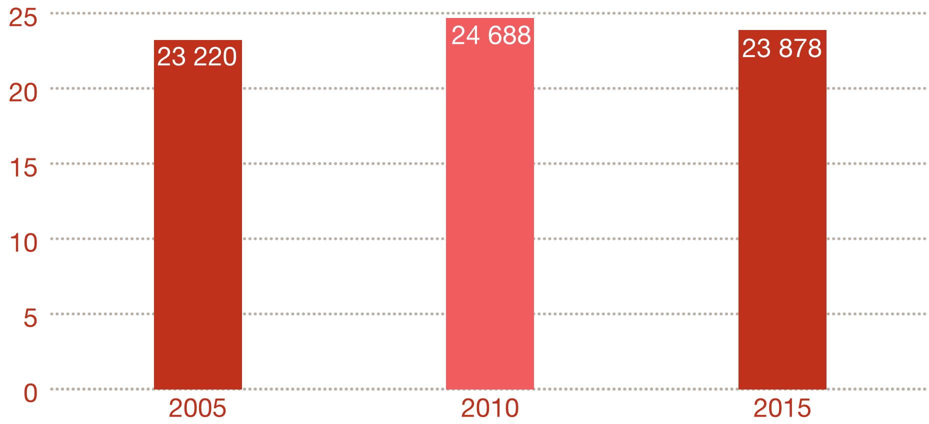
As economic growth picks up, we expect that consumer magazine print advertising will benefit. At the same time, the size of the 15-44 age group, the principal demographic for consumer magazines, is projected to decline over the next five years, falling by 3.3% and partially reversing the growth seen in the segment over the past five years.

Average issue readership (2010) (millions)



Source: AMPS

Number of South Africans aged 15-44 (millions)



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

15-44 share of total population (%)

Country/Region	2005	2010	2015
South Africa	48.9	50.3	49.5
EMEA	45.3	44.4	43.1

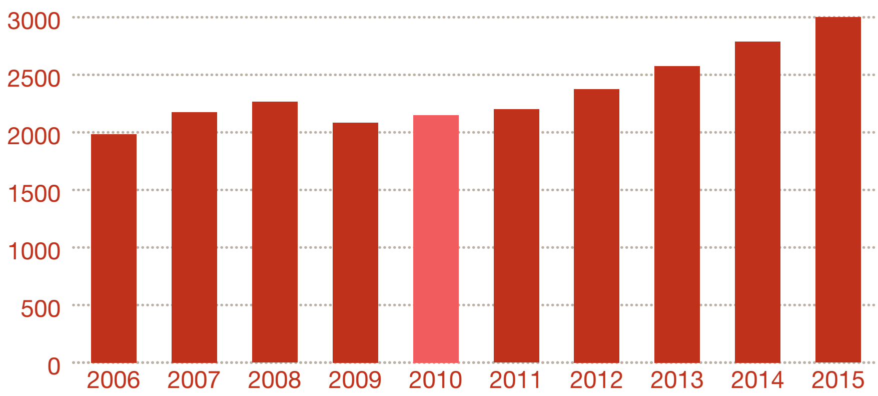
Sources: US Census Bureau International Database, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Despite the projected decline, South Africa will still have a more favourable demographic profile for consumer magazines compared with other countries in EMEA. The 15-44 age group will comprise 49.5% of the total population in South Africa in 2015, compared with 43.1% for EMEA as a whole. Favourable demographics will contribute to faster growth for South Africa compared with the rest of EMEA.

Between 2006 and 2010, South Africa's share of consumer magazine print advertising in EMEA rose from 2.1% to 2.9%, reflecting a favorable demographic trend and slower migration of readers to the Internet because of South Africa's relatively low broadband penetration.

We expect the print advertising market in South Africa to accelerate as the economic recovery gains momentum despite it still remaining somewhat subdued in 2011. We project growth to exceed 8% annually during 2012-14 and to average 6.9% compounded annually for the forecast period as a whole. Spending is projected to rise to R3.0 billion in 2015 from R2.2 billion in 2010.

Consumer magazine print advertising (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

An often-underestimated part of the reader experience is the download of digital magazines. Readers must be able to receive new issues of their preferred magazine without any hassle, especially when such a media-rich publication is hundreds of megabytes in size. The option of seeing the exact download progress and to resume uninterrupted downloads supports the reader, just like notifications of new issues.

Source:Duffin, A eds. *Magazine World,* "Keep taking the tablets". (Q4. 2010)

Digital

The rapid growth in broadband penetration will lead to more traffic on magazine web sites and mobile sites. Larger audiences will attract more advertising.

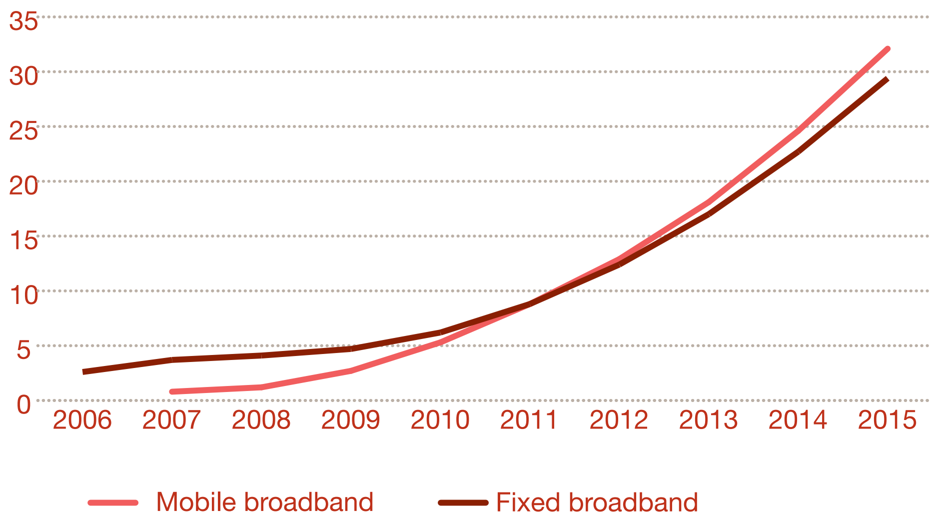
By 2015, 29.4% of households are expected to have broadband access, nearly five times the penetration rate in 2010, and 32.1% of the population will have mobile broadband access, six times the level in 2010.

The growth in online and mobile magazine readership over the forecast period will attract advertising. However, digital advertising rates are much lower than print advertising rates, which means that the migration of readers from print to digital will have an adverse impact on overall publisher advertising revenues in the short term. Online editions are more timely than print, helping magazines attract online readers while their print readership declines.

With the expanding use of mobile devices, distribution to digital audiences will continue to grow. The digital consumer magazine advertising market is still in its infancy in South Africa and will be growing fast in percentage terms from a small base.

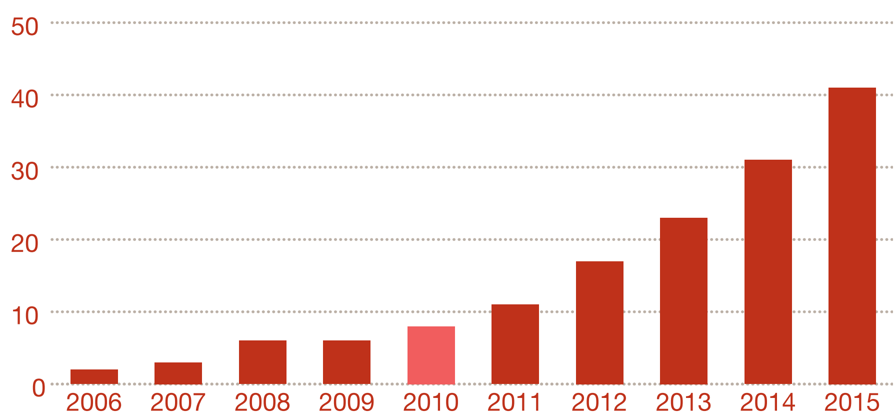
We project digital magazine advertising to increase to R41 million in 2015, more than five times the 2010 level of R8 million resulting in a 38.7% compound annual increase.

Broadband penetration (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer magazine digital advertising (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Low broadband penetration has limited the digital advertising market in South Africa because magazine websites do not attract enough visitors to generate significant advertising. Some magazines are just beginning to introduce digital versions.

Without fast broadband, it is difficult to download the graphics and other high-volume content that contribute to the appeal of consumer magazines. Consequently, non-broadband households spend less time accessing the Internet, including consumer magazine websites.

In 2010, only 6.2% of households in South Africa had a fixed broadband connection and only 5.3% of the population accessed the Internet through a mobile device. These penetration rates are too low to generate enough traffic to attract meaningful digital advertising. During the next five years, however, we expect to see significant increases in both fixed and mobile broadband access, which will fuel the migration of readers from print to the Internet.

Total consumer magazine advertising

Total consumer magazine advertising, including digital consumer magazine advertising, is expected to increase at a 7.1% compound annual rate during the next five years.

Digital advertising will comprise an estimated 1.3% of total consumer magazine advertising in 2015 compared with only 0.4% in 2010.

Global trends in the consumer magazine industry

Outlook

- Overall global spending on consumer magazines rose by 0.1 percent in 2010, a modest turnaround following the 11.2% decrease in 2009. We project that spending will sustain this recovery, growing at a 2.4% compound annual rate to $81.6 billion in 2015 from $72.6 billion in 2010.
- Global print advertising in consumer magazines rose 1.6% in 2010 following a 20.2% decline in 2009.We expect growth to improve to 2.9% compounded annually during the next five years to $31.7 billion in 2015 from $27.5 billion in 2010.
- Digital advertising totalled an estimated $1.7 billion in 2010. We project this will rise to $4.7 billion in 2015, a 22.5% compound annual increase. As a result, digital advertising will account for 13.0% of total consumer magazine advertising in 2015, compared with 5.9% in 2010.
- Total consumer magazine advertising will increase from $29.2 billion in 2010 to $36.5 billion in 2015, a 4.5% compound annual advance.
- Print circulation spending fell by 1.6% in 2010 and we expect it to continue falling, decreasing by 0.1% compounded annually from $43.4 billion in 2010 to $43.1 billion in 2015.
- A digital circulation spending market is emerging that will total an estimated $1.9 billion in 2015.
- Total circulation spending will increase to $45.1 billion in 2015, a 0.8% compound annual increase.

Key drivers

- Improved economic conditions will lead to modest growth in print advertising during the next five years. Growth will be muted by declining readership as consumers shift to online and digital sources and reduce their use of print magazines.
- News and gossip titles will be the most vulnerable to migration to the Internet as information available online reduces demand for print. Special-interest titles will be less vulnerable to online competition.
- Despite steady growth in print advertising, spending in 2015 will remain lower than the levels achieved during 2006–08.
- A portion of the shift in readers to digital outlets will be captured by digital magazine publishers through their online and digital versions. Growing digital readership will fuel digital advertising.
- Print circulation will benefit from a stronger economy and rising discretionary income, but will be hurt by the shift from print to digital.
- Growing penetration by tablets and the launch of paid mobile apps will lead to an emerging digital circulation spending market.

Source: *Global entertainment & media outlook 2011 – 2015* (PwC, 2011)

Global Consumer magazine publishing market (US$ millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Print advertising	34 351	35 385	33 926	27 087	27 512	27 853	28 846	29 830	30 757	31 749	
% change	*2.7*	*3.0*	*-4.1*	*-20.2*	*1.6*	*1.2*	*3.6*	*3.4*	*3.1*	*3.2*	*2.9*
Digital advertising	453	783	1,436	1,436	1,721	2,128	2 680	3 261	3 866	4 740	
% change	*253.9*	*72.8*	*83.4*	—	*19.8*	*23.6*	*25.9*	*21.7*	*18.6*	*22.6*	*22.5*
Total advertising	34 804	36 168	35 362	28 523	29 233	29 981	31 526	33 091	34 623	36 489	
% change	*3.6*	*3.9*	*-2.2*	*-19.3*	*2.5*	*2.6*	*5.2*	*5.0*	*4.6*	*5.4*	*4.5*
Print circulation	46 677	47 153	46 394	44 052	43 352	42 968	43 192	43 308	43 289	43 143	
% change	—	*1.0*	*-1.6*	*-5.0*	*-1.6*	*-0.9*	*0.5*	*0.3*	—	*-0.3*	*-0.1*
Digital circulation	—	—	—	—	33	111	231	509	1 065	1 933	
% change	—	—	—	—	—	*231.4*	*108.5*	*120.7*	*109.0*	*81.5*	*125.2*
Total circulation	46 677	47 153	46,394	44,052	43,385	43 079	43 423	43 817	44 354	45 076	
% change	—	*1.0*	*-1.6*	*-5.0*	*-1.5*	*-0.7*	*0.8*	*0.9*	*1.2*	*1.6*	*0.8*
Total	**81 481**	**83 321**	**81 756**	**72 575**	**72 618**	**73 060**	**74 949**	**76 908**	**78 977**	**81 565**	
% change	***1.6***	***2.3***	***-1.9***	***-11.2***	***0.1***	***0.6***	***2.6***	***2.6***	***2.7***	***3.3***	***2.4***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

"For consumers, a digital magazine on a tablet is a "lean back" experience, unlike the "lean forward" experience of a PC. Greater physical comfort lends itself to spending more time enjoying the product."

PwC's *Australian Entertainment and Media Outlook 2011-2015*

Chapter 8

Newspaper publishing

The newspaper publishing market consists of spending on daily print newspapers by advertisers and readers and advertising on newspaper websites 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.

A new digital circulation revenue stream is expected to emerge in which publishers will charge for certain online content and digital editions distributed to tablets and smartphones.

Outlook at a glance			
Newspaper publishing (R millions)	2010	2015	2011-15 CAGR (%)
Print	7 525	10 375	6.6
Digital	113	363	26.3
Total advertising	7 638	10 738	7.1
Print	3 190	2 938	-1.6
Digital	—	44	—
Total circulation	3 190	2 982	-1.3
Total	10 828	13 720	4.8

Outlook in brief

- *South Africa is currently experiencing parallel markets in newspaper publishing. The more mature publications are experiencing declining circulations and the younger publications aimed at a more populous, less-affluent segment of the market are remaining stable or experiencing increased circulation.*
- *With increased broadband penetration, the Internet is expected to become a more formidable competitor to print newspapers.*
- *The Protection of Information Bill is a new piece of legislation currently being deliberated by parliament, and if promulgated, is expected to have a significant impact on the industry.*
- *Smartphones, the iPad and other tablets are emerging as popular platforms for online newspapers.*
- *Consumers still view digital content as inferior to their traditional physical formats and publishers are faced with the challenge to monetise their digital migration.*

Thea Erasmus
Senior Manager
PwC Southern Africa

Overview

The total newspaper market in South Africa rose by 2.7% in 2010 to R10.8 billion, which was due mainly to the strength of a rebound in the advertising market. Advertising increased by 7.3%, offsetting a 6.9% decline in circulation spend.

Print newspaper advertising is one of the more cyclically sensitive advertising categories in the market because of the large role played by classified advertising, which is affected by macroeconomic trends. In 2009, large decreases in classified advertising along with a weak advertising market in general, led to an 11.1% decrease in print advertising. Toward the end of 2010, as economic conditions improved, print newspaper advertising rose 7.1%. In addition, advertising associated with the FIFA World Cup contributed to the growth.

Print newspaper unit circulation, by contrast, fell 6.3%, the third consecutive decline and the steepest decrease during the past three years. In the latter part of 2010, however, unit circulation began to firm up, which suggests that the delayed effect of the improvement in the economy will begin to have a positive impact on newspaper circulation in 2011.

Newspaper websites are attracting visitors and are selling advertising. Digital advertising rose 24.2% in 2010 and continued annual growth in excess of 20% is projected during the next five years. We also expect a new digital circulation revenue stream to emerge in which publishers will charge for certain online content and for digital editions distributed to tablets and smartphones.

Newspapers are expected to benefit from an expanding economy during the latter part of the forecast period, which will fuel advertising while limiting declines in circulation spending. We expect newspaper advertising to grow by 7.7% in 2013 and at rates above 9% during 2014-15. Declines in circulation spending will drop to 1.0% annually in 2013-14 and will fall below 1% in 2015. The market as a whole will expand at a 4.8% compound annual rate to R13.7 billion in 2015.

The South African market

South Africa has a circulation of approximately 940 million newspapers a year. This number includes local, small commercial and community newspapers. There are four large media companies that dominate the print media in terms of the number of titles they own as well as the readership of these newspapers.

Caxton and CTP Publishers and Printers is an investment holding company whose subsidiaries are primarily involved in the printing and publishing of books, magazines and newspapers. They hold the most newspaper titles with 130 identified titles, 89 wholly owned and 41 co-owned. The group publishes *The Citizen* which has a circulation of 69 036 and a readership of approximately 370 000.

Naspers, through its print media subsidiary, Media24, follows with 54 titles. Naspers is a multinational media group based in Cape Town. Media24 is the largest publisher of magazines and newspapers and the largest printer and distributor of magazines and related products in Africa.

Media24 publishes *The Daily Sun*, which is the largest newspaper in South Africa with a circulation of 414 276 and approximately 5.0 million readers. It also publishes four other national dailies, *Die Burger, Die Beeld, Volksblad* and *The Witness* as well as four *Sunday papers, Rapport, City Press, Sunday Sun* and *Sondag*.

Terms and sources used

- **Circulation** – represents the number of copies sold. The data is sourced from the Audit Bureau of Circulations South Africa (ABC) circulation figures for October 2010 to December 2010.
- **Readership** – reflects the estimated number of people who read the newspaper. The data is sourced from the South African Advertising Research Foundation's All Media and Products Survey (AMPS) Average issue readership of newspapers and magazines January to December 2010.

Other sources: Hilary Klopper, "Research Report on Publishing of Newspapers, Magazines and Journals" *Who Owns Whom*, (December 2009).

The foreign-owned Independent Newspapers Group owns and publishes 32 newspaper titles and three upmarket glossy monthly magazines – *House & Garden, GQ* and *Glamour*. The group's newspaper stable includes 17 paid daily and weekly newspapers with products covering the daily morning and afternoon markets as well as the Saturday and Sunday markets in South Africa's three major metropolitan areas and the *Northern Cape* in Kimberley. In addition, it owns and publishes 15 local community newspapers that are delivered free to homes on the Cape Peninsula – and has investments in companies that produce similar community newspapers in Gauteng and KwaZulu-Natal.

The Star, with a circulation of 143 084 (ABC April-June 2011) and a readership of 574 000 (AMPS 2010) is the group's flagship daily newspaper. It covers the whole day and comes out in five editions. Other daily titles include *Pretoria News, Diamond Fields Advertiser*, the *Cape Argus*, the *Cape Times, Daily Voice, Daily News*, the *Mercury* and a Zulu-language newspaper, *Isolezwe*. The Saturday stable includes the *Saturday Star, Pretoria News Weekend, Independent on Saturday* and *Weekend Argus* (Saturday). The group's Sunday newspapers include the *Sunday Tribune, Weekend Argus* (Sunday), *Independent on Sunday* and *Isolezwe NgeSonto*. The Group's KwaZulu-Natal operation also publishes a mid-week newspaper, *Post*, targeted specifically at the large Indian community in the region. The group is estimated to reach about 57% of English and Zulu readers and receives about 46% of total advertising spend in the paid newspaper market.

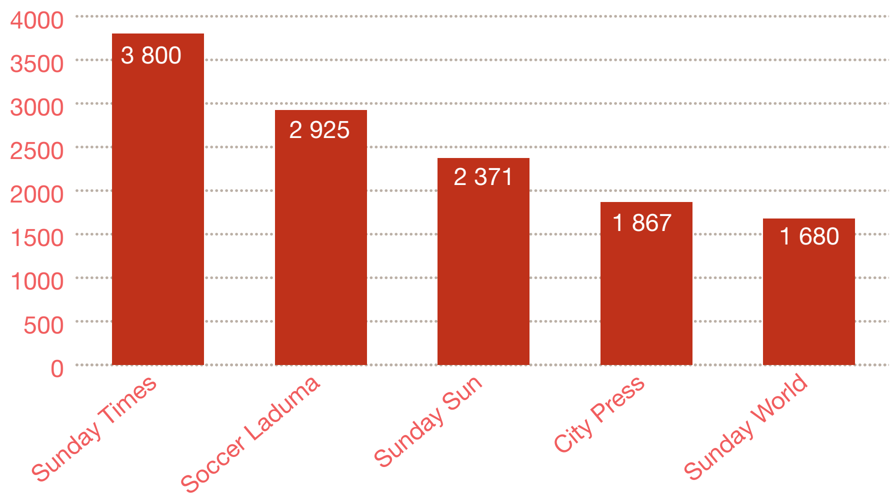
Avusa Limited is listed on the Johannesburg Stock Exchange and was established on 1 February 2008, following the unbundling of Johnnic Communications Limited (Johncom) in 2007. Avusa has 22 titles and its publications include South Africa's biggest Sunday newspaper, *The Sunday Times*, with a circulation of 462 366 and 3.8 million readers. The group also publishes *Sunday World* and its daily newspapers include the *Times*, the *Sowetan*, *Business Day*, *Herald* and *Daily Dispatch*.

An independently-owned new national daily, *The New Age*, was launched during December 2010 with a Sunday paper still expected to follow.

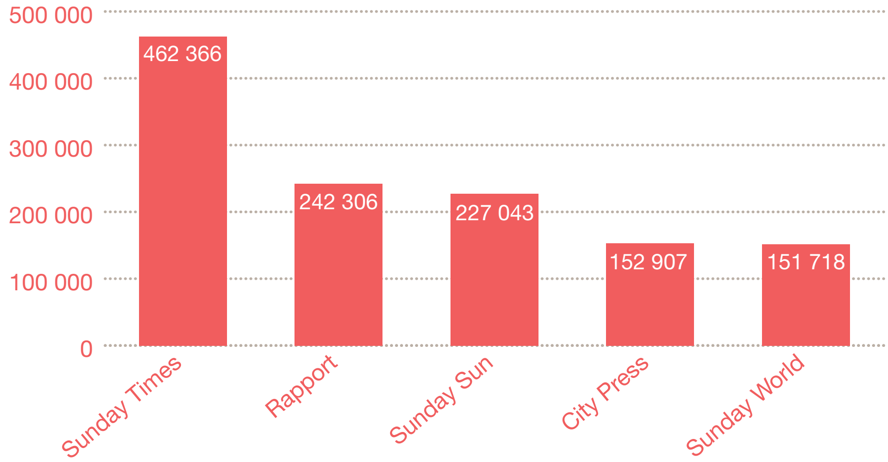
The New Age will have to jostle for position in the market which already has well-established local provincial newspapers.

The South African print media industry's four dominant players all have the required infrastructure within their organisations to publish newspapers and magazines from start to finish. Owing to existing infrastructure, these companies are generally able to print and distribute publications at a much lower cost than those published by smaller companies. Further, companies like Media24 and Avusa are able to absorb the costs of publications that are less popular than others or new publications that do not yet have established readerships.

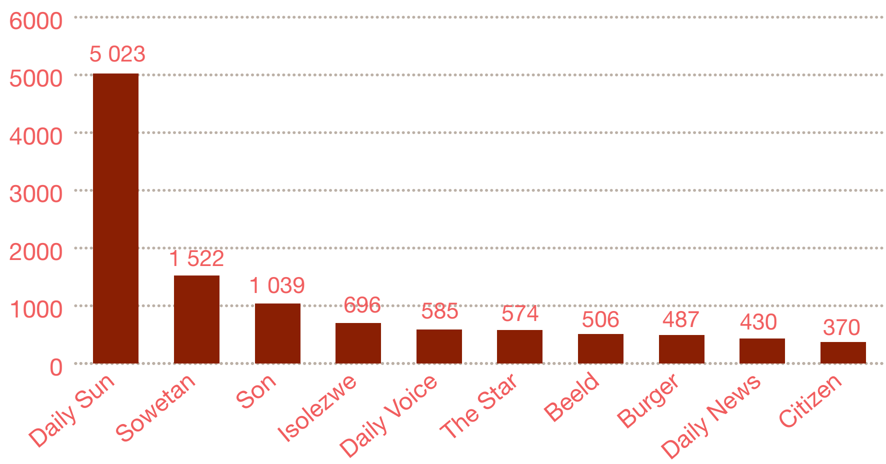
Top five Sunday newspapers by readership (Readers in '000)



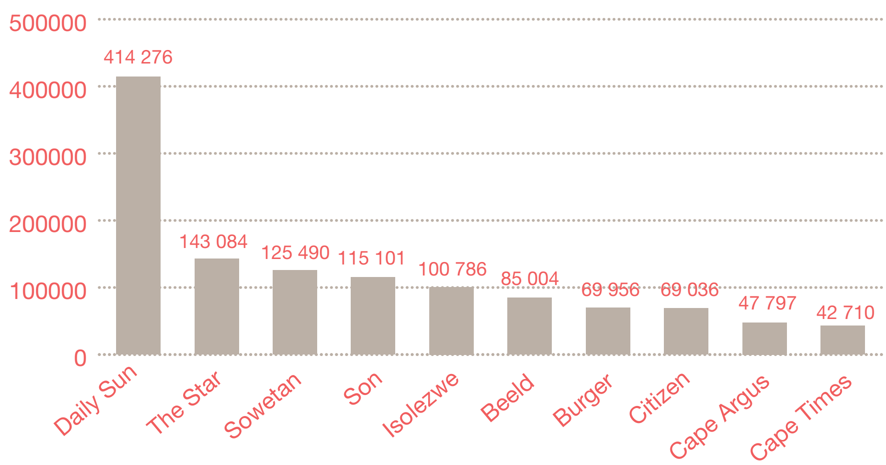
Top five Sunday newspapers by circulation (number of copies)



Top 10 daily newspapers by readership (Readers in '000)



Top 10 daily newspapers by circulation (number of copies)



South Africa is currently experiencing parallel markets in newspaper publishing. The more mature publications are experiencing declining circulations and the younger publications aimed at a more populous, less-affluent segment of the market are remaining stable or experiencing increased circulation.

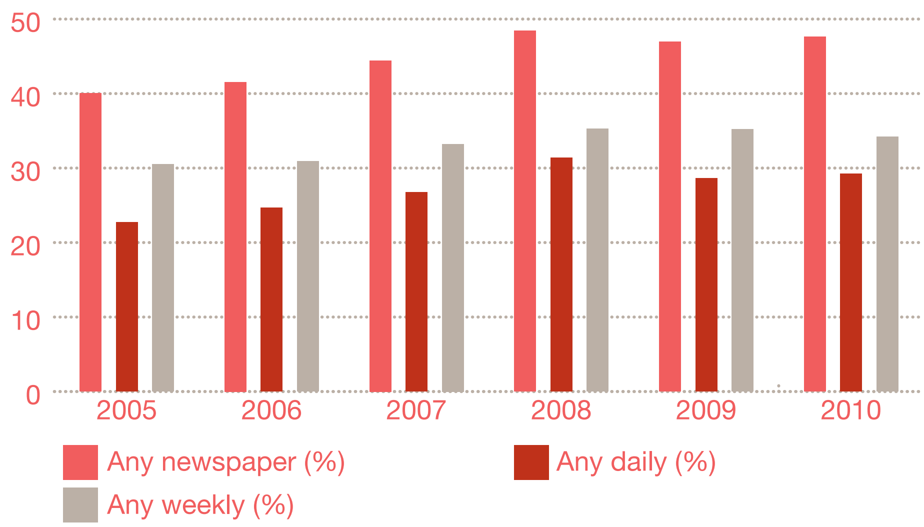
Market penetration (AMPS)

	2005	2006	2007	2008	2009	2010*
Population (16+/15+) (thousands)	30 656	30 903	31 109	31 303	31 523	34 020
Any newspaper	40.04%	41.56%	44.44%	48.43%	46.96%	47.63%
Any daily#	22.71%	24.66%	26.75%	31.38%	28.61%	29.22%
Any weekly#	30.52%	30.92%	33.23%	35.30%	35.20%	34.21%

* Period 1 July to 30 June

\# Source: AMPS (All Media and Products Survey)

Market penetration (AMPS)



Source: AMPS (All Media and Products Survey)

While there is a global trend for newspapers to benefit from an ageing population (people 45 and over), this is not strictly true in the South African market. Off a relatively low penetration and against increasing literacy and political-social-economic mobility, there has been growth in the newspaper market, albeit not across all sectors. This is off a zero-base, bringing new buyers and readers onboard. Most of the titles are low-priced and aimed at the 'working-class' LSM 4-7 market with relatively young readerships.

New daily newspapers

Title (launch year)	Circulation*	Readership# ('000s)	Average reader age
Daily Sun (2002)	414 276	5 023	33
Isolezwe (2002)	100 786	696	33
Son (2004)	115 101	1 039	37
Daily Voice (2005)	28 000	585	37
The Times (2007)	141 271	331	39

* Source: Audit Bureau of Circulation, Q4 2010, # Source: AMPS (Jan-Dec 2010)

New weekly newspapers

Title (launch year)	Circulation*	Readership# ('000s)	Average reader age
Sunday Sun (2001)	227 043	2,371	32
Isolezwe ngeSonto (2008)	74 916	755	31
Ilanga langeSonto (2005)	88 433	868	32
Sondag	55 631	179	40
Sondag Son (2003)	65 076	389	35

* Source: Audit Bureau of Circulation, Q4 2010, # Source: AMPS (Jan-Dec 2010)

The newspaper market rose 2.7% in 2010 compared to an 8.4% decline in 2009. Advertising spend in 2010 increased by 7.3% while print newspaper unit circulation fell by 6.3%.

The dichotomy between advertising and circulation in part reflects the different ways the two components react to the economy. Advertisers tend to respond very quickly to changes in the economy. They reduce their advertising investment when sales slacken, but spend more on advertising when a recovery is in sight in order to position themselves to gain share when the economy recovers.

Consumers, by contrast, generally respond more slowly to changes in the economy. While they cut back on some items relatively quickly — particularly luxury items such as motorcars whose purchases can be postponed or delayed — they try to hold onto other items in order to preserve their standard of living.

Even though the economy began to pull out of the recession in the latter part of 2010, for many people, unemployment has lingered, making it increasingly difficult to sustain purchases. Therefore the 2009 recession led to a steeper decline in newspaper circulation in 2010.

The economy is not the only factor affecting newspaper circulation. Until recently, the newspaper industry in South Africa had not been affected by migration of readers to the Internet, which has been the prevailing trend in other countries. Low broadband penetration limited competition from the Internet, and African-language papers were generally not affected by availability of information online, most of which is in English.

Although broadband penetration is still in its infancy in South Africa, it is growing rapidly as technology advances and becomes more readily available to the man on the street. The Internet provides much of the news, information, and entertainment that is available in newspapers, but for free. With broadband penetration projected to expand to nearly five times its current size during the next five years, the Internet will become a more formidable competitor to print newspapers. Consequently, we expect print unit circulation to continue to decline through the forecast period, although at more moderate rates compared with 2010, because of the favourable impact of an expanding economy.

The impact of increased Internet use on newspapers will not be entirely negative as digital advertising rose by 24.2% in 2010 and continued growth is projected.

Newspaper publishing market (R millions)

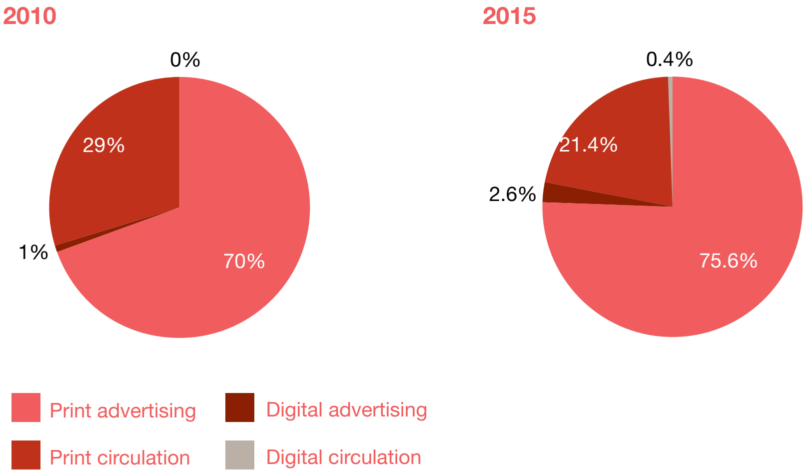
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Print	6 115	7 050	7 900	7 025	7 525	7 800	8 200	8 800	9 550	10 375
Digital	43	63	87	91	113	140	172	220	287	363
Total advertising	6 158	7 113	7 987	7 116	7 638	7 940	8 372	9 020	9 837	10 738
Print	3 404	3 540	3 519	3 427	3 190	3 108	3 061	3 022	2 981	2 938
Digital	—	—	—	—	—	1	5	12	23	44
Total circulation	3 404	3 540	3 519	3 427	3 190	3 109	3 066	3 034	3 004	2 982
Total	**9 562**	**10 653**	**11 506**	**10 543**	**10 828**	**11 049**	**11 438**	**12 054**	**12 841**	**13 720**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

For the forecast period as a whole, print advertising is expected to increase at a 6.6% compound annual rate and a much smaller digital advertising market will expand by 26.3% on a compound annual basis. The contribution of digital advertising will boost overall newspaper advertising growth to 7.1% compounded annually.

Print circulation spending will continue to decline during the next five years at a 1.6% compound annual rate. Beginning in 2011, a small digital circulation market is expected to develop and will total an estimated R44 million in 2015. Buffered by growth in digital, overall circulation spending will fall at a projected 1.3% compound annual rate.

Newspaper publishing market (% of revenues)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Newspaper publishing market growth (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Print	19.1	15.3	12.1	-11.1	7.1	3.7	5.1	7.3	8.5	8.6	6.6
Digital	65.4	46.5	38.1	4.6	24.2	23.9	22.9	27.9	30.5	26.5	26.3
Total advertising	19.3	15.5	12.3	-10.9	7.3	4.0	5.4	7.7	9.1	9.2	7.1
Print	3.6	4.0	-0.6	-2.6	-6.9	-2.6	-1.5	-1.3	-1.4	-1.4	-1.6
Digital	—	—	—	—	—	—	400.0	140.0	91.7	91.3	—
Total circulation	3.6	4.0	-0.6	-2.6	-6.9	-2.5	-1.4	-1.0	-1.0	-0.7	-1.3
Total	**13.2**	**11.4**	**8.0**	**-8.4**	**2.7**	**2.0**	**3.5**	**5.4**	**6.5**	**6.8**	**4.8**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Legislation

The Protection of Information Bill was initially proposed in early 2010. The Bill aims to provide for the protection of certain information from destruction, loss or disclosure; to regulate the manner in which information may be protected; to repeal the Protection of Information Act, 1982; and to provide for matters connected therewith.

The Bill and a separate plan to create a media appeals tribunal to hold journalists accountable for errors in reporting, were met with an outcry from the media, political parties and civil society. In late August 2011, the ruling African National Congress agreed to drastically restrict the application of the Bill and also proposed narrowing the grounds for classifying information.

At the time of writing, parliamentary deliberations on the revised Bill were underway with the expectation being that the legislation would be finalised during September 2011.

In its original form, the Bill would, clause by clause, ban the acquisition and publication of documents classified as:

- 'Confidential', where publishing the information would be 'harmful' to national security or to South Africa's relations with other countries;
- 'Secret', where publishing the information may 'endanger' national security or 'jeopardise the international relations of the Republic'; and

'Top secret', where publishing may cause 'serious or irreparable harm' to national security or could cause other states to 'sever diplomatic relations with the Republic[1]'.

While the eventual promulgation of the Protection of Information Act could have profound implications for media freedom and the media industry in South Africa, South Africa's Constitution is regarded as one of the most progressive legal frameworks in the world and any legislation will have to pass muster with the Constitutional Court.

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Advertising

Print advertising

Print newspaper advertising rose at double-digit annual rates during 2006-8 before the 2009 recession halted that expansion. In addition to the impact of the economy, there was a 5.6% decrease in newspaper readership, which contributed to the 11.1% decline in newspaper advertising spend in 2009.

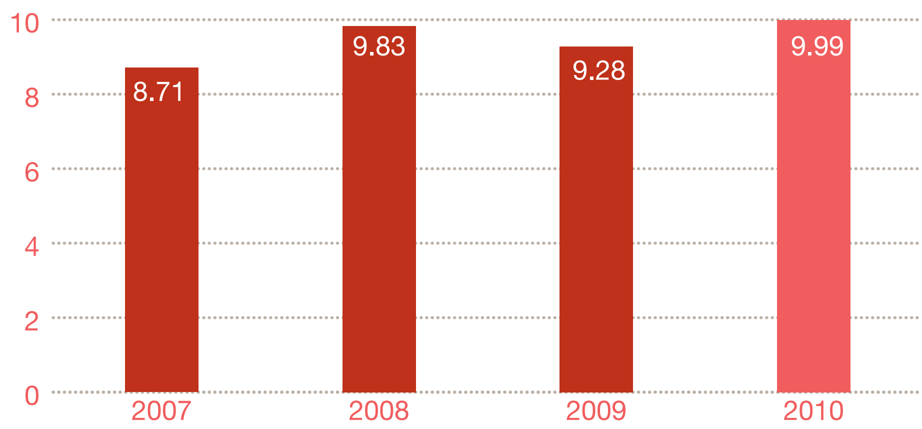
In 2010, an expanding economy helped boost newspaper advertising. There was also a rebound in newspaper readership. Despite the sharp drop in newspaper unit circulation, newspaper readership in 2010 increased by 7.7%. Much of this occurred late in the year. It appears that while purchases of newspapers fell, interest in newspapers remained and papers were passed around to more people.

Beeld, Die Burger, Cape Argus, Cape Times, The Daily Sun, The Mercury, Son, Sowetan and *Volksblad* were among the papers that recorded readership growth in 2010.

Compared with 2008, however, newspaper readership in 2010 was only 1.6% higher despite the interest in news and in newspapers driven by the FIFA World Cup.

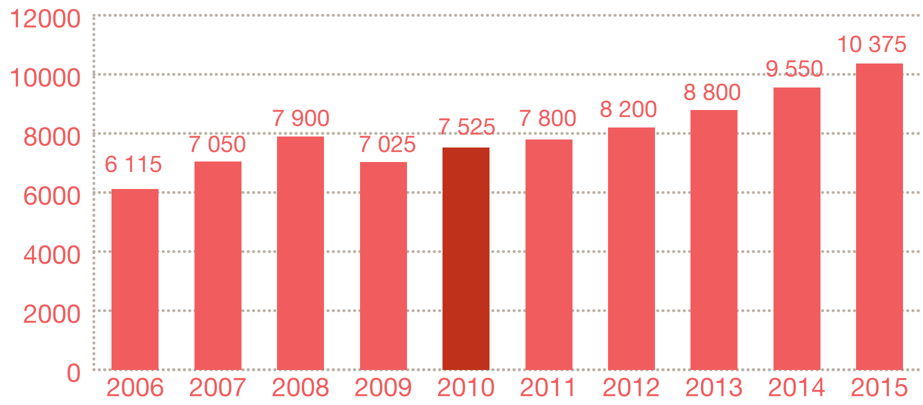
1 Scott Baldauf, "South Africa moves ahead with bill to limit freedom of information" *The Christian Science Monitor,* (June, 2, 2011).

Average daily readership (millions)



Sources: AMPS, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Print newspaper advertising (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Despite the increase in 2010, we do not expect ongoing readership growth for print newspapers, as the Internet is beginning to become a significant source for news and information as it becomes more accessible to more South Africans.

Nevertheless, newspapers are still considered a critical outlet for information. The Government, unhappy with coverage of government information in the private press, is launching its own monthly paper, *Vukuzenzele*, which is expected to be distributed free to 1.7 million readers. The new publication will focus on the progress the Government has made in South Africa.

The newspaper was previously distributed in the form of a bi-monthly magazine and mainly to rural areas. The elimination of the one-month gap will allow for greater continuity as readers will be better able to develop loyalty to the publication. The near-term plan is to increase the print run to two million and publish fortnightly. The Government Communication and Information System (GCIS) is responsible for the publication.

In 2012, fixed broadband penetration is expected to pass 10% and by 2015 it will reach nearly 30%. In addition, more than a quarter of the population will access the Internet through mobile devices in 2015.

As its reach increases, more people will substitute print newspapers for the Internet. Declines in newspaper circulation and flat or slow-growth in readership will limit advertising growth during the forecast period compared with 2006-8, when growth in unit circulation and readership propelled advertising.

At the same time, we expect the economy to return to healthy growth, which will stimulate advertising spend, including print newspaper advertising. Because of migration of readers to the Internet, we do not expect a return to double-digit advertising growth.

We look for print advertising to increase by 3.7% in 2011 and then to grow at progressively faster rates as the economy improves, with gains in excess of 8% in 2014-15.

For the five-year forecast period as a whole, print advertising will grow at a projected 6.6% compound annual rate from R7.5 billion in 2010 to R10.4 billion in 2015.

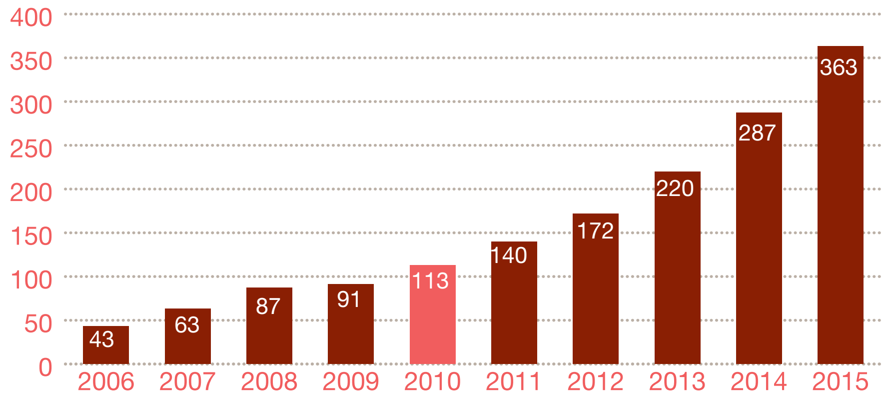
Digital advertising

Most newspapers have online editions that are attracting readers and advertisers. The potential for online reach is now strong enough that a new independently-owned title, *The Daily Maverick*, has been launched solely as an online paper.

A portion of the migration of readers to the Internet is going to online editions of print publications. Rising broadband penetration will expand this market as broadband users visit more websites than dial-up users, including newspaper websites. An expanding online audience for newspapers will also attract more advertising.

Digital advertising growth slowed to 4.6% in 2009 as a result of the recession, but accelerated in 2010 with a 24.2% increase. The combination of broadband penetration growth and an expanding economy will fuel digital newspaper advertising during the next five years.

Digital newspaper advertising (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We project digital advertising to more than triple to R363 million in 2015 from a low base of R113 million in 2010, a 26.3% compound annual increase.

Total newspaper advertising

Including digital advertising, total newspaper advertising growth will reach 7.1% on a compound annual basis during the next five years, rising to R10.7 billion in 2015 from R7.6 billion in 2010.

Digital advertising will comprise 3.4% of total newspaper advertising spend in 2015, more than double its 1.5% share in 2010.

Circulation spending

Print

Paid unit circulation fell by 6.3% in 2010, the third consecutive decrease and the steepest by far during the past three years. Most major papers recorded declines, with the *Daily Sun* falling by nearly 16%, *Son* declining by nearly 8% and *The Star* by nearly 7%. *The Citizen* was a notable exception with a 19% increase, helped by a cut in prices. *The Sunday Sun* registered a nearly 5% increase, helping to cushion the impact of its declining daily circulation.

In general, the delayed impact of the 2009 recession contributed to the sharp decline in unit circulation in 2010.

In the fourth quarter of 2010, unit circulation appeared to stabilise for many papers, suggesting that the effects of the economic recovery are beginning to be reflected in newspaper circulation.

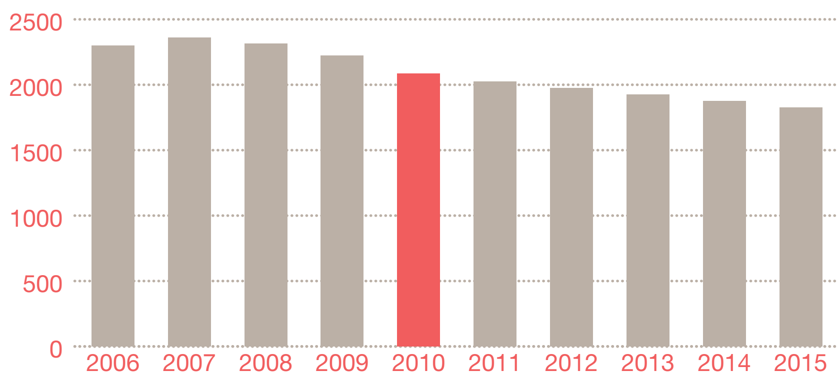
During the next five years, an expanding economy will have a positive impact on unit circulation as growth in discretionary income and increases in discretionary purchases.

Newspapers may also benefit from favorable demographic trends as the largest newspaper-reading demographic (people 45 and older) will be increasing. The number of people in that age group is expected to rise by 4.5% during the next five years to 10.8 million.

However, growing broadband penetration will have an adverse impact as the Internet will attract more readers from print newspapers.

We expect migration to the Internet to offset the impact of favourable demographics and an expanding economy. We project unit circulation to continue to decrease, but at more moderate rates averaging 2.6% compounded annually to 1.8 million in 2015 from 2.1 million in 2010.

Paid unit circulation (thousands of units)



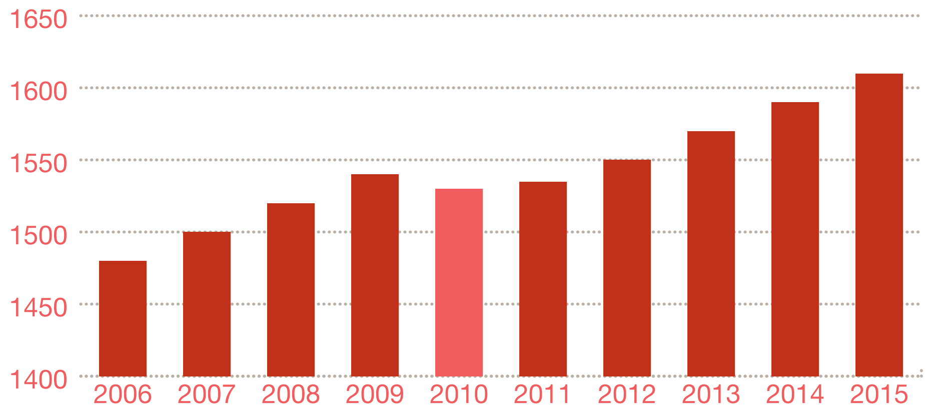
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Annual spending per unit averaged R1 530 in 2010, down 0.6% from 2009, reflecting price cuts for several papers.

We expect average spend to edge up by 0.3% in 2011 and then to grow at faster rates as economic conditions improve. By 2015, average annual spend per unit will be an estimated R1 610, up 1.0% compounded annually from 2010.

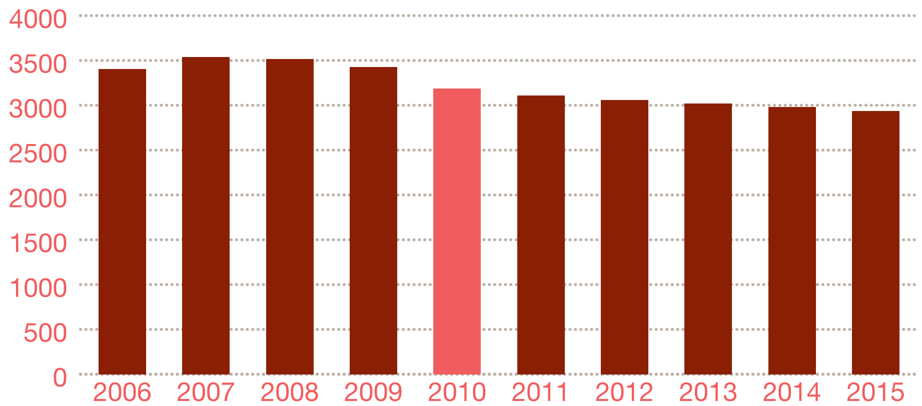
We project aggregate circulation spend to decrease at a 1.6% compound annual rate to R2.9 billion in 2015 from R3.2 billion in 2010.

Average annual spending per unit (rands)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Circulation spending (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Daily newspaper print circulation market

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Paid unit circulation (thousands)	2 300	2 360	2 315	2 225	2 085	2 025	1 975	1 925	1 875	1 825	
% change	*2.2*	*2.6*	*-1.9*	*-3.9*	*-6.3*	*-2.9*	*-2.5*	*-2.5*	*-2.6*	*-2.7*	*-2.6*
Average annual spending per unit (Rand)	1 480	1 500	1 520	1 540	1 530	1 535	1 550	1 570	1 590	1 610	
% change	*1.4*	*1.4*	*1.3*	*1.3*	*-0.6*	*0.3*	*1.0*	*1.3*	*1.3*	*1.3*	*1.0*
Circulation spending (R millions)	3 404	3 540	3 519	3 427	3 190	3 108	3 061	3 022	2 981	2 938	
% change	*3.6*	*4.0*	*-0.6*	*-2.6*	*-6.9*	*-2.6*	*-1.5*	*-1.3*	*-1.4*	*-1.4*	*-1.6*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Digital circulation

The launch of the iPad and various other tablets in South Africa is creating a new revenue stream for newspaper publishers. They allow for high-definition multimedia content and can be updated several times a day. They provide the reader with a convenient service as the paper is available on the tablet each morning. Consumers appear to be less reluctant to pay for content on a tablet than for content online, because they view the convenience of a mobile download as having value separate from the content itself.

Media24 has developed software for tablets and we expect that a market will begin to develop in 2011.

The *Daily Maverick* launched South Africa's first daily iPad newspaper, called the *iMaverick* in August 2011. The publication's subscription options also include iPad bundled options.

Business Day also launched its iPad app, replicating what's available in the print edition, but it plans to eventually offer content that is unique to the tablet platform. The application is free to download and use, but the newspaper may start charging for it in the future.

Smartphones such as the iPhone and Blackberry are also having an impact on the circulation of newspapers. Smartphones, paired with the improved mobile technology provided by South African cellphone providers, are expected to impact on the circulation of newspapers as they make the Internet much more accessible to the average person.

As penetration of tablets increases in the South African market, and with the increase of more advanced mobile devices, the potential market for paid digital circulation will expand. We project that by 2015, paid digital unit circulation will total 73 000.

The smartphone paradox

According to a report from telecoms operator Orange, sourced from The Guardian newspaper in the United Kingdom, the growing popularity of smartphones is proving to be a double-edged sword for newspaper publishers with the number of consumers reading more content online almost exactly counterbalanced by a decline in those buying print products.

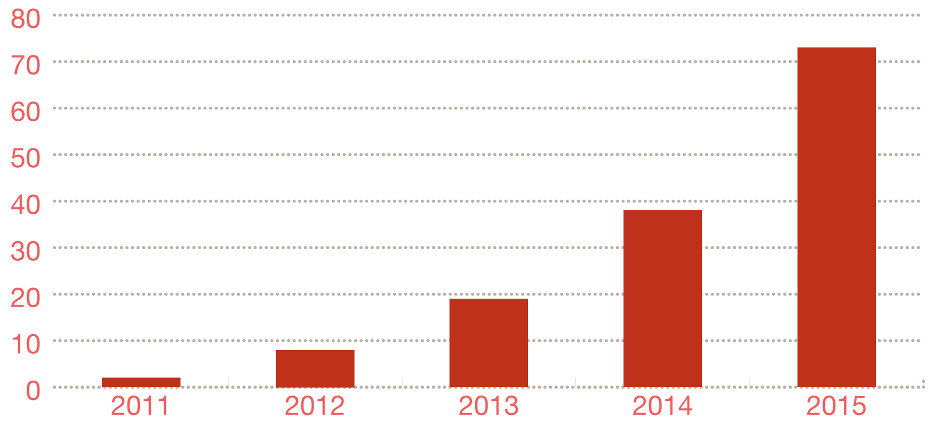
The Orange study found that 14% of people who access the Internet on their mobile phones said they read fewer newspapers as a result. On the flipside, 13% of respondents said that owning smartphones such as the iPhone had led them to read more newspaper content online. However, the same is not true of all publishing sectors, with 16% of mobile media users (those accessing the Internet via a smartphone) saying they read fewer magazines, but none saying they read more magazine content online. The problem for newspaper publishers is the gap between declining print circulation and revenue and the relatively small revenues from products such as smartphone apps and mobile Internet advertising.

The report found that men were almost 50% more likely to access the mobile Internet using some form of app than women. About 46% of men who access mobile media use an app to do so, whereas just 35% of women do. Overall, about 70% of UK users of mobile Internet devices did so using a traditional browser, similar to the percentage for PCs, with 55% also opting to use an app.

Orange also found that 45% of users stayed on for 10 minutes or more per mobile Internet session.

Source: Mark Sweney, "Smartphones bring mixed blessings for newspapers" *www.guardian.co.uk,* (October 2010).

Digital paid unit circulation (thousands)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In general, people view digital products as inferior to products in their traditional physical formats and have only been willing to buy digital products at a discount. We expect this behaviour to characterise the digital newspapers market and for people to only be willing to buy digital newspapers at a discount. We project average annual spending to be R610 in 2011, less than half the average annual spend for print papers. As the market becomes more competitive, we look for that rate to edge down to R602 by 2015.

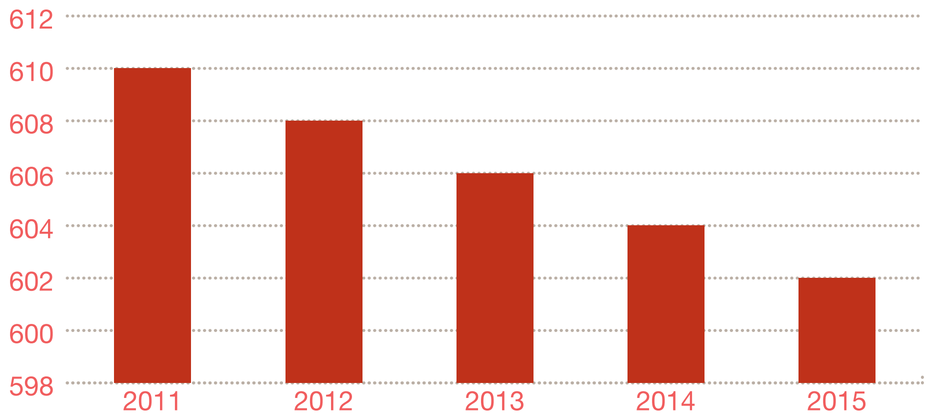
Aggregate spend is expected to total an estimated R44 million in 2015.

Total circulation

Total circulation spend will decrease at a 1.3% compound annual rate to R3.0 billion in 2015 from R3.2 billion in 2010.

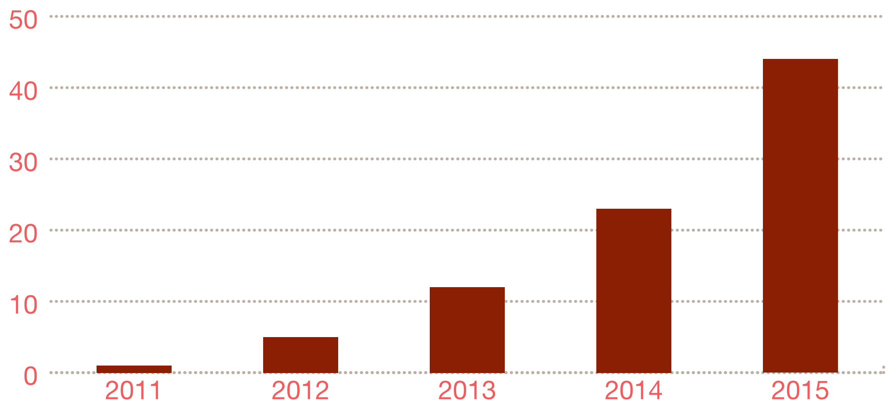
Digital circulation will comprise 1.5% of total circulation spend in 2015.

Average annual spending per digital unit (rands)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Digital circulation spending (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Daily newspaper digital circulation market

	2011	2012	2013	2014	2015
Paid unit circulation (thousands)	2	8	19	38	73
% change	–	*300.0*	*137.5*	*100.0*	*92.1*
Average annual spending per unit (rands)	610	608	606	604	602
% change	–	*-0.3*	*-0.3*	*-0.3*	*-0.3*
Circulation spending (R millions)	1	5	12	23	44
% change	–	*400.0*	*140.0*	*91.7*	*91.3*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Key challenges for newspapers

As the newspaper market shifts from an exclusively print model to one that combines print and digital editions, publishers are seeking to increase online advertising yields, develop the technology to publish their content across multiple platforms and monetise alternative revenue sources besides advertising and print circulation.

Online advertising margins are lower than print advertising margins because supply exceeds demand. Targeted online advertising is one development that promises to increase revenues. This relies on newspapers being able to persuade readers to register and track the reader behaviour. It is clear that some newspaper properties are threatened by news aggregators such as Google News (the 'virtual newsagent').

On the plus side, newspapers may benefit from an ageing population. But advertisers might not see this demographic as the most attractive market to target and could take their revenues to the new media market targeting the younger generation. Newspaper publishers need to actively engage this cohort before they turn 45; a reader lost at 16 or 25 will not automatically return on their 45th birthday.

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

Global trends in newspaper publishing

Outlook

- The global newspaper market was virtually flat in 2010, as declines in North America were offset by gains in other regions. We expect the global market to remain relatively flat in 2011 and then begin to expand in 2012, rising to $175.6 billion in 2015 from $159.7 billion in 2010, a 1.9% compound annual increase.
- Print advertising is the largest component of the newspaper market, at $80.9 billion in 2010, 51% of the total. Global print advertising fell by 0.8% in 2010 and will decline by an additional 1.2% in 2011, driven by a fall in North America. However, spending will begin to expand in 2012 and will rise to $87.2 billion in 2015, a 1.5% compound annual increase from 2010.
- Digital advertising on newspaper websites will increase at a 10.2% compound annual rate to $10.4 billion in 2015 from $6.4 billion in 2010, increasing its share of total newspaper advertising to 10.6% from 7.3% in 2010.
- Total newspaper advertising will rise from $87.2 billion in 2010 to $97.6 billion in 2015, a 2.3% compound annual increase.
- Global print circulation spending will increase to $76.0 billion in 2015 from $72.3 billion in 2010, a 1.0% compound annual increase.
- An emerging digital circulation spending market will rise from a tiny base of only $195 million in 2010 to $2.0 billion in 2015, a 58.6% compound annual increase.
- Total circulation spending will reach $78.0 billion in 2015 from $72.5 billion in 2010, a 1.5% compound annual increase.

Key drivers

- Improving economic conditions will have a positive impact on both advertising and circulation spending, although migration of readers to the Internet and ongoing unit circulation declines in many countries will cut into advertising and print circulation growth even once the economy improves.
- At the same time, most countries that experience rising print unit circulation will see above-average growth in print advertising.
- Favourable demographic trends will have a positive impact on paid unit circulation, leading either to faster growth or moderating declines.
- Rising print circulation prices will lead to growth in circulation spending in many countries, even as unit circulation continues to fall.
- Rising website traffic, fuelled by growing broadband penetration, will boost digital advertising.
- Paid distribution of newspapers to tablets is creating a paid digital circulation market, as consumers appear to be more willing to pay for content delivered to a tablet than for content available online. People are used to paying to access content on their mobile devices and it seems that they view the convenience of a mobile download as having value separate from the content that is downloaded.

Source: Global entertainment and media outlook 2011-2015 (PwC, 2011)

Global newspaper publishing market by component (US$ millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Print advertising	111 962	109 732	100 341	81 525	80 885	79 942	81 104	82 888	84 781	87 244	
% change	*1.4*	*-2.0*	*-8.6*	*-18.8*	*-0.8*	*-1.2*	*1.5*	*2.2*	*2.3*	*2.9*	*1.5*
Digital advertising	4 115	5 348	5 808	5 599	6 362	7 056	7 909	8 696	9 495	10 354	
% change	*41.8*	*30.0*	*8.6*	*-3.6*	*13.6*	*10.9*	*12.1*	*10.0*	*9.2*	*9.0*	*10.2*
Total advertising	116 077	115 080	106 149	87 124	87 247	86 998	89 013	91 584	94 276	97 598	
% change	*2.4*	*-0.9*	*-7.8*	*-17.9*	*0.1*	*-0.3*	*2.3*	*2.9*	*2.9*	*3.5*	*2.3*
Print circulation	69 441	71 686	73 027	72 394	72 262	72 276	73 216	74 084	75 027	76 003	
% change	*-0.4*	*3.2*	*1.9*	*-0.9*	*-0.2*	–	*1.3*	*1.2*	*1.3*	*1.3*	*1.0*
Digital circulation	62	70	110	140	195	290	461	770	1 316	1 957	
% change	*17.0*	*12.9*	*57.1*	*27.3*	*39.3*	*48.7*	*59.0*	*67.0*	*70.9*	*48.7*	*58.6*
Total circulation	69 503	71 756	73 137	72 534	72 457	72 566	73 677	74 854	76 343	77 960	
% change	*-0.4*	*3.2*	*1.9*	*-0.8*	*-0.1*	*0.2*	*1.5*	*1.6*	*2.0*	*2.1*	*1.5*
Total	**185 580**	**186 836**	**179 286**	**159 658**	**159 704**	**159 564**	**162 690**	**166 438**	**170 619**	**175 558**	
% change	***1.4***	***0.7***	***-4.0***	***-10.9***	***0.0***	***-0.1***	***2.0***	***2.3***	***2.5***	***2.9***	***1.9***

Sources: PricewaterhouseCoopers LLP Wilkofsky Gruen Associates

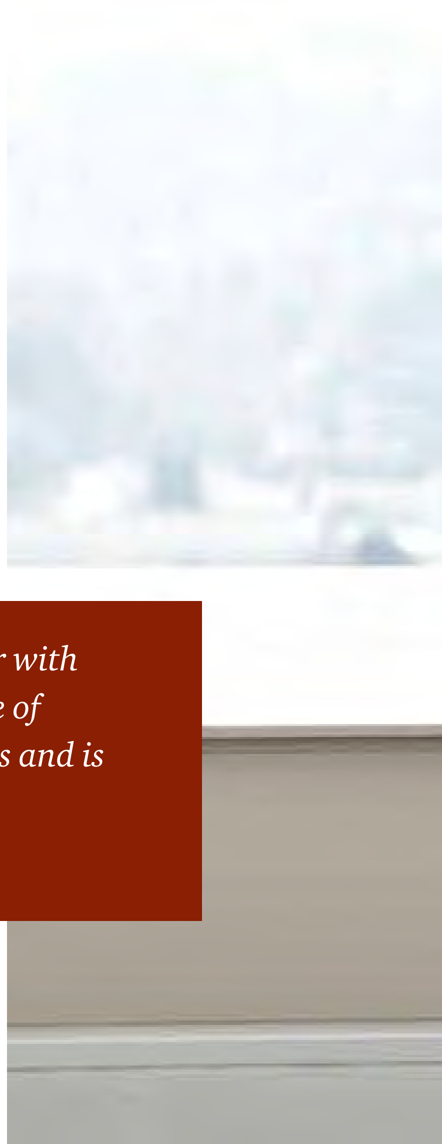
We do not expect ongoing readership growth for print newspapers, as the Internet is beginning to become a significant source for news and information as it becomes more accessible to South Africans.

Chapter 9

Consumer and educational book publishing

The consumer and educational book publishing market consists of retail spending by consumers on consumer books; spending by schools, government agencies, and students on elementary, high school, and college textbooks, including postgraduate textbooks and academic textbooks; and spending on books in electronic formats, also known as electronic books or e-books. Spending includes library and institutional subscriptions to electronic book databases. Print sales include audio books. Educational books do not include supplemental educational spending, administrative software, or testing materials. Professional books are covered in the "Business-to-business" chapter.

The greater availability of e-readers, together with declining e-reader prices and a greater choice of products has spurred penetration of e-readers and is significantly expanding the market.



Outlook at a glance

Consumer and educational book publishing market (R millions)	2010	2015	2011-15 CAGR (%)
Consumer books	1 575	1 815	2.9
Educational books	2 795	2 920	0.9
Total print	4 370	4 735	1.6
Consumer books	39	327	53.0
Educational books	168	613	29.5
Total electronic	207	940	35.3
Total consumer	1 614	2 142	5.8
Total educational	2 963	3 533	3.6
Total	4 577	5 675	4.4

Rilien Nienaber
Manager
PwC Southern Africa

Outlook in brief

- *Significant growth is expected in electronic consumer books.*
- *The increasing popularity of tablets and e-readers has stimulated the electronic consumer book market.*
- *It is important for publishers to establish a presence with content on all platforms: in bookstores, online and as apps.*
- *Consumers in the electronic educational book market benefit from additional features not available in the traditional format.*
- *The South African Government is planning to launch various campaigns to increase the literacy rate, which is expected to fuel growth in the books market.*

Consumer and educational book publishing market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Consumer books	1 395	1 475	1 430	1 505	1 575	1 620	1 665	1 715	1 765	1 815
Educational books	2 480	2 560	2 795	2 735	2 795	2 800	2 825	2 860	2 890	2 920
Total print	3 875	4 035	4 225	4 240	4 370	4 420	4 490	4 575	4 655	4 735
Consumer books	11	15	17	21	39	89	150	206	265	327
Educational books	7	26	56	109	168	252	339	429	520	613
Total electronic	18	41	73	130	207	341	489	635	785	940
Total consumer	1 406	1 490	1 447	1 526	1 614	1 709	1 815	1 921	2 030	2 142
Total educational	2 487	2 586	2 851	2 844	2 963	3 052	3 164	3 289	3 410	3 533
Total	**3 893**	**4 076**	**4 298**	**4 370**	**4 577**	**4 761**	**4 979**	**5 210**	**5 440**	**5 675**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Overview

Spending on consumer and educational books rose 4.7% in 2010, a 3% improvement on the 1.7% rise in 2009. The principal driver was the improved economy, which contributed to a turnaround in the print educational book market, which was reflected in growth of 2.2% in 2010 after falling by 2.1% in 2009.

Total spending on consumer and educational books amounted to R4.6 billion in 2010. This consisted of R3 billion spent on educational books and R1.6 billion on consumer books. The spending on educational books, which makes up approximately 65% of the market, is driven mainly by the large school population and the Government being the principle provider of textbooks.

The consumer book market, by contrast, faces limitations that include the fact that most books are published only in English and Afrikaans (just two of the 11 official languages), which effectively excludes large segments of the population from reading. The consumer book market is further limited by relatively high prices due to small print runs. Nevertheless, South Africa is developing a domestic publishing industry in which more than a third of books sold in South Africa are now published in South Africa, resulting in reduced production and distribution costs.

The National Department of Basic Education launched the *Kha Ri Gude* (Let us learn) mass literacy campaign in 2008 with the intention of enabling 4.7 million adults above the age of 15 years to become literate and numerate in one of the 11 official languages. Achieving this goal will enable South Africa to reach its UN: Education For All commitment of reducing illiteracy by 50% by 2015. The Department of Arts and Culture is also investing in community libraries.

In addition to growth in domestic publishing and the number of people in the key demographic segment of consumer books, the consumer market is expected to benefit from the emergence of electronic books, which are much less expensive to produce and distribute than print books.

However, the growth in consumer book sales is likely to be limited by the continued absence of significant publishing in the African languages. On balance, we expect spending on consumer books to expand at a 5.8% compound annual rate rising from R1.6 billion in 2010 to R2.1 billion in 2015. The electronic consumer book market is projected to generate 53% of the total increase in consumer book spending, while the print market will grow at a 2.9% compound annual rate.

The educational book market as a whole will also benefit from an expanding economy, but anticipated declines in the school-age population will reduce the number of books that need to be purchased and will limit growth.

We expect that the overall educational book market will total R3.5 billion in 2015, a 3.6% compound annual increase. Of this, electronic educational books will generate R613 million, contributing to 78% of the total growth in educational books. Print educational books are expected to increase at a 0.9% compound annual rate to R2.9 billion. This slow growth will be influenced by the declining school-age population and increased competition from electronic books.

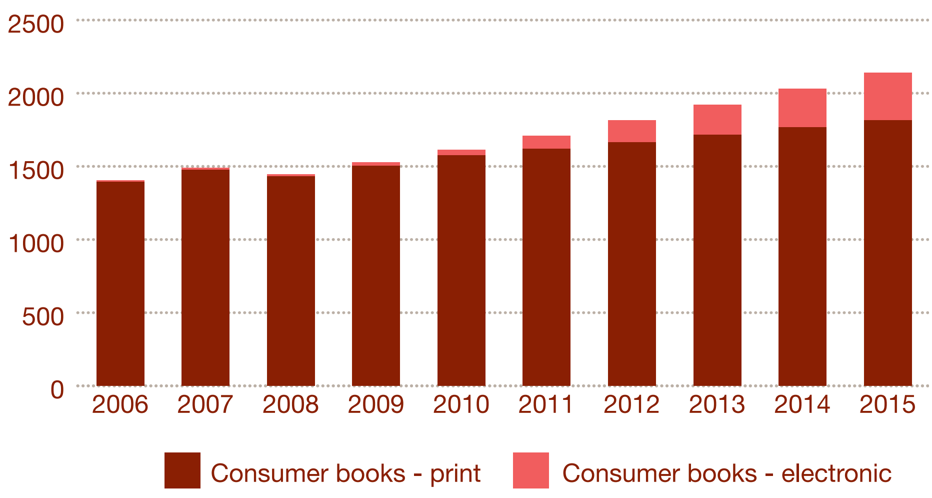
We project the market as a whole to expand at a 4.4% compound annual rate to an estimated R5.7 billion in 2015. This will be generated largely by print sales, which are expected to increase to R4.7 billion, a 1.6% compound annual increase from 2010 and electronic books, which will more than quadruple from R207 million in 2010 to R940 million in 2015. Electronic books will comprise 16.6% of the overall market in 2015 generating 66% of the projected growth during the next five years.

Consumer and educational book publishing market growth (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR
Consumer books	13.4	5.7	-3.1	5.2	4.7	2.9	2.8	3.0	2.9	2.8	2.9
Educational books	24.6	3.2	9.2	-2.1	2.2	0.2	0.9	1.2	1.0	1.0	0.9
Total print	20.3	4.1	4.7	0.4	3.1	1.1	1.6	1.9	1.7	1.7	1.6
Consumer books	175.0	36.4	13.3	23.5	85.7	128.2	68.5	37.3	28.6	23.4	53.0
Educational books	600.0	271.4	115.4	94.6	54.1	50.0	34.5	26.5	21.2	17.9	29.5
Total electronic	260.0	127.8	78.0	78.1	59.2	64.7	43.4	29.9	23.6	19.7	35.3
Total consumer	13.9	6.0	-2.9	5.5	5.8	5.9	6.2	5.8	5.7	5.5	5.8
Total educational	24.9	4.0	10.2	-0.2	4.2	3.0	3.7	4.0	3.7	3.6	3.6
Total	**20.7**	**4.7**	**5.4**	**1.7**	**4.7**	**4.0**	**4.6**	**4.6**	**4.4**	**4.3**	**4.4**

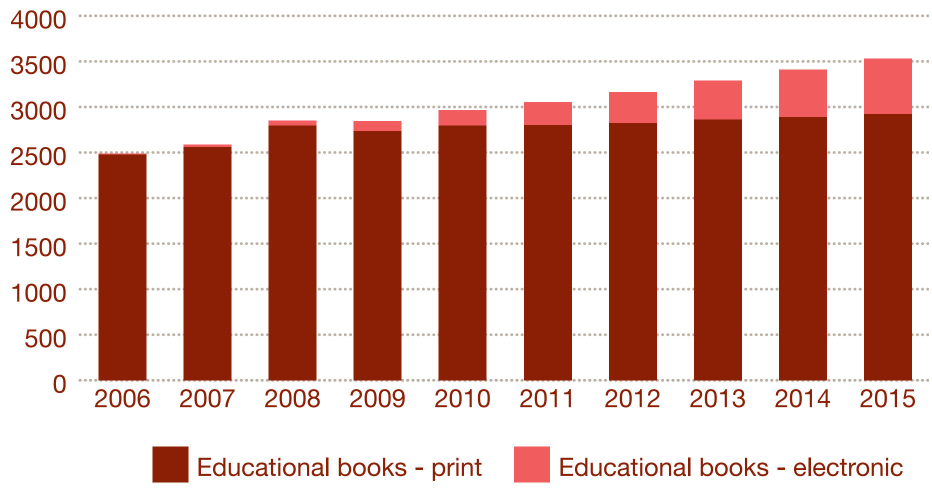
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer publishing market (R millions)



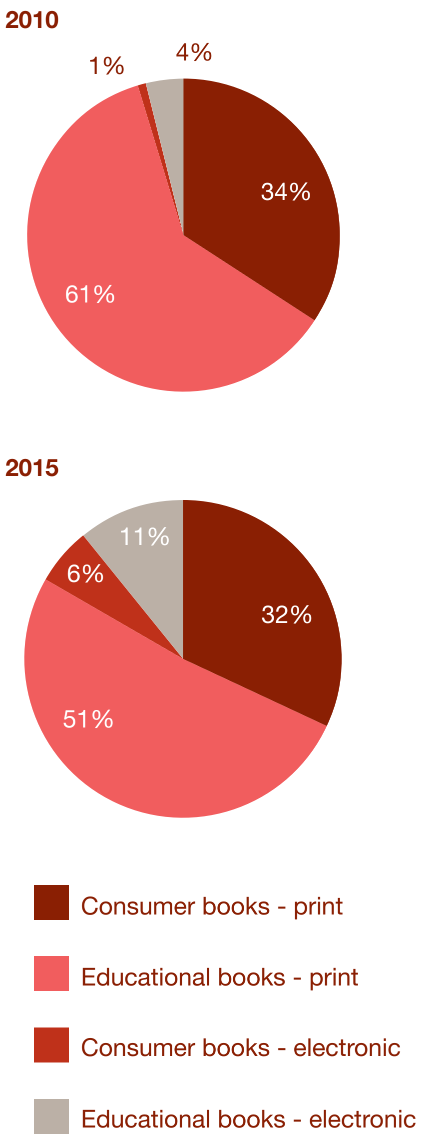
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Educational publishing market (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Consumer and educational publishing market



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

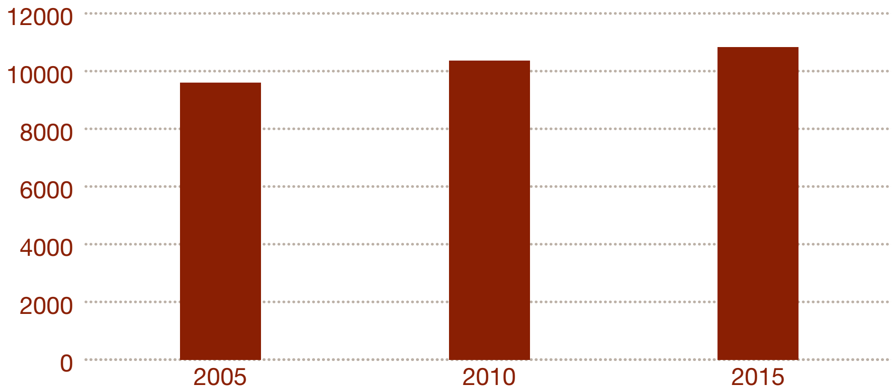
Consumer books

Print

The print consumer book market rose 4.7% in 2010 to R1.6 billion, down slightly from the 5.2% increase in 2009. The smaller growth is a reflection of the fewer number of best-sellers compared to 2009, when the Stephenie Meyer books (*Twilight*, *New Moon*, *Eclipse* and *Breaking Dawn*) and John van de Ruit's *Spud* series boosted overall sales. In addition, the consumer book retail print market is being squeezed by online sellers such as Amazon and the emerging e-book market. Fewer people are buying books at retail bookstores.

The consumer books market has benefited from favourable demographic trends during the past five years as the key book-reading segment of the population (people 45 and older) has grown by a cumulative 8% since 2005. The growth in this age group is reflected in increased spending on print consumer books in 2010, which was 12.9% higher than in 2006. This segment of the population is expected to expand by 4.5% during the next five years, rising to 10.8 million and this continued growth will benefit the consumer book market.

Number of people aged 45 and older (thousands)



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

While improved economic conditions, an ageing population and rising disposable income will have a positive impact on print sales over the next five years, the e-book reader market is starting to siphon off many avid readers. The loss of a portion of this market will cut into print sales.

Many titles can be found through Amazon and Google's Books Search and limited content is available free, although Amazon is considering charging users for access to expanded content. Digital search helps consumers find books that meet their special interests, which can generate incremental print sales.

Taking into account the effects of the promotion of literacy, favourable demographic trends, digitisation and the effect of the penetration of electronic readers, we project slower growth in the print market compared with the past two years when growth averaged 4.9%. We look for spending on print books during the next five years to increase at a 2.9% compound annual rate, rising from R1.6 billion in 2010 to R1.8 billion in 2015.

Electronic

Electronic consumer book sales accelerated in 2010, rising by 85.7% to R39 million from R21 million in 2009.

The greater availability of e-readers, together with declining e-reader prices and a greater choice of products, has spurred penetration of e-readers and has significantly expanded the market.

The Amazon Kindle entered the South African market in October 2009 and contributed to the large increase in electronic book sales in 2010. The Sony eReader, the iRiver e-reader, ebook readers from Bookeen, the Kobo eReader, the BeBook Mini eReader and the Apple iPad are some of the other e-readers that are now available in South Africa.

Most electronic books can also be read on a home computer, which also makes electronic books accessible to those who do not yet own an electronic reader.

Filter digital and nondigital spending data.

www.pwc.com/za/outlook

The Apple iPad, introduced in South Africa in 2010, is hugely popular and opens up multimedia opportunities in which enhanced books that incorporate video content can be developed. The Apple iPhone and other smartphones can also be used to download and read e-books. These new devices also allow for wireless downloads, which facilitate impulse purchases and books that can be read within seconds after purchase. Electronic books also typically cost less than print books. Many of the devices allow for synchronisation between different electronic readers using the same application, meaning that you can stop reading on one device and continue at the same place on a different device.

Faced with competition from the iPad, manufacturers of dedicated e-readers slashed prices, which is also serving to spur e-reader penetration, in turn driving e-book sales. Prices of e-readers have been cut by 40% or more and e-readers have become available for prices that are 70% lower than tablet prices.

If the experience of other emerging technologies applies to e-readers – and so far it has – we would expect prices to fall further in the next few years. Lower price points will expand the potential market.

Consumer book market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Print	1 395	1 475	1 430	1 505	1 575	1 620	1 665	1 715	1 765	1 815	
% change	*13.4*	*5.7*	*–3.1*	*5.2*	*4.7*	*2.9*	*2.8*	*3.0*	*2.9*	*2.8*	*2.9*
Electronic	11	15	17	21	39	89	150	206	265	327	
% change	*175.0*	*36.4*	*13.3*	*23.5*	*85.7*	*128.2*	*68.5*	*37.3*	*28.6*	*23.4*	*53.0*
Total	**1 406**	**1 490**	**1 447**	**1 526**	**1 614**	**1 709**	**1 815**	**1 921**	**2 030**	**2 142**	
% change	***13.9***	***6.0***	***–2.9***	***5.5***	***5.8***	***5.9***	***6.2***	***5.8***	***5.7***	***5.5***	***5.8***

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

It has also become more convenient to buy e-readers. Instead of being available only through Amazon, in 2010 the Kindle began to be sold in consumer electronics stores. However, most of these stores have had to purchase their stock through Amazon and the product might therefore be more expensive when bought in an electronic store. Most of these e-readers can be bought through recognised online stores such as Kalahari.com.

Despite the popularity of the Apple iPad and other tablets, the electronic book market continues to be dominated by dedicated e-readers. Dedicated e-readers are now much less expensive than tablets, and many of the features that appeal to tablet buyers, such as video and colour, are less important to book readers, although some publishers are developing enhanced versions that include video content for the tablet market. New e-readers use the electronic ink ('eInk') technology, which ensures an experience similar to that of reading a real book as a result of its precise and stable image quality.

So far, consumers appear to prefer dedicated e-readers to tablets for books, although as tablet penetration increases, books sales through such devices will increase. At the same time, new color tablets are boosting the juvenile e-book market, and iPad apps are making children's books interactive, keeping the original text but adding interactive elements and moving illustrations.

Apple's new policy requiring all iPad apps to be purchased through its iBookstore, with Apple retaining a 30% commission, could limit book sales on the device. Sony's app, which allows users to buy e-books from the Sony Reader Store, was rejected by Apple in early 2011. Similarly, Kindle users previously could use the Kindle iPad app to buy books directly from Amazon, but that option is no longer available. Books purchased on the Kindle website are, however, still downloadable for reading on the iPad.

With all of the major publishers now having adopted an agency model, whereby publishers set an end-user price and e-books are sold through an agent such as Amazon or Apple that retains a 30% commission, Kindle will no longer be able to sell e-books at a greater discount than other providers offer. With the growing use of the agency model, e-book prices have increased, but nevertheless remain substantially below print prices, a key factor in our view – and one that is and will continue to drive e-book sales.

The e-book market appeals to the most avid readers. People who invest in e-readers buy many times more books than the average print reader buys. Amazon, which is also a service that appeals to avid readers, reports that in the latter part of 2010, the majority of its sales consisted of e-books. As the market begins to penetrate the mainstream audience, growth in absolute terms will accelerate.

As penetration of e-readers in South Africa increases, we project spending on electronic consumer books to more than double in 2011, and to more than double again during 2012 and 2013. Spending is expected to jump to an estimated R327 million by 2015, which is more than eight times the level in 2010. Growth will average 53% on a compound annual basis.

Total consumer books

The overall consumer book market is projected to total an estimated R2.1 billion in 2015, growing at a 5.8% compound annual rate from R1.6 billion in 2010. Electronic books will comprise 15.3% of spending in 2015, up from 2.4% in 2010.

Critical success factors for publishers

Adapting for the future

E-books and e-readers represent both a threat and an opportunity. If publishers accept change, transform their processes, train employees and offer their content in multiple formats – in print or digital format, bound or on demand – and on all platforms, they will have a good chance of developing a viable digital business model. Publishers that resist change, consider the digitising process to be merely an additional cost, and attempt to defend their existing content and business models, will face the greatest risks.

Illegal products threaten the book industry

Many current bestsellers are available for people who wish to download them. But people can also download illegal copies, even if they are not yet on sale in a digital format. Frequently, these illegal copies are scanned copies in PDF and lack the quality of a legally distributed book or e-book. If publishers do not make their books available in digital form, they will lose potential revenue and facilitate the creation of an illegal market for e-books. Piracy poses a significant threat to the educational book market, where the incentive to copy books illegally is higher than in the consumer book market, because textbooks are expensive. To protect revenues, while meeting the needs of students, publishers could establish basic contracts with university libraries to offer free e-books for students or offer special editions exclusively to students for a discounted price.

Change business procedures

Companies will need to offer new training to their employees and reconsider their business processes. Editors will need to adapt content to meet consumers' changing reading and shopping habits.

Pricing

To convince consumers of the benefits of buying e-books legally, publishers will need a well thought out pricing policy and a broad attractive range of products. The aim for publishers cannot be to undermine the value of their books with low prices. Developments in the newspaper industry have demonstrated how difficult it can be to get away from the 'free content' mentality that characterise Internet use.

Representation on all platforms

It is important for publishers to establish a presence with content on all platforms: in bookstores, online and as apps.

Source: *"Turning the Page: The Future of eBooks"*, PwC Germany, 2010.

Key education demographics (thousands)			
Age group	**2010**	**2015**	**% change**
6-19	13 643	12 903	-5.4
20-25	6 629	5 928	-10.6
Total	**20 272**	**18 831**	**-7.1**

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

Educational books

Print

The educational book market consists of elementary, high school and university/college textbooks. The educational book market in South Africa is decentralised – the Government provides educational books for primary and secondary schools through each province's Department of Education, which chooses and purchases textbooks. Each province acts independently, which means that purchases are not coordinated and consequently print runs tend to be relatively small resulting in increased costs. Spending on elementary and high school textbooks is determined by Department of Education budgets, which are allocated based on the tax collections at national government level.

At university and college level, books are purchased by students. The economy plays a role in that in more difficult times, students might buy more secondhand books or access them from the library without buying them at all. The recession in 2009 led to a 2.1% decline in educational print sales, while the improved economy in 2010 contributed to growth of 2.2%. A faster-growing economy during the next five years should benefit the print market.

The educational book market is also affected by enrolment at schools, universities and colleges, given that 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 school level, the key demographic group is the 6-19 year-old population, which is projected to decline during the next five years by 5.4% from 13.6 million in 2010 to 12.9 million in 2015.

The principle group affecting enrolment at university/college level is the 20-25 year-old age group. This segment is projected to decline by 10.6% during the next five years from 6.6 million in 2010 to 5.9 million in 2015.

The overall decrease in the number of people in the key demographic segment for educational books from 20.3 million in 2010 to 18.8 million in 2015 will likely result in a decrease in school/university/college enrolment, which in turn will reduce the spending on printed educational books.

As in the consumer book market, electronic books are becoming a significant competitor to the print market, particularly at the university/college level. Students gaining access to electronic textbooks via e-readers will reduce their spending on printed educational books. We expect electronic educational books to reduce the market share of print educational books in the next five years. At the same time, growth in the use of e-books will limit the availability of used print books, which also compete for sales with new print books, although e-book piracy is a growing concern.

While we expect an improving economy to support the market, growth will be limited by competition from electronic books and by the adverse demographic trends. On balance, we expect the market to expand but at slower rates compared with 2010. We project educational book print sales to increase to R2.9 billion in 2015 from R2.8 billion in 2010, a 0.9% compound annual advance.

Electronic

Electronic educational books, sold principally at the university/college level, are more than simply digital versions of print books. They include interactive learning tools and links to companion websites that provide enhanced value.

The popularity of tablets and growing penetration of e-readers and smartphones are expanding the potential market for electronic educational books in the same way they are boosting demand for electronic consumer books. The full-colour and multimedia capabilities of tablets provide a good platform for textbooks, which use charts, graphs and colour to a much greater degree than consumer books.

For university/college students, electronic books are easy to use, easy to carry around, and less expensive than print books, providing an opportunity for college students to save money. University/college students are accustomed to a digital environment and we expect that as more electronic books become available, spending will increase.

Electronic books also address the problem of used books, which account for as much as 50% of total spending on college books and which cannibalise the sales of new books. After completing a course, college students often resell their print textbooks to college bookstores, which offer them to students at a discounted price to students taking the same course in the next term. Because electronic books cannot be sold or transferred, they do not add to the supply of used books. As electronic books begin to make up a larger share of the market, the availability of used books will decline.

We also expect electronic books to become a presence at the school level. Schools that provide laptops or tablets may consider substituting electronic books for print books as a way to reduce costs. In addition to providing a platform for textbooks, iPads provide a digital record of homework assignments and correspondence with teachers. An interesting development in the Philippines is that the government is sourcing a low-cost personal tablet computer that it plans to begin testing among first-grade public school students by mid 2012. The tablet will have basic personal computer functions for writing, reading and storing documents as well as optional Internet access. Initiatives like this will boost the growth in electronic educational books and their presence at school level.

Spending on electronic educational books rose 54.1% in 2010 to R168 million. Between 2008 and 2010, spending on electronic educational books has tripled.

The combination of rising penetration of electronic reading devices and an increase in the number of titles available in electronic formats will fuel spending on electronic books. We project spending to rise to R613 million by 2015, a 29.5% compound annual increase from 2010.

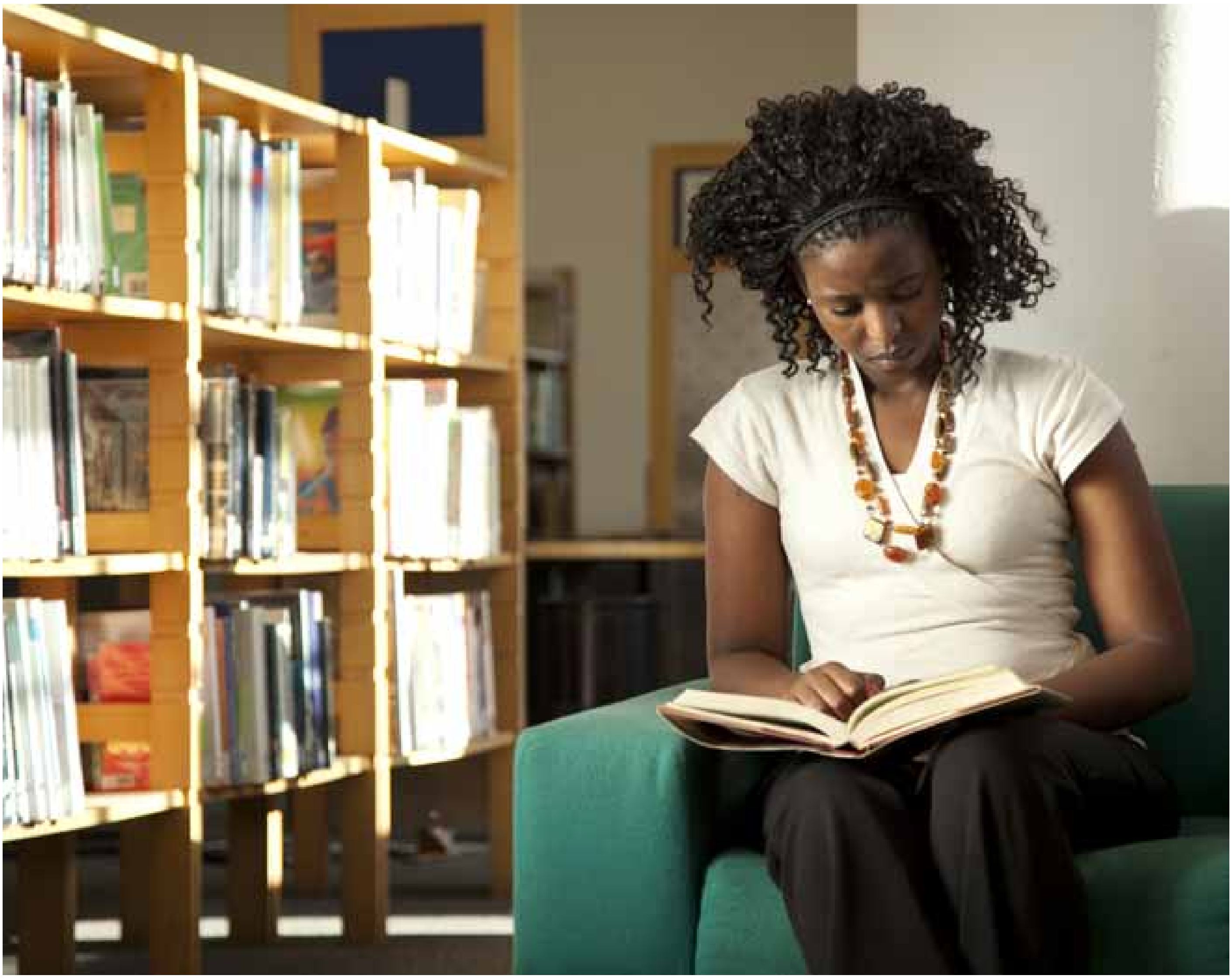
Educational book market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Print	2 480	2 560	2 795	2 735	2 795	2 800	2 825	2 860	2 890	2 920	
% change	*24.6*	*3.2*	*9.2*	*-2.1*	*2.2*	*0.2*	*0.9*	*1.2*	*1.0*	*1.0*	*0.9*
Electronic	7	26	56	109	168	252	339	429	520	613	
% change	*600.0*	*271.4*	*115.4*	*94.6*	*54.1*	*50.0*	*34.5*	*26.5*	*21.2*	*17.9*	*29.5*
Total	**2 487**	**2 586**	**2 851**	**2 844**	**2 963**	**3 052**	**3 164**	**3 289**	**3 410**	**3 533**	
% change	***24.9***	***4.0***	***10.2***	***–0.2***	***4.2***	***3.0***	***3.7***	***4.0***	***3.7***	***3.6***	***3.6***

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

Total educational books

The overall educational book market is expected to expand at a 3.6% compound annual rate to R3.5 billion in 2015 from R3.0 billion in 2010. Electronic books will account for an estimated 17.4% of total spending on educational books in 2015, compared with 5.7% in 2010.



Global trends in the consumer and educational book publishing industry

Outlook

- We project that global spending on consumer and educational books will increase by 1.9% compounded annually to $119.2 billion in 2015 from $108.7 billion in 2010.
- Print consumer books, the largest component at $66.8 billion in 2010, will dip to $66.3 billion in 2015, a 0.1% compound annual decline. Print educational books will expand at a 0.7% compound annual rate from $39.1 billion to $40.5 billion.
- The overall print market will increase to $106.9 billion in 2015 from $105.9 billion in 2010, an increase of 0.2% compounded annually.
- Electronic books totalled $2.8 billion in 2010, accounting for 2.6% of total consumer and educational books.
- Spending on electronic books will rise to $12.3 billion in 2015, a 34.7% compound annual increase, and their market share will increase to 10.3%.
- Electronic consumer books will total $8.4 billion in 2015, up from $2.0 billion in 2010, which is 33.4% compounded annually. As a result, electronic consumer books will account for 11.2% of total consumer book spending in 2015.
- Electronic educational books will generate $3.9 billion in 2015, a 37.7% compound annual increase from $795 million in 2010. This means electronic educational books will comprise 8.9% of the overall educational book market in 2015.
- Consumer book sales as a whole, including print and electronic, will increase from $68.8 billion in 2010 to $74.7 billion in 2015, a 1.7% compound annual increase.
- The educational book market will grow at a 2.2% compound annual rate to $44.5 billion from $39.9 billion in 2010.

Key drivers

- New electronic readers and tablets are proving to be very popular and will drive spending on electronic books. Falling prices will boost penetration of electronic readers and expand the potential market for electronic books, which will cut into the print market in North America and eventually in other regions as well.
- Improving economic conditions and rising disposable income will benefit book sales, although consumer books are less sensitive to the economy than educational books.
- The print consumer market in North America and EMEA will benefit from digitisation projects that allow electronic browsing and raise awareness of titles.
- Growth in the 45-and-older population will have a positive impact on consumer books, as this segment of the population buys more books than younger segments.
- Decreases in the school-age population in a number of countries will adversely affect spending on educational books.

Source: Global entertainment and media outlook 2011- 2015 (PwC, 2011)

Global consumer and educational book publishing market by component (US$ millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Print/audio consumer books	65 342	69 370	68 673	67 624	66 790	66 416	66 479	66 504	66 459	66 346	
% change	*0.9*	*6.2*	*-1.0*	*-1.5*	*-1.2*	*-0.6*	*0.1*	*–*	*-0.1*	*-0.2*	*-0.1*
Print educational books	38 162	39 310	40 141	39 034	39 117	38 981	39 329	39 778	40 211	40 544	
% change	*1.3*	*3.0*	*2.1*	*-2.8*	*0.2*	*-0.3*	*0.9*	*1.1*	*1.1*	*0.8*	*0.7*
Total print/audio	103 504	108 680	108 814	106 658	105 907	105 397	105 808	106 282	106 670	106 890	
% change	*1.1*	*5.0*	*0.1*	*-2.0*	*-0.7*	*-0.5*	*0.4*	*0.4*	*0.4*	*0.2*	*0.2*
Electronic consumer books	325	588	875	1 283	1 989	2 953	4 100	5 399	6 849	8 399	
% change	*93.5*	*80.9*	*48.8*	*46.6*	*55.0*	*48.5*	*38.8*	*31.7*	*26.9*	*22.6*	*33.4*
Electronic educational books	232	301	383	558	795	1 130	1 685	2 366	3 131	3 940	
% change	*24.7*	*29.7*	*27.2*	*45.7*	*42.5*	*42.1*	*49.1*	*40.4*	*32.3*	*25.8*	*37.7*
Total electronic	557	889	1 258	1 841	2 784	4 083	5 785	7 765	9 980	12 339	
% change	*57.3*	*59.6*	*41.5*	*46.3*	*51.2*	*46.7*	*41.7*	*34.2*	*28.5*	*23.6*	*34.7*
Total consumer	65 667	69 958	69 548	68 907	68 779	69 369	70 579	71 903	73 308	74 745	
% change	*1.2*	*6.5*	*-0.6*	*-0.9*	*-0.2*	*0.9*	*1.7*	*1.9*	*2.0*	*2.0*	*1.7*
Total educational	38 394	39 611	40 524	39 592	39 912	40 111	41 014	42 144	43 342	44 484	
% change	*1.4*	*3.2*	*2.3*	*-2.3*	*0.8*	*0.5*	*2.3*	*2.8*	*2.8*	*2.6*	*2.2*
Total	**104 061**	**109 569**	**110 072**	**108 499**	**108 691**	**109 480**	**111 593**	**114 047**	**116 650**	**119 229**	
% change	***1.3***	***5.3***	***0.5***	***-1.4***	***0.2***	***0.7***	***1.9***	***2.2***	***2.3***	***2.2***	***1.9***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

"Media and entertainment capabilities are vital to the tablet or e-reader's success; content remains king."

PwC's *Australian Entertainment and Media Outlook 2011-2015*

Chapter 10

Business-to-business publishing

The business-to-business market consists of spending on business information; print and online directory advertising, print advertising in trade magazines; digital advertising on trade magazine online and mobile websites; and trade magazine circulation spending, which includes spending on online content and on mobile distribution to tablets and other mobile devices. It also includes spending on print and electronic professional books. Exhibitions and conferences are not included.

Online directories offer a much better platform than print. As broadband penetration expands, the Internet will be used by more people for information.

Outlook at a glance			
Business-to-business market (R millions)	**2010**	**2015**	**2011-15 CAGR (%)**
Business information	1 140	1 530	6.1
Total directory advertising	636	610	-0.8
Total trade magazines	588	866	8.1
Total professional books	205	219	1.3
Total	2 569	3 225	4.7

Nico Oosthuizen
Associate Director
PwC Southern Africa

Outlook in brief

- *Improved economic conditions will stimulate the business-to-business publishing market.*
- *Print directories are declining as the market is shifting towards more digital formats.*
- *Smartphones with GPS capabilities and tablets are gaining penetration and are providing an additional platform for digital directories and digital books.*
- *The online formats in the business-to-business sector provide significant additional benefits compared to the print format, which is stimulating the digital migration of users.*
- *Publishers are starting to introduce pay walls for specialised online content.*

Overview

The economic cycle plays an important role in business-to-business (B2B) spending because each segment of the market is sensitive to the economy. During the next five years, an expanding economy globally and in South Africa is expected to have a positive impact on spending. The business information market will benefit from:

- Increased lending activity, which will boost the demand for financial information (securities, economic and credit data);
- Rising consumer spending, which will lead to increased spending on marketing information (which is used for selling products or services and for monitoring sales and includes survey research, mailing lists and demographic databases); and
- A growing interest in entering new markets, such as Africa, Asia and Latin America, which will stimulate spending on industry information (which includes data and content, such as market share information or competitive intelligence).

In line with the global trend, print directories are declining as the market becomes more digital. Online and mobile directories are gaining usage and advertising because they provide convenient, up-to-date information and features not available in print. In trade magazines, economic growth is revitalising the print advertising market, although migration to digital will limit print gains while fueling digital growth.

Rising employment will boost trade magazine print circulation, while a digital circulation market is emerging. Publishers are starting to introduce pay walls for specialised online content such as archived articles or databases, while tablets are providing a new outlet for trade magazines in a mobile environment. Growing professional employment will also boost spending on professional books. Tablets with colour and graphic capabilities will support growth in spending on electronic books.

In 2010, business-to-business spending in South Africa followed the recovery of the economy and total spending increased by 1.7%, which reflected a turnaround from the sharp decrease of 10.9% experienced in 2009.

Every component of the market is sensitive to changes in the economy, as was the case in 2009 when the recession led to declines in all but the emerging digital sectors. In 2010, as the economy began to recover, business information and trade magazines rebounded while print directory advertising and print professional books spending continued to decline.

Advertising was flat in 2010 after falling by 14.8% in 2009, while end-user spending reversed a 7.8% decrease in 2009 with a 2.9% gain in 2010.

We expect the market to grow at progressively faster rates as the recovery builds momentum and the economy continues to expand.

Business information was the strongest sector in 2010 with a 4.6% increase and we project a 5.3% increase in 2011, bringing it back to the spending level experienced in 2008. Business information is expected to grow in excess of 6% annually during 2012-2015 with the growth for the entire forecast period to average 6.1% compounded annually.

Business-to-business market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Business information	1 110	1 180	1 200	1 090	1 140	1 200	1 275	1 355	1 440	1 530
Print	575	620	650	620	600	580	560	540	520	500
Digital	6	12	20	28	36	46	56	70	88	110
Total directory advertising	581	632	670	648	636	626	616	610	608	610
Print advertising	515	560	589	425	435	455	490	530	580	635
Digital advertising	3	4	9	7	9	18	25	32	41	51
Total trade magazine advertising	518	564	598	432	444	473	515	562	621	686
Print circulation	154	151	150	147	144	146	149	154	159	164
Digital circulation	–	–	–	–	–	†	1	3	8	16
Total circulation	154	151	150	147	144	146	150	157	167	180
Total trade magazines	672	715	748	579	588	619	665	719	788	866
Print	225	195	175	165	158	154	151	149	148	147
Electronic	36	41	44	45	47	51	56	61	67	72
Total professional books	261	236	219	210	205	205	207	210	215	219
Total advertising	1 099	1 196	1 268	1 080	1 080	1 099	1 131	1 172	1 229	1 296
Total end user	1 525	1 567	1 569	1 447	1 489	1 551	1 632	1 722	1 822	1 929
Total	**2 624**	**2 763**	**2 837**	**2 527**	**2 569**	**2 650**	**2 763**	**2 894**	**3 051**	**3 225**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

† Less than R500 000

Print directory advertising is expected to continue to decline during each of the next five years as a result of an ongoing shift by advertisers to online directory placements. While print directory advertising fell by 3.2% in 2010, we expect a 3.6% compound annual decline from 2011 to 2015.

Digital advertising in directories will pick up a portion of the shortfall in print with spending projected to expand at a 25.0% compound annual rate during the next five years. This short-term gain will, however, not be sufficient to offset the shrinking print market and overall directory advertising is expected to decline at a 0.8% compound annual rate.

Print advertising in trade magazines plunged 27.8% in 2009 and remained weak in 2010 with a modest 2.4% advance. We expect this category to grow faster as the economy expands and project a return to high single-digit growth beginning in 2012. Overall growth for the forecast period will average 7.9% compounded annually.

Trade magazine digital advertising is projected to rise at a 41.5% compound annual rate from a small base. Total trade magazine advertising will expand at a 9.1% compound annual rate but will only reach the spending levels of 2007 in 2013.

Print circulation spending in trade magazines continued its decline of the previous four years and fell 2.0% in 2010. However, a turnaround is projected from 2011 with spending expected to rise at a 2.6% compound annual rate through to 2015.

Circulation spending will be bolstered by rising employment in the latter part of the forecast period as well as by the emergence of a digital trade magazine circulation market in 2012 with a total estimated spending of R16 million by 2015. When digital is included, overall trade magazine circulation spending will rise at a 4.6% compound annual rate.

The total trade magazine market is projected to increase by 8.1% compounded annually during the next five years, but it will only surpass 2008 levels by 2014.

The print professional book market fell by 4.2% in 2010, extending its continued decrease since 2006, from which it has fallen by a cumulative 29.7%. We expect further, but more modest, declines during each of the next five years as electronic sales cut into the print market. Print spending will fall at a 1.4% compound annual rate.

Electronic professional book sales rose 4.4% in 2010, reversing the declines that were experienced in 2009 as the impact of the recession was felt. We expect faster growth during the next five years as economic conditions improve, with spending expanding at an 8.9% compound annual rate.

Gains in electronic books will offset declines in print and the overall professional book market will increase at a 1.3% compound annual rate.

Business-to-business market growth (%)

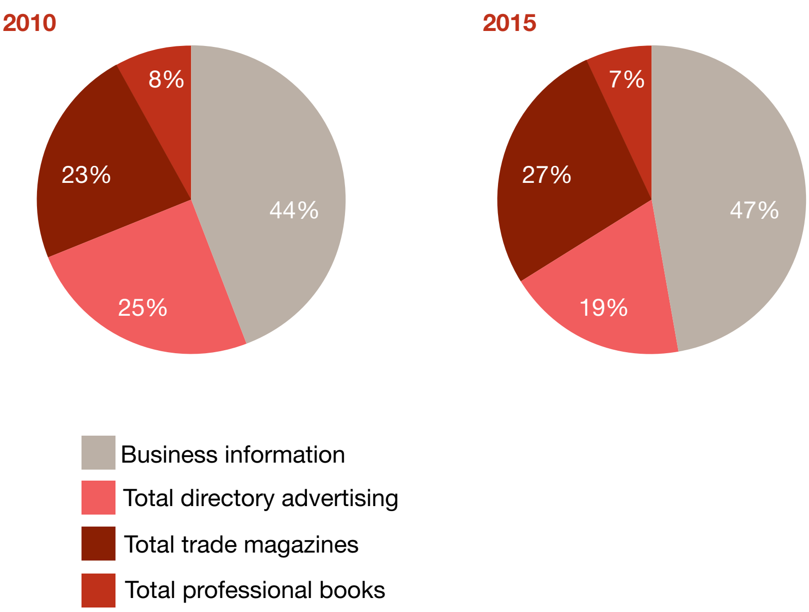
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR
Business information	6.7	6.3	1.7	-9.2	4.6	5.3	6.3	6.3	6.3	6.3	6.1
Print	10.6	7.8	4.8	-4.6	-3.2	-3.3	-3.4	-3.6	-3.7	-3.8	-3.6
Digital	—	100	66.7	40	28.6	27.8	21.7	25	25.7	25	25
Total directory advertising	11.7	8.8	6	-3.3	-1.9	-1.6	-1.6	-1.0	-0.3	0.3	-0.8
Print advertising	11.7	8.7	5.2	-27.8	2.4	4.6	7.7	8.2	9.4	9.5	7.9
Digital advertising	—	33.3	125	-22.2	28.6	100	38.9	28	28.1	24.4	41.5
Total trade magazine advertising	12.4	8.9	6	-27.8	2.8	6.5	8.9	9.1	10.5	10.5	9.1
Print circulation	11.6	-1.9	-0.7	-2.0	-2.0	1.4	2.1	3.4	3.2	3.1	2.6
Digital circulation	—	—	—	—	—	—	—	200	166.7	100	—
Total circulation	11.6	-1.9	-0.7	-2.0	-2.0	1.4	2.7	4.7	6.4	7.8	4.6
Total trade magazines	12.2	6.4	4.6	-22.6	1.6	5.3	7.4	8.1	9.6	9.9	8.1
Print	4.7	-13.3	-10.3	-5.7	-4.2	-2.5	-1.9	-1.3	-0.7	-0.7	-1.4
Electronic	63.6	13.9	7.3	2.3	4.4	8.5	9.8	8.9	9.8	7.5	8.9
Total professional books	10.1	-9.6	-7.2	-4.1	-2.4	0	1	1.4	2.4	1.9	1.3
Total advertising	12	8.8	6	-14.8	0	1.8	2.9	3.6	4.9	5.5	3.7
Total end user	7.8	2.8	0.1	-7.8	2.9	4.2	5.2	5.5	5.8	5.9	5.3
Total	**9.5**	**5.3**	**2.7**	**-10.9**	**1.7**	**3.2**	**4.3**	**4.7**	**5.4**	**5.7**	**4.7**

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

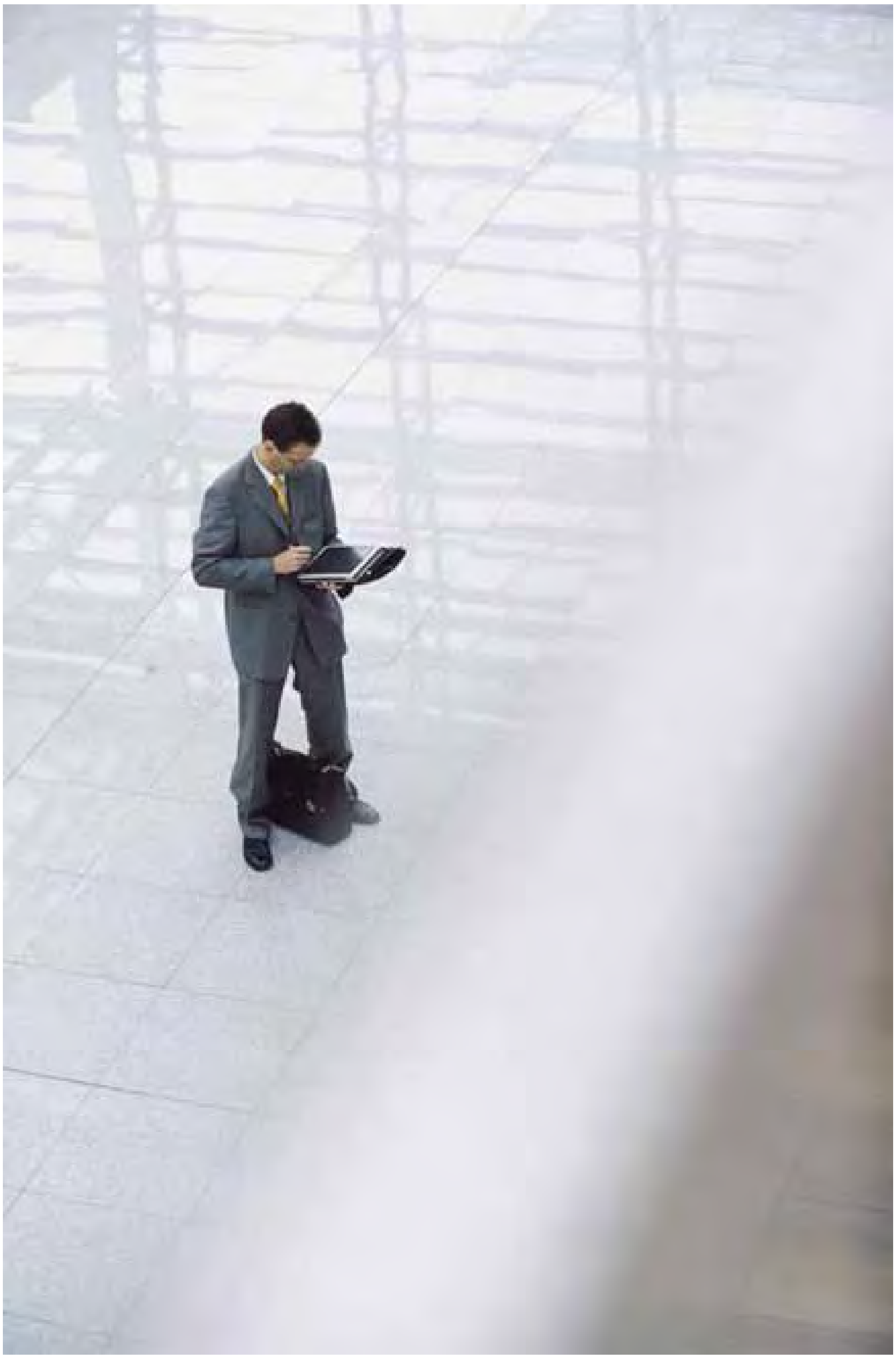
Declines in print directory advertising will offset increases in other advertising categories and total business-to-business advertising will grow at a projected 3.7% compound annual rate to R1.3 billion in 2015 from R1.1 billion in 2010. Total end-user spending on business information, trade magazine circulation and professional books is expected to increase by 5.3% compounded annually to R1.9 billion in 2015 from R1.5 billion in 2010.

The overall business-to-business market in South Africa is expected to increase from R2.6 billion in 2010 to R3.2 billion in 2015, rising by 4.7% compounded annually.

Business to business market



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Business information

We classify business information into four principal categories:

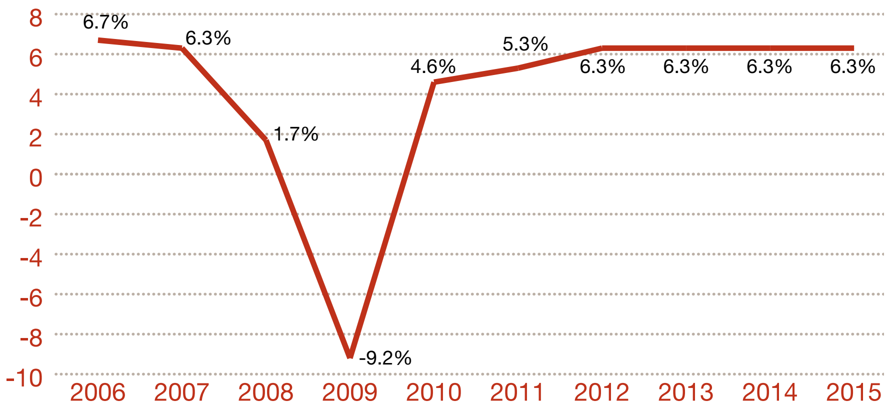
- Financial information relating to securities, economic and credit data;
- Marketing information used to sell products or services and to monitor sales, including survey research, mailing lists, and demographic databases;
- Industry information, including data and content, such as market share information or competitive intelligence, focused on specific industry categories such as technology, telecommunications, energy, manufacturing, and real estate; and
- Professional information, including information targeted to professionals in disciplines such as law, accounting, and healthcare.

The increased activity in the economy and interest in South Africa generated by the 2010 FIFA World Cup contributed to a 4.6% increase in business information in 2010. This gain, however, did not offset the decline of 9.2% experienced in 2009.

Financial information, which had been particularly hard hit by the collapse of the housing market and the slowdown in lending activity in 2009, began to recover in 2010. Although housing remained weak, the equities market improved, there was a renewed interest in merger and acquisition activity, and consumer credit risk declined, leading to increased lending for motorcars and non-housing activity.

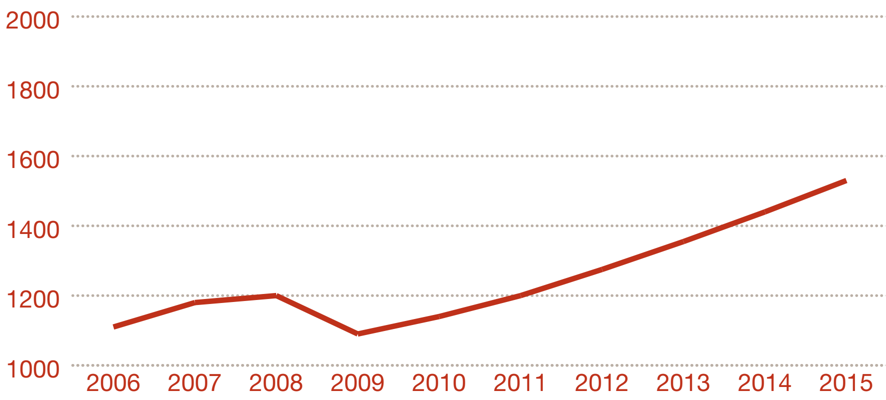
The real estate market in South Africa remains weak, which is dampening the demand for credit information as businesses are holding back on investment plans until the economy shows signs of a sustained expansion. As the economy continues to grow, business investment will increase, which in turn will fuel demand for financial information.

Business information market growth



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Business information market (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Increases in consumer savings should lead to more vigorous growth in consumer spending during the next few years. At some point during the forecast period, the combination of rising savings and falling housing prices will lead to a renewed demand for housing, which in turn will fuel demand for financial information.

Higher corporate profit levels will enable companies to step up their investment spending. So far, they have been reluctant to do so because of the slow growth in consumer spending, as there is no need to expand capacity when sales are weak. Once consumer spending picks up, we expect corporate investment to pick up as well, again driving spending on financial information.

With the recovery in sight, companies began to position themselves for the expected increase in consumer spending. Marketing information rebounded in 2010 as consumer spending expanded and as advertising rose mainly due to the recovery of the economy and the 2010 FIFA World Cup. Advertisers tend to react relatively quickly to changes in the economic environment and the growth in advertising in 2010 was accompanied by growth in spending on marketing information.

Companies are developing social networking strategies and are establishing presences on Facebook, LinkedIn, Twitter and other social network sites to communicate information about their brands.

Products that analyse social network activity are being developed to help companies assess the engagement of individuals and help them create customised marketing strategies.

Lead generation is a growing category in which behavioural and demographic trends can be analysed to determine potential leads for certain products or services.

The development of new marketing tools combined with faster growth in consumer spending will boost spending on market information.

Industry information benefited from the world's focus on South Africa in 2010. Interest in investing in South Africa generated interest in obtaining information about sectors that are likely to expand. In addition to a generally improving economic environment, industry information is benefitting from new technologies that are allowing new information to be developed. In the medical field, for example, tools that monitor clinical work flows or that aggregate information on patient treatment are being digitised and sold as software packages.

Predictive analytics is another growing area in which algorithms and other mathematical tools are coupled with data streaming technologies to spot trends and new patterns on an ongoing basis. With the economy strengthening, we expect spending on industry information to grow faster.

We project overall spending on business information to increase at a 6.1% compound annual rate during the next five years to R1.5 billion in 2015 from R1.1 billion in 2010.

Directory advertising market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Print	575	620	650	620	600	580	560	540	520	500	
% change	*10.6*	*7.8*	*4.8*	*-4.6*	*-3.2*	*-3.3*	*-3.4*	*-3.6*	*-3.7*	*-3.8*	*-3.6*
Digital	6	12	20	28	36	46	56	70	88	110	
% change	—	*100.0*	*66.7*	*40.0*	*28.6*	*27.8*	*21.7*	*25.0*	*25.7*	*25.0*	*25.0*
Total	**581**	**632**	**670**	**648**	**636**	**626**	**616**	**610**	**608**	**610**	
% change	***11.7***	***8.8***	***6.0***	***-3.3***	***-1.9***	***-1.6***	***-1.6***	***-1.0***	***-0.3***	***0.3***	***-0.8***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Directory advertising

Print directory advertising fell 3.2% in 2010, a less severe decline than the 4.6% drop in 2009, as the improving economy helped the market.

While an expanding economy will continue to lead to increased spending on overall directory advertising, the print directory market is affected by advertisers shifting a portion of their spending from print to digital directories. Online directories offer a better platform than print. Searches are generally easier online and the digital environment allows for features not generally available in print such as maps and directions, photographs and videos. Moreover, digital directories can easily be updated, which provides flexibility not available in print. Digital directories are also much less expensive to produce than print directories. As broadband penetration expands, the Internet will be used by more people for information, including listings contained in online directories.

Smartphones with GPS capabilities and tablets are gaining greater penetration and are providing an additional platform for digital directories. The ability to access local retailers in a mobile environment will boost digital directory usage while reducing print usage.

For these reasons, we expect print directory advertising to continue to decline even as the economy improves. Print directory advertising is projected to fall from R600 million in 2010 to a projected R500 million by 2015, a 3.6% compound annual decline.

Digital directory advertising is a small, but rapidly growing, component of the market, which is soaring as the market shifts from print to digital. Spending rose 28.6% in 2010 but totalled only R36 million. Low broadband penetration limited online directory advertising in the past. This will change as the broadband market takes off and as mobile platforms also expand.

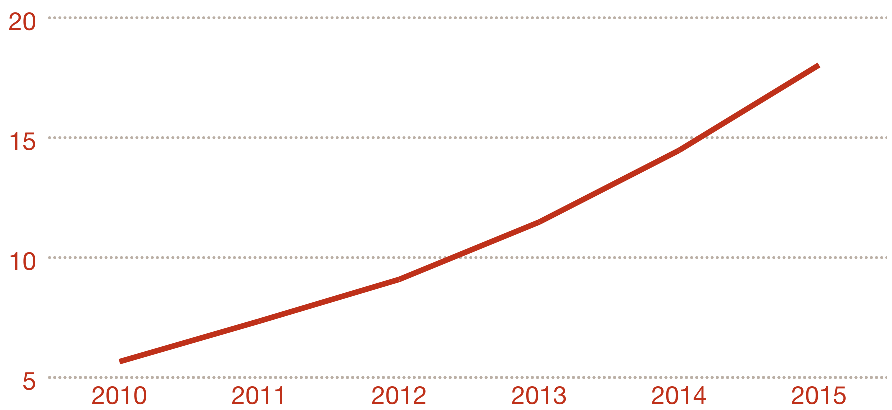
Mobile access to directories is expanding advertising potential by serving people with listings when they are away from home. The growing proliferation of smartphones and tablets will boost demand for mobile directories.

Fueled by these developments, we expect digital directory advertising to triple to R110 million in 2015, a 25.0% compound annual increase.

Despite large increases in digital directory advertising, overall directory advertising will continue to decline during the next four years. Lower digital ad rates compared with print ad rates will have an adverse effect on total spending.

By 2015, the digital market is expected to become large enough to offset declines in print. We expect overall directory advertising to increase by 0.3% in 2015. Nevertheless, at R610 million in 2015, overall directory advertising will be 0.8% lower on a compound annual basis than the R636 million total in 2010. The digital share of that market will increase to 18.0% in 2015 from 5.7% in 2010.

Digital as a percentage of the total directory advertising market



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Trade magazine publishing market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Print	515	560	589	425	435	455	490	530	580	635	
% change	*11.7*	*8.7*	*5.2*	*-27.8*	*2.4*	*4.6*	*7.7*	*8.2*	*9.4*	*9.5*	*7.9*
Digital	3	4	9	7	9	18	25	32	41	51	
% change	—	*33.3*	*125.0*	*-22.2*	*28.6*	*100.0*	*38.9*	*28.0*	*28.1*	*24.4*	*41.5*
Total advertising	518	564	598	432	444	473	515	562	621	686	
% change	*12.4*	*8.9*	*6.0*	*-27.8*	*2.8*	*6.5*	*8.9*	*9.1*	*10.5*	*10.5*	*9.1*
Print	154	151	150	147	144	146	149	154	159	164	
% change	*11.6*	*-1.9*	*-0.7*	*-2.0*	*-2.0*	*1.4*	*2.1*	*3.4*	*3.2*	*3.1*	*2.6*
Digital	—	—	—	—	—	†	1	3	8	16	
% change	—	—	—	—	—	—	—	*200.0*	*166.7*	*100.0*	–
Total circulation	154	151	150	147	144	146	150	157	167	180	
% change	*11.6*	*-1.9*	*-0.7*	*-2.0*	*-2.0*	*1.4*	*2.7*	*4.7*	*6.4*	*7.8*	*4.6*
Total	**672**	**715**	**748**	**579**	**588**	**619**	**665**	**719**	**788**	**866**	
% change	***12.2***	***6.4***	***4.6***	***-22.6***	***1.6***	***5.3***	***7.4***	***8.1***	***9.6***	***9.9***	***8.1***

†Less than R500 000

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Trade magazines

Advertising

Print advertising

Historically, trade magazine print advertising has been one of the more cyclical media because investment and supply chain spending fluctuate more sharply with changes in the economy than consumer spending. Relatively modest slowdowns or declines in consumer spending are generally associated with large declines in investment or in purchases of supplies.

Because trade magazines target markets rather than consumers, they deal with the most volatile component of the economy, businesses react very quickly to changes in the economy by cutting inventory at the first sign of economic slowdown and reducing their business-to-business ad spending.

Compounding these trends is a decline in employment, which reduces the potential audience for trade magazine advertising. Print publications are also experiencing a migration of advertising to the Internet, which has further cut into print spending during the past few years.

In 2009, print advertising plunged 27.8% due to the recession. However, with the economy recovering in 2010, print advertising rose 2.4%.

The cyclical nature of trade magazines will have a positive effect on print advertising as the economy grows. On the upside of the economic cycle, both investments and supply chain spending increase faster than consumer spending. Because trade magazines are highly targeted, advertisers see a large return on their investments in trade magazines when the economy is growing.

We project a moderate 4.6% increase in print advertising in 2011, with high single-digit gains projected for 2012-15 as the economy sustains steady growth.

For the forecast period as a whole, we project trade magazine print advertising to grow at an estimated 7.9% compound annual rate, with spending rising from R435 million in 2010 to R635 million in 2015.

Digital advertising

Trade magazines are launching digital versions on their websites that are attracting advertisers. Digital advertising was still small in 2010 at R9 million, but we expect it will grow rapidly during the next five years. An expanding economy will benefit trade magazine advertising in general, while growth in broadband penetration and the growing proliferation of smartphones and tablets, will drive readers to digital editions. As readership grows, advertisers will follow.

We expect digital advertising in trade magazines to more than quintuple during the next five years, increasing to R51 million by 2015, a 41.5% compound annual increase from 2010.

Overall, total trade magazine advertising will grow to an estimated R686 million in 2015 from R444 million in 2010, a 9.1% increase compounded annually. By 2015, digital advertising will account for 7.4% of total trade magazine advertising, up from 2.0% in 2010.

Circulation

Print circulation

South Africa has more than 600 trade magazines, most of which are highly targeted to readers in specialised professions. Because trade magazines are so targeted, unit circulation is generally small. Even the leading titles have circulations of less than 80 000. *BigNews*, *Landbouweekblad*, *Accountancy SA*, *Entrepreneur*, *Finweek* and the *Financial Mail* are the leading titles with respect to unit circulation per issue.

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

Print circulation fell by 2% in 2010, the same decline as in 2009. Employment declines limited the market for trade titles, with many companies cutting back on paid copies. As employment increases, the potential number of readers of print copies will also increase. Print circulation spending is expected to begin to increase in 2011 and will reach R164 million in 2015 from R144 million in 2010, a 2.6% compound annual increase.

Digital circulation

A paid digital circulation market is expected to slowly emerge in South Africa for trade magazines. We expect a digital circulation revenue stream to emerge in 2012 and to total an estimated R16 million by 2015.

Internationally, a number of different revenue models are being used. In some cases, publishers have set up a pay wall to access certain content such as archived data or other not readily available information, while the general version of the print magazine is available online.

In other cases, the entire online magazine is behind a pay wall. Non-print buyers have to pay, but print readers have access to general content. Archived content, if available, would still require payment even from print subscribers. The belief is that archived content may have special value to people in business, and access to that content would warrant a fee.

A parallel model is emerging in the mobile market. The launch of tablets such as the iPad provides a platform for people who want convenience and instantaneous downloads in a mobile environment. Print is generally considered to be easier to read, but tablets have the added convenience of instantaneous downloads and offer the possibility of video content not available in print.

There is a tension between the desire for incremental revenue from digital content and the need to provide advertisers with a platform to reach their target market. In many cases, trade magazines are the only advertising vehicles that provide such a targeted reach, which may make publishers reluctant to unduly restrict online access.

At the same time, trade magazines have information that may be particularly valuable to certain users who would be willing to pay a fee, but the number of such users may be limited.

Total circulation spending, including digital, will rise to R180 million by 2015, a 4.6% compound annual increase from 2010.

Total trade magazine market

The trade magazine market as a whole will total a projected R866 million in 2015, an 8.1% compound annual increase from R588 million in 2010.

Filter advertising and consumer spending data across segments.

www.pwc.com/za/outlook

Professional book market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Print	225	195	175	165	158	154	151	149	148	147	
% change	*4.7*	*-13.3*	*-10.3*	*-5.7*	*-4.2*	*-2.5*	*-1.9*	*-1.3*	*-0.7*	*-0.7*	*-1.4*
Electronic	36	41	44	45	47	51	56	61	67	72	
% change	*63.6*	*13.9*	*7.3*	*2.3*	*4.4*	*8.5*	*9.8*	*8.9*	*9.8*	*7.5*	*8.9*
Total	**261**	**236**	**219**	**210**	**205**	**205**	**207**	**210**	**215**	**219**	
% change	***10.1***	***-9.6***	***-7.2***	***-4.1***	***-2.4***	**–**	***1.0***	***1.4***	***2.4***	***1.9***	***1.3***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Professional books

Print

Professional books serve scientific, technical, medical, legal and financial services professionals. Spending on print books fell by 4.2% in 2010, the fourth consecutive decrease.

The decrease in 2010 was the smallest decline during the past four years, as the market benefitted from a recovering economy. Nevertheless, weak professional employment continued to hurt spending, as did a shift to digital books.

As the economy grows, professional employment will increase, which will support the market for professional books. However, we also expect that most of the growth will be generated by electronic books.

Consequently, we project print sales to continue to decline but at moderating rates that will drop below 1% annually in 2014-15. For the forecast period as a whole, we project the print market will decline at a 1.4% compound annual rate to an estimated R147 million in 2015 from R158 million in 2010.

Professional books are generally used for reference purposes, which makes them suitable for electronic formats. Publishers have invested in electronic products and created tools to allow users to customise material. During the past few years, professionals have migrated from print versions to electronic formats.

Electronic books

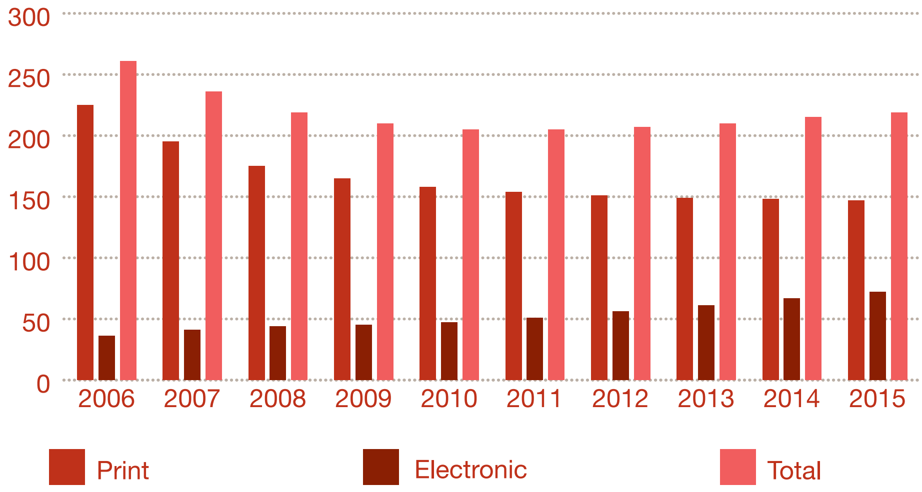
South Africa has an active electronic book market. Electronic books are sold on a subscription basis to law firms and accounting firms. Because professional books are principally used for reference purposes, they are particularly suitable for electronic formats. Users can search electronic books for the specific information they need.

The emergence of tablets that provide full-colour graphics and tabular capabilities are beginning to generate a mobile market for professional books.

We project spending on electronic professional books to increase to R72 million in 2015, growing at an 8.9% compound annual rate from R47 million in 2010.

Growth in the electronic market will offset declines in print. The overall market will be flat in 2011 and will then expand at low single-digit rates, rising at a 1.3% compound annual rate from R205 million in 2010 to R219 million in 2015.

Professional book market (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Global trends in business-to-business publishing

Outlook

- Overall global spending on business-to-business publishing fell by 0.5% in 2010. We project spending to begin to expand in 2011 and to increase at rates in excess of 4% annually during 2013-15. As a result, spending for the forecast period as a whole will increase at a 3.5% compound annual rate to $175.0 billion in 2015 from $147.2 billion in 2010.
- Global business information, the largest component, at $76.0 billion in 2010, will total $97.7 billion in 2015, up 5.1% on a compound annual basis.
- Print directory advertising will fall at a 9.3% compound annual rate to $14.6 billion from $23.9 billion.
- Digital directories will reach $10.9 billion in 2015 from $4.2 billion in 2010, a 21.1% compound annual increase.
- Total directory advertising will fall at a 1.9% compound annual rate to $25.5 billion in 2015 from $28.0 billion in 2010. Digital directories will constitute 42.6% of total directory advertising in 2015, up from 14.9% in 2010.
- Print advertising in trade magazines will expand from $13.3 billion to $16.1 billion, a 3.9% increase compounded annually. Although we project steady increases during the next five years, print advertising in 2015 will not recover previously lost ground and will remain nearly 14% below its 2006 level.
- Digital trade magazine advertising will increase from $1.7 billion to $3.9 billion, growing at an 18.3% compound annual rate.
- Total trade magazine advertising will rise at a 5.9% compound annual rate to $20.0 billion from $15.0 billion.Digital advertising will constitute 19.5% of total trade magazine advertising in 2015, up from 11.3% in 2010.
- Trade magazine print circulation spending will increase from $7.5 billion to $7.6 billion, a 0.3% compound annual advance.
- Digital circulation spending for online content and mobile downloads will generate $1.2 billion in incremental revenue by 2015, raising total circulation spending to $8.9 billion, 3.3% higher than in 2010 on a compound annual basis.
- Total trade magazine spending will increase at a 5.1% compound annual rate, rising to $28.9 billion in 2015 from $22.5 billion in 2010. Both overall trade magazine advertising and overall circulation spending will be higher in 2015 than in 2006, which is in contrast with many other print advertising media.
- The print professional book market will grow at a 0.3% annual rate to $19.7 billion in 2015. Electronic books will total $3.2 billion in 2015, growing at a 21.3% compound annual rate.
- The overall professional book market will grow from $20.7 billion to $22.9 billion, a 2.1% increase compounded annually.
- Total business-to-business advertising will increase at a 1.1% compound annual rate to $45.5 billion from $43.0 billion.
- End-user spending on business information, trade magazine circulation and professional books will rise at a 4.2% compound annual rate to $128.3 billion in 2015 from $104.2 billion in 2010.

Key drivers

- The economic cycle plays an important role in business-to-business spending because each segment of the market is sensitive to the economy. During the next five years, an expanding economy will have a positive impact on spending.
- The business information market will benefit from three key factors:
- Increased lending activity, which will boost demand for financial information;
- Rising consumer spending, which will lead to increased spending on marketing information; and
- Growing interest in entering new markets, particularly in Asia and Latin America, which will stimulate spending on industry information.
- In directory publishing, print directories in many countries are declining as the market becomes digital. Online and mobile directories are growing in usage and advertising because they provide convenience, up-to-date information and features not available in print.
- In trade magazines, economic growth is revitalising the print advertising market, although migration to digital will limit print gains while fuelling digital growth.
- Rising employment will boost trade magazine print circulation, while a digital circulation market is emerging. Publishers are introducing pay walls for specialised online content such as archived articles or databases, while tablets are providing a new outlet for trade magazines in a mobile environment.
- Growing professional employment will also boost spending on professional books. Digital search engines will further stimulate print sales in North America and EMEA.
- Tablets with color and graphic capabilities will support growth in spending on electronic books.

Source: Global entertainment and media outlook 2011 – 2015 (PwC, 2011)

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Business information	83 038	86 726	84 581	75 207	76 028	77 911	81 899	86 933	92 275	97 728	
% change	*6.9*	*4.4*	*-2.5*	*-11.1*	*1.1*	*2.5*	*5.1*	*6.1*	*6.1*	*5.9*	*5.1*
Print	30 240	30 611	29 110	25 920	23 856	22 015	20 261	18 312	16 448	14 618	
% change	*1.0*	*1.2*	*-4.9*	*-11.0*	*-8.0*	*-7.7*	*-8.0*	*-9.6*	*-10.2*	*-11.1*	*-9.3*
Digital	1 589	2 414	3 053	3 520	4 169	4 969	6 003	7 437	9 017	10 853	
% change	*457.5*	*51.9*	*26.5*	*15.3*	*18.4*	*19.2*	*20.8*	*23.9*	*21.2*	*20.4*	*21.1*
Total directory advertising	31 829	33 025	32 163	29 440	28 025	26 984	26 264	25 749	25 465	25 471	
% change	*5.3*	*3.8*	*–2.6*	*–8.5*	*–4.8*	*–3.7*	*–2.7*	*–2.0*	*–1.1*	*–*	*–1.9*
Print advertising	18 705	18 664	17 296	13 576	13 302	13 403	14 016	14 691	15 394	16 106	
% change	*1.6*	*–0.2*	*–7.3*	*–21.5*	*–2.0*	*0.8*	*4.6*	*4.8*	*4.8*	*4.6*	*3.9*
Digital advertising	889	1 387	1 625	1 482	1 688	2 008	2 413	2 862	3 361	3 905	
% change	*174.4*	*56.0*	*17.2*	*–8.8*	*13.9*	*19.0*	*20.2*	*18.6*	*17.4*	*16.2*	*18.3*
Total advertising	19 594	20 051	18 921	15 058	14 990	15 411	16 429	17 553	18 755	20 011	
% change	*4.6*	*2.3*	*–5.6*	*–20.4*	*–0.5*	*2.8*	*6.6*	*6.8*	*6.8*	*6.7*	*5.9*
Print circulation	8 196	8 269	8 139	7 715	7 520	7 453	7 518	7 585	7 616	7 642	
% change	*2.2*	*0.9*	*–1.6*	*–5.2*	*–2.5*	*–0.9*	*0.9*	*0.9*	*0.4*	*0.3*	*0.3*
Digital circulation	—	—	—	—	12	40	145	369	737	1 227	
% change	*—*	*—*	*—*	*—*	*—*	*233.3*	*262.5*	*154.5*	*99.7*	*66.5*	*152.3*
Total circulation	8 196	8 269	8 139	7 715	7 532	7 493	7 663	7 954	8 353	8 869	
% change	*2.2*	*0.9*	*–1.6*	*–5.2*	*–2.4*	*–0.5*	*2.3*	*3.8*	*5.0*	*6.2*	*3.3*
Total trade magazines	27 790	28 320	27 060	22 773	22 522	22 904	24 092	25 507	27 108	28 880	
% change	*3.9*	*1.9*	*–4.4*	*–15.8*	*–1.1*	*1.7*	*5.2*	*5.9*	*6.3*	*6.5*	*5.1*
Print	18 716	20 234	20 132	19 508	19 444	19 289	19 361	19 460	19 595	19 743	
% change	*3.2*	*8.1*	*–0.5*	*–3.1*	*–0.3*	*–0.8*	*0.4*	*0.5*	*0.7*	*0.8*	*0.3*
Electronic	656	810	1 007	1 086	1 215	1 409	1 722	2 108	2 583	3 189	
% change	*21.5*	*23.5*	*24.3*	*7.8*	*11.9*	*16.0*	*22.2*	*22.4*	*22.5*	*23.5*	*21.3*
Total professional books	19 372	21 044	21 139	20 594	20 659	20 698	21 083	21 568	22 178	22 932	
% change	*3.7*	*8.6*	*0.5*	*–2.6*	*0.3*	*0.2*	*1.9*	*2.3*	*2.8*	*3.4*	*2.1*
Total advertising	51 423	53 076	51 084	44 498	43 015	42 395	42 693	43 302	44 220	45 482	
% change	*5.0*	*3.2*	*–3.8*	*–12.9*	*–3.3*	*–1.4*	*0.7*	*1.4*	*2.1*	*2.9*	*1.1*
Total end user	110 606	116 039	113 859	103 516	104 207	106 062	110 500	116 086	122 069	128 302	
% change	*6.0*	*4.9*	*–1.9*	*–9.1*	*0.7*	*1.8*	*4.2*	*5.1*	*5.2*	*5.1*	*4.2*
Total	**162 029**	**169 115**	**164 943**	**148 014**	**147 234**	**148 497**	**153 338**	**159 757**	**167 026**	**175 011**	
% change	***5.7***	***4.4***	***–2.5***	***–10.3***	***–0.5***	***0.9***	***3.3***	***4.2***	***4.6***	***4.8***	***3.5***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Chapter 11

Out-of-home advertising

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

(In 2011, cinema advertising has been included in the Filmed entertainment chapter (chapter 4) and not in out-of-home advertising. The historic and forecasted figures have been adjusted to reflect this change.)

"Outdoor advertising is big, bold and colourful, always on and always visible. 7 days a week, 24 hours a day, 365 days a year, outdoor advertising generates repeated exposure, delivering the message over and over again".

(www.adsoutdoor.com)


I left the keys by

Outlook at a glance

Out-of-home advertising (R millions)	2010	2015	2011-15 CAGR %
	1 221	1 850	
% change	13.8%	9.1%	8.7%

Outlook in brief

- *The 2010 FIFA World Cup significantly boosted advertising in South Africa and provided opportunities for the installation of advanced out-of-home media technologies.*
- *Out-of-home players are offering increasingly innovative and customised solutions to advertisers for specific target audiences.*
- *Out-of-home advertising reaches approximately 85% of the adult population in South Africa.*
- *A major challenge facing the out-of-home industry in South Africa is the need to establish an effective audience measurement mechanism. Until this has been achieved, advertisers will hold back on increasing their spend in this media category.*
- *Digital out-of-home is expected to grow exponentially in the forecast period, although this will be from a small base.*

Anel Eksteen
Manager
PwC Southern Africa

Johan Werth
Manager
PwC Southern Africa

Out-of-home advertising (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Out-of-home advertising	1 020	1 160	1 078	1 073	1 221	1 290	1 410	1 545	1 695	1 850	
% change	*29.9*	*13.7*	*-7.1*	*-0.5*	*13.8*	*5.7*	*9.3*	*9.6*	*9.7*	*9.1*	*8.7*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Overview

OOH 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 the 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.

As the audience for traditional media continues to be fragmented, outdoor advertising remains an ideal method to reach mass audiences. OOH is also an effective means to reach business travellers and tourists who may not read local papers or watch local television.

The OOH market in South Africa rebounded significantly in 2010, increasing by 13.8%, following a 0.5% decrease in 2009. The increase reflects improved economic conditions combined with the 2010 FIFA World Cup, which boosted the opportunities for advertising. New stadiums and improved infrastructure, which were put in place for the World Cup, provided opportunities for the installation of advanced OOH media.

We expect growth to slow down in 2011, with an increase estimated at 5.7%, as the incremental World Cup advertising leaves the market.

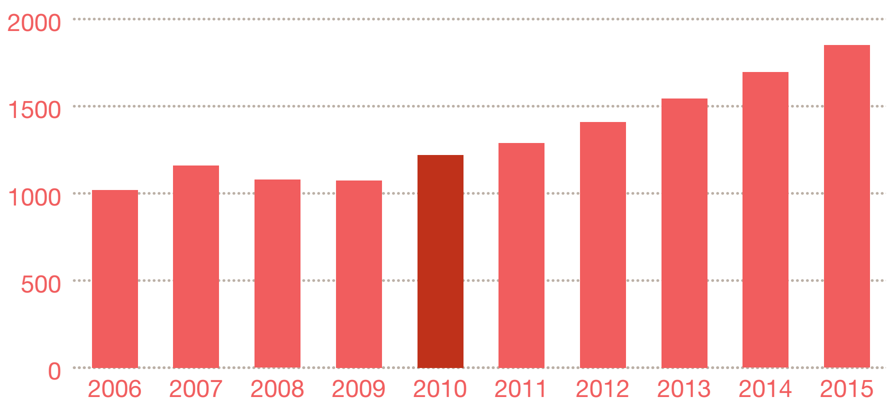
The latter part of the forecast period is expected to exhibit significant increases for the OOH industry. This reflects expected improvements in economic conditions combined with the increasing use of more sophisticated OOH advertising technology, incorporating the expected growth of digital advertising.

South Africans spend a great deal of time outdoors, both because of the climate and also due to increased traffic and longer commuting times. OOH advertising therefore provides an effective means to reach the majority of consumers.

For the remainder of the forecast period, we expect that improved economic conditions will lead to an increase in ad spend. Furthermore, the increased penetration of digital screens is also expected to spur growth as they provide more effective displays and greater revenue potential, as the same site can accommodate multiple advertisers.

By 2015, OOH advertising in South Africa is expected to total an estimated R 1.9 billion, an 8.7% compound annual increase from R 1.2 billion in 2010.

OOH advertising (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Key developments in the South African OOH advertising market

OOH advertising has been reaching a greater proportion of the South African population in recent years. Although the reach of certain segments such as store ads, billboards and train ads has remained relatively stable, the reach of other segments such as street furniture and transit ads has grown significantly over the last five years. Consequently, overall exposure to OOH advertising has increased.

Overall, OOH advertising reaches approximately 85% of the adult population in South Africa. Its reach is exceeded only by radio and television, which reach about 90% of the population. By contrast, magazines and newspapers reach only 50% of the adult population.

Within the OOH category, store ads had the greatest exposure in 2010, reaching an estimated 80% of the adult population in an average week. Mobile advertising on trucks reached 76% of the adult population.

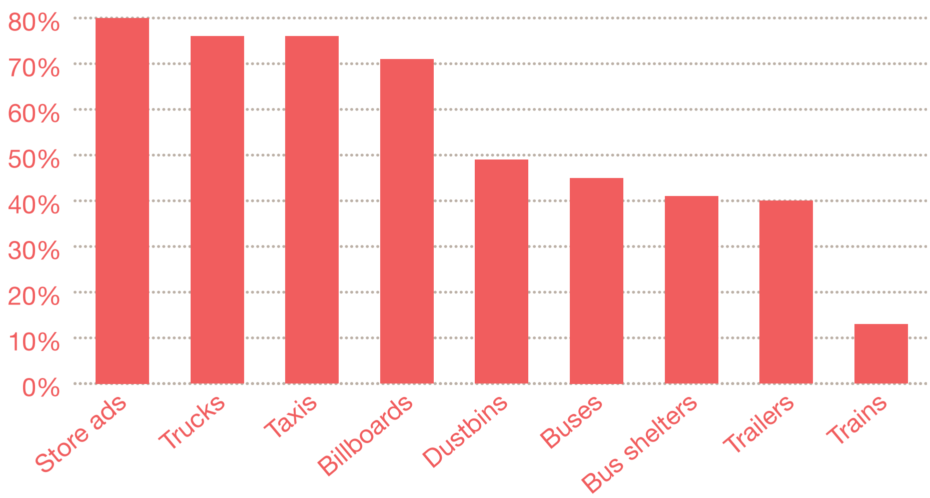
Taxi advertising, which includes ads placed on the exterior of taxis as well as digital screens inside them, reached 76% of the population in an average week. Billboards, which represent the vast majority of OOH advertising revenues, reached 71% of the adult population in an average week in 2010.

In addition, there are a variety of other OOH advertising platforms, including street furniture, bus shelters and dustbins, and transit ads on and inside trains and buses that reach a significant proportion of adults each week.

Unlike in the United States and much of Western Europe, where three major international companies dominate the OOH market, the OOH advertising market in South Africa is dominated by a larger number of smaller companies in comparison to the major players that dominate in the rest of the world.

Continental Outdoor Media (previously INM Outdoor) is the largest OOH company in South Africa and operates in 14 countries across Africa. Other major OOH advertising companies in the country include Primedia Outdoor, ADreach and Outdoor Network.

Average weekly reach, 2010 (%)



Source: South African Advertising Research Foundation

Improved measurement

A major challenge facing the OOH industry in South Africa has been the lack of research quantifying its effectiveness. The South African Advertising Research Foundation (SAARF) awarded a contract to Nielsen Outdoor to develop a technique to measure OOH advertising audiences. The company utilised its Nielsen personal outdoor device (Npod), which tracks the location of wearers using GPS technology to determine exposure to displays and matches that exposure to demographic information of the wearers, including age, gender, income and education. The research, carried out between 2006 and 2008, created a national outdoor analysis based on a sample of over 4,000 participants who carried the Npods for 10 consecutive days. This analysis proved far superior to previous methods of traffic surveys and claimed recall.

Out of Home Media South Africa (OHMSA), the trade organisation representing the industry, is evaluating other research models in use around the world to determine which one to use in South Africa to further prove the effectiveness of OOH media. With the appropriate research methodologies in place, advertisers will be able to evaluate OOH advertising relative to other media based on reach and frequency to help them allocate their expenditures more effectively.

In the United States, improved measurement of OOH audiences is providing advertisers with information for evaluating the impact of purchases by making comparisons with other media and facilitating the incorporation of out-of-home as part of advertisers' overall advertising and marketing campaigns. As a result, improved audience measurement is generally associated with increased spending.

In the past, to determine the value of signs, groups of people were hired to count how many people passed by the signs. Anonymous video analytics were developed that use cameras embedded in the posters combined with mathematical algorithms to detect faces. The analytics are anonymous in that the facial images are not stored in a database. Instead, the system uses pattern detection to determine how long people look at a poster, and it can also determine basic demographics such as gender and general age group.

Improved measurement by the OOH industry is expected to provide advertisers with added confidence in purchases of their goods and services, thereby stimulating growth in the industry.

Regulation

The regulatory environment in South Africa is hampering the growth of OOH advertising. There is no nationwide regulatory framework and provincial governments and local councils are free to enact their own rules.

For example, KwaZulu-Natal is considering banning all OOH advertising in the province. Cape Town has strict regulations preventing the growth of OOH advertising. The application process for new permits currently takes six months.

Some councils require that billboard sites be approved when they are built and then re-approved periodically thereafter. Occasionally, council approvals are delayed causing previously approved billboards to be deemed illegal pending their re-approval.

There are, however, regulations that benefit the industry. For example, regulations requiring billboards to be a minimum distance apart prevents clutter and increases the value of billboards.

Innovative and spectacular advertising

OOH advertising includes many unique types of eye-catching displays. Traditional billboards still constitute the bulk of the industry, but new technologies are emerging that make them more efficient. For instance:

- Digital printing is reducing production costs.
- In many cases, posters can be placed in a frame with no need for gluing, thereby reducing installation time and costs.
- LED billboards can display high-definition images, animations and specialised television commercials.

In the United States, Google and Nokia have been experimenting with interactive displays that enable passersby to download apps from the displays directly to their phones.

A different business model is also being tested with some of these displays, with advertisers paying based on how many times the apps are downloaded rather than on how many people view the ads.

In South Africa, Provantage Media recently branded 34 consecutive concrete pillars on the M1 underpass, the busy double-decker highway overlooking downtown Johannesburg, converting them into huge billboards for Spectramed, MTN, and Absa. The combined visual effect meant there was no need to build new billboard structures; all that was needed was the creativity to use the existing space. Similarly, the structural beams that support the roof of the new King Shaka International Airport have also been used for advertising purposes.

The Ponte Tower, which dominates the Johannesburg skyline, underwent a major change in April 2011 when Vodacom's familiar blue branding atop the building was replaced by the flaming red color of Vodacom's parent company, Vodafone. The transformation, undertaken by Airport Media, took more than two months to accomplish and required a ton of red paint and seven kilometres of LED lights. It was part of a R200 million rebranding campaign that included television and radio ads, sports sponsorship and OOH advertising.

Knorr recently caused a stir with billboards advertising its Cup-A-Soup range. At certain times of the day, the billboards, which were located along six of the country's busiest roads in Johannesburg, Cape Town and Durban, began emitting steam. The effect was so realistic that some motorists notified the fire department, believing that the billboards were on fire.

Another interesting twist is that advertisers use street lamps to tell a story from one lamp to the next due to limited space. This captivates the reader to look out for the next board.

Continental Outdoor has developed a new type of internal illumination for its billboards, enabling the colours to change on specific design elements to create movement and an eye-catching rainbow effect.

Scrolling billboards combine a static billboard with the impact of motion, allowing a number of different billboards to occupy the same space as they turn. Such billboards have proven to achieve higher awareness than static billboards at a lower cost to advertisers.

A number of companies, including Moving Ads and Value Fleet, use their inventory of trucks to act as moving billboards in addition to their primary function of transporting merchandise. The vehicles are tracked on their travels providing a measurable advertising medium. When not needed to transport materials, the trucks can be parked at major locations or events to promote the advertised products.

Public transportation provides an opportunity to reach consumers on the go. Graffiti has introduced animated taxi-top advertising in Johannesburg, Pretoria, Cape Town and Durban. In addition to advertising on top of taxis, Graffiti also brands the outside of cabs for specific promotions. For example, the company branded the outside of cabs in Cape Town and Johannesburg to make them look like Easter bunnies to promote Lindt Chocolate.

Coca-Cola used ProVantage to brand more than 40 Integrated Rapid Transport buses, which provided the primary means of transport for World Cup fans in Cape Town.

In 2011, ProVantage won the exclusive media rights to all sites controlled by the Passenger Rail Agency of South Africa (PRASA). The sites, which include positions in and on trains as well as billboards on train platforms and digital networks, will be seen by up to 3.7 million passengers who utilise the PRASA system nationwide every day. PRASA is in the process of a multi-billion-rand upgrade of its facilities, which will include the new advertising opportunities.

Primedia Unlimited recently introduced a new website, brandyourcar.com, which matches advertisers with individuals who are willing to brand their own cars. Through the site, Primedia gives advertisers the opportunity to target specific areas and demographics and, at the same time, gives the vehicle owners an opportunity to earn some additional income.

Street furniture such as bus shelters, benches, and dustbins provide advertisers with access to consumers in suburban areas where large-scale billboards are often prohibited by local regulations. Media companies pay to have the street furniture installed in return for the opportunity to provide a limited amount of advertising. This is a win-win solution as it provides improved infrastructure for the community at no cost.

The variety of OOH advertising is limited only by the human imagination. In what must be one of the most unusual forms of OOH advertising, 2Stroke Interactive, a digital marketing company, placed ads on an elephant's body using an ecologically sensitive dye that can withstand the elements. These type of advertisements have a longer lasting impact on consumers and are therefore more effective.

In addition to advertising products, OOH advertising has been used effectively to promote awareness of various social issues. For example, the ADreach Group partnered with LifeLine Johannesburg to use its street pole signage displays to promote an anti-gender violence campaign. Similarly, ADreach provided space for an AIDS awareness campaign. Currently, the Primedia initiative, Crime Line, creates awareness of crime in South Africa and provides an effective medium for reporting crime.

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Digital billboards and digital networks

The out-of-home market is being transformed by the deployment of digital billboards and the expansion of captive video networks, which broadcast programming to audiences that have no option but to watch the content provided. These could include passengers in lifts or people in checkout queues. Although digital technologies still account for a relatively small part of the out-of-home market, they are generating a large proportion of the growth.

Digital billboards significantly increase the advertising potential from a site compared with static images because they can accommodate multiple advertisers. A digital billboard showing sequential ads that change every 8-10 seconds, can generate five to six times the revenue of a poster that displays a single ad.

Traditional billboards are hampered by the amount of time it takes to install new material manually. By contrast, 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 can therefore command premium pricing.

Imagine a retail environment where the Johnny Walker man on the bottle is able to walk across the label, do a flick flack to the other side of the label and start walking again. Or the lady on the shampoo bottle is actively washing her hair. Envisage a world where products have built in temperature sensors, so when next you buy a cool drink you know exactly how cold it is.

Source: Maggs, J eds. *The Annual 2010/2011.* Johannesburg: Future of publishing (2011).

Since they lower the initial costs to advertisers, as they can purchase specific times on the board rather than the entire billboard, digital billboards appeal to smaller advertisers who previously could not afford the major expenditures of billboard advertising.

South Africa lags behind the United States and much of Europe in the introduction of digital billboards. However, digital billboards are starting to be used and have the potential to spur growth in the industry. Primedia Outdoor is a pioneer in the digital billboard business. The company introduced the concept with a number of digital billboards along major roads in Sandton. Other companies, including Traction Media and Visual Outdoor Communications, have also introduced digital billboards.

There are a number of digital networks that are being installed in supermarkets, doctors' offices, elevators, gyms and other captive locations providing information in addition to advertising.

One Digital Media, the major provider of retail digital networks in South Africa, replaced conventional menu boards in Wimpy and KFC outlets with digital menus that can showcase localised specials and rotate the products for a more targeted consumer experience. In addition to helping Cell C redesign their 130 stores with state of the art digital displays, One Digital Media has installed digital networks for Toys R US and Shell Oil.

There are numerous other companies competing to install digital networks across the country. X/procure, a subsidiary of Primedia Unlimited, is installing a network of 42-inch screens in each of Dis-Chem's 56 pharmacies to provide product information as well as entertainment.

In-Taxi Television is a digital network broadcasting over 17-inch plasma screens in over 1,000 taxis nationwide. It reaches four million commuters a month. The broadcasts feature an hour of programming, including entertainment content and advertising. This is a particularly effective means of reaching a captive audience that spends an average of 30 minutes in the taxis.

Airports are a prime location to reach affluent consumers, especially in 2010 as thousands of fans came to South Africa to watch the FIFA World Cup. OR Tambo International Airport near Johannesburg is Africa's busiest airport and home to the largest network of 103-inch plasma screens in the world. The 42 screens, located in baggage collection and departure areas, provide traveler information in addition to advertising. The system was installed by Indiza Media, a subsidiary of Primedia Outdoor.

One Digital Media is currently working with LG to deploy a network of 42-inch LCD screens in 10 airports around the country. Provantage Out of Home Media has installed an advertising video wall at Durban's new King Shaka International Airport. The wall is made up of nine LCD displays placed together to form a large screen and is situated at the security checkpoint to ensure that it is seen by all travelers.

New technologies are starting to emerge across the world in OOH advertising, including 3D images, holograms, displays that interact with smartphones and 'augmented reality', in which real-world environments are augmented by computer-generated sensory information such as sound, video, graphics or GPS data. These and many other new methods of outdoor advertising will eventually become common in the South Africa and will invigorate the market. At the same time, as the size of LCD and LED TVs continues to grow and their costs continue to decline, we expect digital networks to become more common, adding excitement to the market.

Earlier this year in the United Kingdom, a series of 3D displays was installed in selected malls in London to promote Ford's new Grand C-Max. The displays utilised augmented reality to put consumers in the display, enabling them to handle miniaturised versions of the vehicle. This was the first 3D augmented reality display in the United Kingdom.

New technologies and spectacular displays are helping to drive interest in the OOH market, especially in an era when interest in traditional media is waning. The new technologies will entice advertisers that want to be associated with leading-edge ideas. Additionally, they may attract advertisers that have not used traditional OOH in the past.

Global trends in the OOH advertising industry

Outlook

- Globally, the out-of-home advertising market is expected to grow by 5.6% on a compound annual basis from $26.1 billion in 2010 to $34.2 billion in 2015.
- The rate of growth in out-of-home advertising means it will outpace the rise in advertising generally – and thereby gain a greater share of the overall advertising market – in North America, Latin America, and much of the Asia-Pacific region during the next five years.
- Its growth will primarily be driven by increased use of digital billboards, which expand the effective out-of-home inventory because multiple ads can be shown on the same display, and by improved out-of-home audience measurement.

Key drivers

- During the next five years, out-of-home advertising will benefit from two main factors: increased use of digital billboards, which expand the effective out-of-home inventory because multiple ads can be shown on the same display; and improved out-of-home audience measurement.
- 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 and thereby increase their spending in the medium.
- The expansion of captive video networks will also fuel growth because out-of-home can reach people in areas inaccessible to most other media.
- Furthermore, out-of-home also goes hand in hand with increased mobile ad spending, as advertisers seek media opportunities to reach people away from home and when they are shopping.
- Although these developments also apply to Europe, the Middle East and Africa (EMEA), growth in this region will be limited because the out-of-home market in a number of countries in EMEA is saturated. In some countries there is virtually no room for additional billboards and the large supply of inventory is holding down prices. Also, in some of the larger countries, particularly France, Italy, and Spain, the shift to digital is proceeding slowly.
- In the Asia-Pacific region, slow growth in Japan, which also has a saturated market, is holding back overall growth.
- In Latin America, a strong economy in Brazil was the primary reason for the increase in 2010. Out-of-home is beginning to be developed in several Latin American countries as transit ads, street furniture, and digital networks become increasingly used.

Source: Global entertainment and media outlook 2011-2015 (PwC, 2011)

Global out-of-home advertising market by region (US$ millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
North America	7 164	7 709	7 439	6 303	6 581	6 970	7 374	7 758	8 167	8 601	
% change	*8.0*	*7.6*	*-3.5*	*-15.3*	*4.4*	*5.9*	*5.8*	*5.2*	*5.3*	*5.3*	5.5
EMEA	8 986	9 699	9 796	8 173	8 483	8 935	9 481	9 926	10 415	10 914	
% change	*9.1*	*7.9*	*1.0*	*-16.6*	*3.8*	*5.3*	*6.1*	*4.7*	*4.9*	*4.8*	5.2
Asia Pacific	10 725	11 382	10 805	9 616	9 812	9 387	10 425	11 502	12 221	12 946	
% change	*3.7*	*6.1*	*-5.1*	*-11.0*	*2.0*	*-4.3*	*11.1*	*10.3*	*6.3*	*5.9*	5.7
Latin America	998	1 047	1 148	1 105	1 217	1 325	1 437	1 539	1 649	1 779	
% change	*15.9*	*4.9*	*9.6*	*-3.7*	*10.1*	*8.9*	*8.5*	*7.1*	*7.1*	*7.9*	7.9
Total	**27 873**	**29 837**	**29 188**	**25 197**	**26 093**	**26 617**	**28 717**	**30 725**	**32 452**	**34 240**	
% change	***6.9***	***7.0***	***-2.2***	***-13.7***	***3.6***	***2.0***	***7.9***	***7.0***	***5.6***	***5.5***	***5.6***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

New technologies and spectacular displays are helping to drive interest in the OOH market in an era when interest in traditional media is waning.

Chapter 12
Video games

The video games market consists of consumer spending on console games (including hand-held games), personal computer (PC) games, online games and mobile or wireless games as well as video game advertising. The category excludes spending on the hardware used to play the games. Retail purchases of a game are included in either the PC or console games categories. The online games category includes micro transactions, which are players' purchases of accessories and additional game content that enhance the gaming experience. In many instances online games are first purchased at retail and then played online. When these games are then played online for a subscription fee, the subscription fee is counted in the online games category.

Casual games and games on social networks are increasing in importance. The online segment is expected to grow the fastest of any category due to the increase in the number of broadband households.

Outlook at a glance

Video games market (R millions)	2010	2015	2011-2015 CAGR (%)
Console/ handheld games	775	1 020	5.6
PC games	159	140	-2.5
Online games	78	241	25.3
Mobile games	218	315	7.6
Total end-user spending	1 230	1 716	6.9
Advertising	19	34	12.3
Total	1 249	1 750	7.0

Craig Napier
Associate Director
PwC Southern Africa

Graham Cornelissen
Manager
PwC Southern Africa

Outlook in brief

- *A number of 3D games are being developed for various gaming consoles.*
- *The next generation consoles are only anticipated to start emerging at the end of the forecast period.*
- *Digital distribution of content is emerging as an important segment of the online market.*
- *Players are evolving ways to handle micro-transactions for online and social network gaming.*
- *Online gaming on social network sites like Facebook is growing exponentially.*
- *The increased penetration of tablets and smartphones is expected to cut into the popularity of handheld gaming devices.*
- *Developments in the market challenge advertisers to find innovative ways to build their brand.*

Video games market (R millions)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Console/ handheld games	169	520	688	791	775	814	853	890	934	1 020	
% change	*20.7*	*207.7*	*32.3*	*15.0*	*-2.0*	*5.0*	*4.8*	*4.3*	*4.9*	*9.2*	*5.6*
PC games	96	207	171	171	159	155	152	152	149	140	
% change	–	*115.6*	*-17.4*	–	*-7.0*	*-2.5*	*-1.9*	–	*-2.0*	*-6.0*	*-2.5*
Online games	15	25	43	61	78	98	130	168	204	241	
% change	*150.0*	*66.7*	*72.0*	*41.9*	*27.9*	*25.6*	*32.7*	*29.2*	*21.4*	*18.1*	*25.3*
Mobile games	83	126	161	194	218	239	261	280	299	315	
% change	*84.4*	*51.8*	*27.8*	*20.5*	*12.4*	*9.6*	*9.2*	*7.3*	*6.8*	*5.4*	*7.6*
Total end-user spending	363	878	1 063	1 217	1 230	1 306	1 396	1 490	1 586	1 716	
% change	*26.5*	*141.9*	*21.1*	*14.5*	*1.1*	*6.2*	*6.9*	*6.7*	*6.4*	*8.2*	*6.9*
Advertising	3	10	15	17	19	22	25	28	31	34	
% change	–	*233.3*	*50.0*	*13.3*	*11.8*	*115.8*	*113.6*	*12.0*	*10.7*	*9.7*	*12.3*
Total video games	**366**	**888**	**1 078**	**1 234**	**1 249**	**1 328**	**1 421**	**1 518**	**1 617**	**1 750**	
% change	***27.5***	***142.6***	***21.4***	***14.5***	***1.2***	***6.3***	***7.0***	***6.8***	***6.5***	***8.2***	***7.0***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Overview

The video games market in South Africa grew 1.2% in 2010 to R1.2 billion.

Console/handheld games represent the major category of video games spending, reflecting 62% of the market in 2010. After falling by 2.0% in 2010, we expect the market to rebound in 2011, but growth will be moderate over the next few years. We expect a jump in 2015 as the introduction of the next generation of consoles is expected to hit the market.

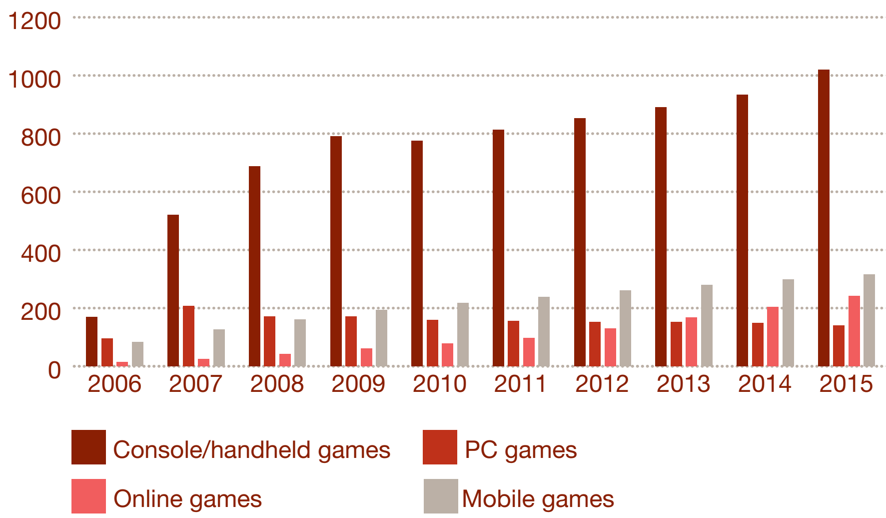
The mobile market is the second-largest category representing 17% of total spending. Growth has been fueled by the introduction of new phones that facilitate the playing of games. The mobile market is expected to show the second-strongest growth among end-user categories as more people download games onto their phones.

The PC games market declined 7% in 2010 as more attention was focused on other segments of the market. The PC market is expected to continue to decline. The decrease would be even larger were it not for the growth of massively multiplayer online games (MMOGs), which is buoying the market.

The online games market in South Africa is relatively small due to low broadband penetration. Casual games and games on social networks are increasing in importance. The online segment is expected to grow the fastest of any category due to the increase in the number of broadband households.

Total end-user spending on video games will rise to a projected R1.7 billion in 2015, a 6.9% compound annual increase from 2010.

End-user spending (R millions)

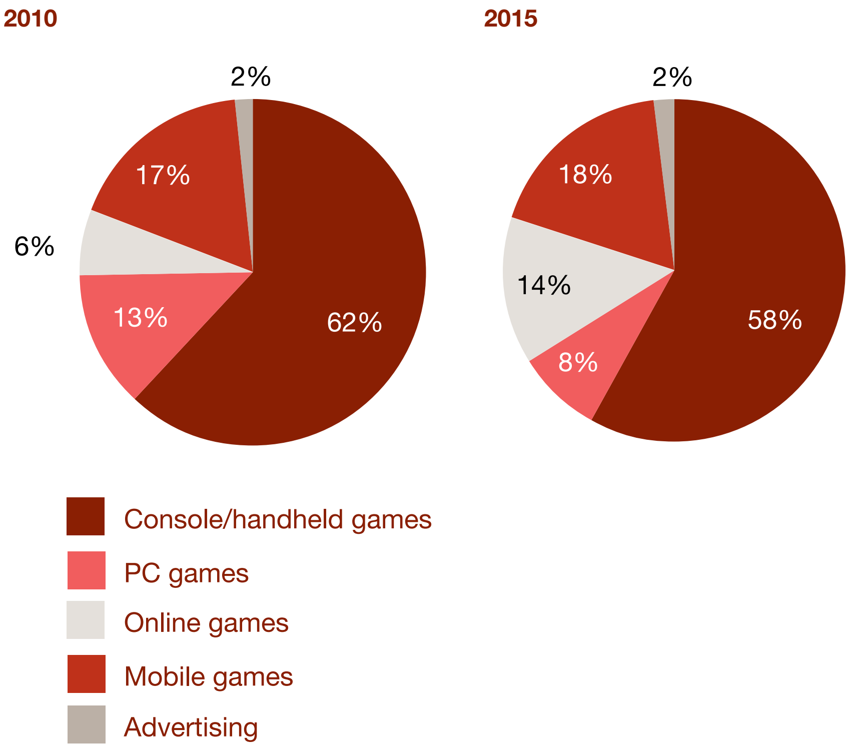


Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Video game advertising is still in its infancy but is growing at double-digit rates, although this is off a low base. As the online games market grows, there will be more opportunities for advertising.

The overall video games market is expected to increase to R1.8 billion in 2015, a 7% compound annual increase from 2010.

Video games – spending and advertising



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Console games market

Hardware

The current generation of consoles was introduced into South Africa over the last five years. Microsoft introduced the Xbox 360 at the end of September 2006, almost a year after its worldwide launch. Similarly, the Sony PlayStation 3 (PS3) launched in March 2007, while the Nintendo Wii (Wii) was the last to enter the market in September 2007, both some time after their worldwide releases.

The Xbox 360 has had a rather difficult time in South Africa because it had a high failure rate when it was initially launched, 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. The Sony PlayStation 2 (PS2) continues to sell well in South Africa thanks to its comparatively lower price.

In November 2010, Microsoft introduced Kinect (previously known as Project Natal), which uses a specially designed 3D camera and motion sensing software that detect a player's movements and replicate them on screen, thereby eliminating the need for a handheld controller. In 2011, Microsoft plans to add more functionality to the device, such as the ability to track the expressions of users' faces.

In October 2010, Sony introduced its new motion sensitive controller, called the Move, which is similar to that of the Wii in that it can be waved and used in lieu of a sword, a baseball bat, or many other devices. Sony also introduced an update to the PS3 console, enabling 3D games to be played on 3D television sets. It can also be used to play 3D high-definition Blu-ray discs. Sony is focussing on 3D games as it is also marketing a line of 3D television sets.

The Wii is the only one of the three major consoles that didn't introduce a major enhancement during 2010 and is the only one that does not display in high-definition format. In order to increase sales, Nintendo recently announced a price reduction on its console.

Nintendo announced in June 2011 that it plans to launch its sixth generation console during 2012, called the Wii U. The Wii U will be the first Nintendo console to produce high-definition graphics and features a new embedded touchscreen controller. The controller allows a player to continue playing a game without requiring a television set.

The current games are vastly superior to games produced for previous generations of consoles and would be hard to improve upon. Manufacturers are following a strategy of adding enhancements to current machines – such as the new motion controllers – to entice gamers for the near future rather than introduce entirely new machines.

Extending the current generation of consoles benefits all segments of the market: console manufacturers improve profits as production costs of the consoles decrease with time. As the product life cycle lengthens, the prices of the consoles are reduced, benefiting consumers and games developers can produce games more cheaply because they've become more familiar with the devices. The next generations are anticipated to start emerging at the end of the forecast period.

Combined with the interest in the new generation of consoles, the market for portable gaming devices continues to show strength. The Nintendo DS (dual screen) is the most popular portable device in South Africa and across the world because of its simplicity, which has broadened its appeal beyond hardcore gamers. The DS has two screens providing players with two views of the action – and a touchscreen and stylus capabilities, which are innovative features in video games.

The DS has broadened the market, attracting women and older players with its Touch Generation brand of games, which includes a number of games in the Pokémon and Brain Training franchises, both of which are exclusive to the Nintendo DS. In March 2011, Nintendo introduced the 3DS, the most anticipated new gaming device of the year. The device is revolutionary in that it enables users to play games in stereoscopic 3D without the need for special glasses. The 3DS also features two cameras, making it possible for the user to capture 3D pictures that can be input into the games using augmented reality. The device comes with a slider that gives the user the ability to decide how much of a 3D effect is preferred or whether to eliminate it entirely.

In addition to playing new games that take advantage of its 3D capabilities, the 3DS is backwardly compatible, enabling all previous DS games to work. Studios are planning to bring 3D movies to the device. Nintendo announced a worldwide substantial price drop for the 3DS only 6 months after the release of the console. The move was prompted by worse than expected sales figures that may possibly be attributable to the limited number of games available for the device.

The other major device in the portable games market is the Sony 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. Sony also sells the PSP Go, which does not use the UMD, but enables games to be downloaded directly to the device. In January 2011, Sony announced its plans for PSP2, now known as the PlayStation Vita.

The Vita is expected to arrive by the end of 2011 in selected countries, as a result of supply constraints following the natural disaster in Japan. The console will sport HD capabilities and improved graphics, providing a gaming experience approaching that of the PS3. The Vita will have Wi-Fi and 3G options, a memory card for the software as well as access to downloadable games and apps via the PlayStation Network (PSN).

Despite the introduction of other handheld devices such as the iPad, we believe there will still be demand for portable games consoles, particularly in light of the comparatively lower costs of these devices.

Software

Activision Blizzard's *Call of Duty: Black Ops,* which was released in November 2010 for the Xbox 360, PS3, and PC, was the most popular title in South Africa as well as in the world in 2010. *Halo: Reach,* a first-person shooter game published by Microsoft, also achieved record sales when it was launched in September 2010. *Halo: Reach* is the fourth installment in the *Halo* franchise, which has sold 35 million copies worldwide in its nine-year history. It is the Xbox 360's biggest money maker with spinoffs including books, toys and plans for a movie.

Some popular games, such as *Call of Duty: Black Ops* and *FIFA World Cup 2010,* are available for multiple platforms, while others are exclusive to individual consoles. For example, *Halo: Reach* is exclusive to the Xbox 360 and *New Super Mario Bros* is exclusive to the Wii.

In general, when the games developer owns the console, its games will be exclusive to that console to promote sales of the console, whereas third-party developers would normally make games for multiple platforms to enhance sales of their games.

A number of highly anticipated games are scheduled for launch in 2011, including: *Uncharted 3: Drakes Deception*, a PS3 exclusive; *Gears of War 3,* an Xbox 360 exclusive; and *Batman: Arkham City*, a sequel to the popular *Arkham Asylum,* which was launched in 2009. There is a commonality to all of these launches in that they are all sequels to successful games and are expected to be introduced in the fourth quarter.

Most of the current popular video games are continuations of successful franchises and build upon a proven fan base. Major titles are usually introduced in the latter part of the year in time for holiday shopping.

Nintendo's Wii Play: Motion, the follow up to its very successful *Wii Play* was released in June 2011. It comprises 12 mini-games designed to take advantage of the improved capabilities of the Wii Remote Plus, with which it is bundled.

Activision Blizzard is anticipated to continue its pattern of launching major titles at the end of the year with the introduction of *Call of Duty: Modern Warfare 3*, which will probably be one of the biggest games of the year if it follows the pattern of the last two years.

Sony is focussing on 3D games, which is consistent with its strategy of producing 3D televisions. Sony has developed a number of 3D games for the Sony PS3.

Console/handheld games market

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Unit sales (millions)	0.5	1.7	2.0	2.3	2.5	2.6	2.7	2.8	2.9	3.1	
% change	*25.0*	*240.0*	*17.6*	*15.0*	*8.7*	*4.2*	*3.8*	*3.7*	*3.6*	*6.9*	*4.4*
Average price (R)	338	306	344	344	310	313	316	318	322	329	
% change	*-3.4*	*-9.5*	*12.4*	–	*-9.9*	*1.0*	*1.0*	*0.6*	*1.3*	*2.2*	*1.2*
Aggregate spending (R millions)	169	520	688	791	775	814	853	890	934	1 020	
% change	*20.7*	*207.7*	*32.3*	*15.0*	*-2.0*	*5.0*	*4.8*	*4.3*	*4.9*	*9.2*	*5.6*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates
GfK Retail and Technology for data for 2010.

Disney Interactive Studios launched its first 3D game, *Cars 2: The Video Game,* during 2011. This game is based on the sequel to the original animated *Cars* movie, *Cars 2*, which was also released in 3D during 2011. Disney is the latest games publisher to support Sony PS3 stereoscopic 3D technology.

Games that utilise the features of the new controllers developed by Sony and Microsoft will continue to be introduced and will help buoy the market until the next generation of consoles is introduced toward the end of the forecast period. Until then, we expect only modest increases. With the next generation of consoles and their expanded capabilities will come many new games designed to take advantage of those capabilities.

A total of 2.5 million console/handheld games were sold in South Africa in 2010, a 8.7% increase from 2009.

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 2015 as we anticipate the initial introduction of the next generation of consoles. In 2015, an estimated 3.1 million games will be sold, up 4.4% compounded annually from 2010.

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 to 2015, reaching approximately R329 per unit in 2015, a 1.2% compound annual growth.

Spending in the console/handheld games market is expected to rise at mid-single-digit rates through to 2014. We then expect a pick up at the end of the forecast period culminating in a 9.2% increase in 2015, associated with demand for games for the new consoles. For the forecast period as a whole, spending is projected to increase from R775 million in 2010 to R1.0 billion in 2015, a 5.6% compound annual increase.

Top 10 Wii games sold in South Africa (2010)

Rank	Title	Publisher	Units	Value (R)
1	Wii Sports	Nintendo	41 014	7 025 907
2	Wii fit + board	Nintendo	10 807	13 600 706
3	2009 Super Mario Bros	Nintendo	10 763	5 748 856
4	Wii Sports Resort + Motion Plus	Nintendo	7 508	5 144 757
5	FIFA World Cup 2010 SA	Electronic Arts	6 293	2 488 720
6	Wii Sports Resort	Nintendo	6 004	1 482 938
7	Super Mario Galaxy 2	Nintendo	5 678	2 722 851
8	Mario Kart + Wheel	Nintendo	5 398	3 438 206
9	Need For Speed: Nitro	Electronic Arts	2 954	1 291 050
10	Super Mario Galaxy 2	Nintendo	2 813	680 122

Source: GfK Retail and Technology

Top 10 PS2 games sold in South Africa (2010)

Rank	Title	Publisher	Units	Value (R)
1	FIFA 2009	Electronic Arts	27 869	4 124 657
2	FIFA 2010	Electronic Arts	23 951	7 607 905
3	Need For Speed Most Wanted	Electronic Arts	22 337	2 287 216
4	Rugby 2008	Electronic Arts	21 874	2 463 996
5	FIFA 2011	Electronic Arts	19 966	5 883 975
6	Gran Turismo 4	Sony	13 356	2 296 409
7	Grand Theft Auto San Andreas Platinum	Take 2	12 795	2 526 516
8	Juiced 2 : Hot Import Nights	THQ	12 480	2 167 325
9	The Sims 2 – Castaway	Electronic Arts	12 397	1 502 828
10	Call of Duty 3	Actiblizz	12 210	1 708 839

Source: GfK Retail and Technology

Top 10 PS3 games sold in South Africa (2010)

Rank	Title	Publisher	Units	Value (R)
1	FIFA 2011	Electronic Arts	21 554	10 048 547
2	FIFA World Cup 2010 SA	Electronic Arts	17 366	7 693 012
3	God of War 3	Sony	14 149	9 172 966
4	Gran Turismo 5	Sony	12 126	8 080 747
5	God of War 1 and 2 Collection	Sony	10 592	4 018 116
6	Call of Duty -Black Ops	Actiblizz	9 001	6 121 146
7	Need for Speed: Pro Street	Electronic Arts	8 916	1 411 746
8	Burnout Paradise Ultimate Box	Electronic Arts	8 740	1 160 610
9	Call of Duty 4 – Modern Warfare 2	Actiblizz	8 617	4 467 601
10	Sports Champions	Sony	7 855	3 013 030

Source: GfK Retail and Technology

Top 10 Xbox 360 games sold in South Africa (2010)

Rank	Title	Publisher	Units	Value (R)
1	Forza Motorsport 3	Microsoft	12 071	3 447 484
2	Halo 3: ODST	Microsoft	9 476	5 209 917
3	FIFA 2011	Electronic Arts	9 118	4 281 974
4	FIFA World Cup 2010 SA	Electronic Arts	8 684	3 937 710
5	Call of Duty – Black Ops	Actiblizz	6 115	4 167 167
6	Halo 3	Microsoft	5 805	1 318 954
7	Call of Duty 4 – Modern Warfare	Actiblizz	5 661	3 144 487
8	FIFA 2010	Electronic Arts	5 573	2 579 504
9	Grand Theft Auto 4	Take 2	4 986	1 467 470
10	Banjo Kazooie	Microsoft	4 983	1 047 556

Source: GfK Retail and Technology

Top 10 handheld games sold in South Africa (2010)

Rank	Title	Publisher	Units	Value (R)
1	FIFA World Cup 2010 SA	Electronic Arts	7 693	2 959 762
2	New Super Mario Bros	Nintendo	7 080	3 494 520
3	Gran Turismo 5 Roadster	Sony	6 217	1 405 532
4	Burnout Dominator	Electronic Arts	6 160	828 812
5	Rachet & Clank: Size Matters (Bundle)	Sony	5 375	707 972
6	Rachet & Clank: Size Matters	Sony	5 328	1 085 460
7	Need for Speed: Carbon	Electronic Arts	5 240	677 561
8	Ben 10: Alien Force	D3Publisher	5 064	874 747
9	Grand Theft Auto Liberty City	Take 2	4 941	916 474
10	MX VS.ATV Untamed	THQ	4 877	997 589

Source: GfK Retail and Technology

PC games

Revenues for PC games reflect only retail sales of PC games and do not include digital distribution of games or subscriptions to play them online, both of which are included in the online games category. The PC games market has been adversely affected by the increased attention focused on console games by both developers and consumers. Developers have also been cutting back on the number of PC games because of the piracy issues that plague the PC games market.

Retailers do not make the same effort marketing PC games, providing them less shelf space and often relegating the games to the back of their stores. Lastly, the PC games market is also being hurt by the growth of digital distribution, which makes downloading games directly to the PC an easier alternative to purchasing them at a retail outlet.

Despite recent sales declines, PC games do have a solid fan base. PCs give gamers a superior method to play certain games genres such as strategy games and MMOGs, as a keyboard and mouse provide a better means of interacting with the games than a console controller. PC games also provide superior graphics. The most advanced games are often PC-based because the open platform – with no certification necessary, as is required with console games – enables more efficient development of games.

Though most PC games are also available on consoles, some games like *Crysis* and *Civilization V* are so advanced that they cannot be ported to a console. At the other end of the spectrum are those players who do not want to purchase consoles and are content playing games on their computers. PC versions of popular games are normally less expensive than console versions.

Both PCs and consoles are having enhancements added each year, which helps sustain games sales. In 2010, Nvidia introduced its latest graphics cards for PCs, which provide more realistic game images.

The growth of MMOGs is aiding the retail PC games market as most MMOGs require a retail purchase of the game after which the gamer pays a monthly subscription fee to play the game online. *World of Warcraft* has buoyed the PC games market. The two recent expansion packs: *World of Warcraft: Cataclysm* and *World of Warcraft: Wrath of the Lich King* have been among the most popular PC games sold in South Africa.

In addition to *World of Warcraft*, the other major franchise that continues to support PC games sales are the various *Sims* games. *Sims 3,* launched in 2009, is still a major selling PC game.

Top 10 PC games sold in South Africa (2010)

Rank	Title	Publisher	Units	Value (R)
1	The Sims 3	Electronic Arts	18 628	5 935 849
2	Starcraft 2: Wings of Liberty	Actiblizz	13 423	6 819 686
3	Grand Theft Auto: San Andreas	Take 2	13 080	1 331 481
4	Call of Duty: Deluxe Edition	Actiblizz	11 560	676 684
5	The Sims 3: High End Loft Stuff	Electronic Arts	11 076	2 169 546
6	The Sims 3: Ambitions	Electronic Arts	10 736	2 646 080
7	CSI 3: Dimensions of Murder	Ubisoft	10 647	624 795
8	Call of Duty – Black Ops	Actiblizz	10 383	4 972 570
9	Battlefield Bad Company 2: Limited Edition	Electronic Arts	10 322	3 531 178
10	Hunting Unlimited 2009	Value Soft	9 985	808 120

Source: GfK Retail and Technology

There are some games such as *Starcraft II: Wings of Liberty*, a popular game in 2010, that are made solely for the PC, while others are multiplatform games that are developed for the PC and consoles. A major series in this segment are the various *Call of Duty* games, including the latest release, *Call of Duty: Black Ops*, which has been a major seller both for the PC and for consoles.

Some new PC games to look forward to in 2011 include *Crysis 2* and the The *Elder Scrolls V: Skyrim.*

Despite the continuing shift in the market in favour of console games, unit sales increased by 3.0% in 2010. We expect unit sales to begin to decline in 2011 as the console market rebounds, but decreases will be moderate as the current cycle of consoles reaches maturity. We anticipate a larger decline in 2015 when the new consoles are expected to be introduced. Unit sales are projected to decline 3.6% on a compound annual basis to 0.9 million units in 2015 as consumers continue to migrate to console games. The decline would be greater if it were not for the strength of the MMOG market, which will continue to aid PC games sales.

The average price of a PC game in 2010 was R156, approximately half the R310 price for console games. Prices have decreased during the past five years.

As MMOGs comprise a larger share of the PC market, we project the average price to begin to increase in 2011. Growth during the next five years will average 1.1% compounded annually to R165 in 2015. Spending will total an estimated R140 million in 2015, a 2.5% compound annual decrease from 2010.

PC games market

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Unit sales (millions)	0.45	1.14	0.96	0.99	1.02	0.98	0.94	0.93	0.9	0.85	
% change	*4.7*	*153.3*	*-15.8*	*3.1*	*3.0*	*-3.9*	*-4.1*	*-1.1*	*-3.2*	*-5.6*	*-3.6*
Average price (R)	213	182	178	173	156	158	162	163	165	165	
% change	*-4.5*	*-14.6*	*-2.2*	*-2.8*	*-9.8*	*1.3*	*2.5*	*0.6*	*1.2*	–	*1.1*
Aggregate spending (R millions)	96	207	171	171	159	155	152	152	149	140	
% change	–	*115.6*	*-17.4*	–	*-7.0*	*-2.5*	*-1.9*	–	*-2.0*	*-6.0*	*-2.5*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, GfK Retail and Technology for data for 2006-2010.

Online games

The PC platform was traditionally the only means to play games online and is still the dominant platform for online games, far surpassing the Xbox 360, which is in second place. Consoles are becoming more important platforms because each of the current generation of consoles supports an online environment. The major console manufacturers – Sony, Microsoft and Nintendo – have each introduced online marketplaces (PlayStation Network, Xbox Live and Nintendo Wii Shop) enabling gamers to purchase games and other content and facilitating competition against other players anywhere in the world via the Internet.

Sony's PlayStation Network is a free environment that enables online gaming as well as a means to download video and game content. In 2010, Sony's PlayStation Plus service was introduced at a price of R489 annually. Under the plan, users get access to a selection of games that are normally available for sale from the PlayStation Network. The service also includes full game trials and automatic downloads of demos, game updates, and system updates.

Similarly, Microsoft has two online services. The Xbox Live Silver, which was recently renamed Xbox Live Free, provides users free access to download a limited number of game demos and movie trailers. A gold membership is required for online gaming and access to other services like Facebook. Microsoft began offering the localised version of Xbox Live in South Africa in November 2010. Gamers in South Africa had been able to use the system by registering for an account through another supported country. However, Xbox Live now offers content tailored specifically for South Africa. Microsoft ran a limited promotion in South Africa in April 2011 in which anyone who purchased an Xbox 360 console or game would get 50% off on the annual subscription fee for the Xbox Live gold membership, which normally costs R599.

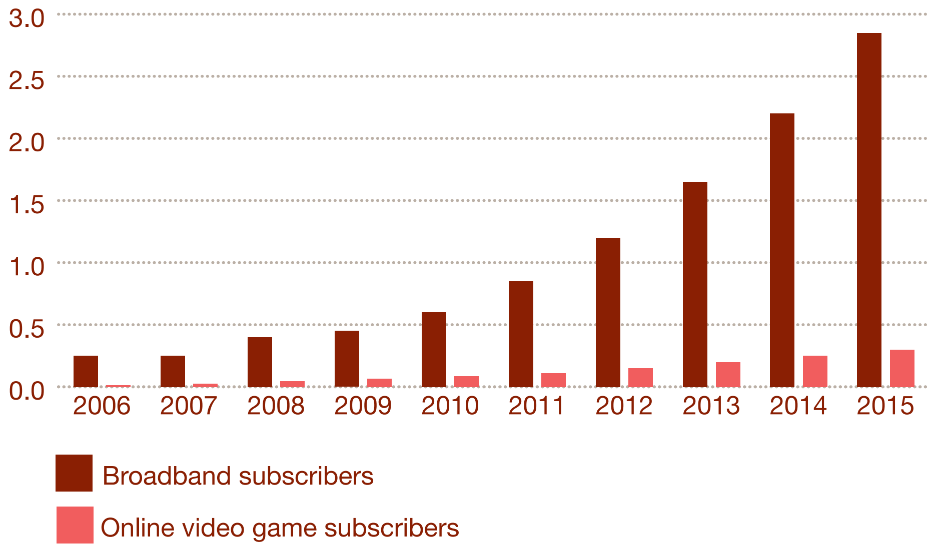
The Xbox Live system allows players to download games directly to their consoles as well as chatting with other players around the world. Microsoft also uses the Xbox Live system to provide updates for the console. For example, in May 2011, the company announced that it started rolling out a new auto-standby feature, which places the Xbox 360 into standby mode if it is unused for more than an hour, thereby conserving electricity.

During April 2011, the PlayStation Network was attacked by hackers who stole private information from thousands of users. As a result, Sony closed the service to correct security problems. Sony started to reinstate the system at the end of May.

Digital distribution of content is emerging as an important segment of the online market. In addition to full games, players can also download additional game content to enhance their playing experience. Microtransactions provide an additional source of revenue to the operators. The free-to-play business model with microtransactions providing revenues is emerging in South Africa as in other countries. Subscription models work well with the most popular games, while the free-to-play business model works for smaller games to help them build interest.

Many games developers are adding downloadable digital content for their games to enhance the gaming experience and as an additional source of revenues. Early in 2011, Activision Blizzard launched the first map pack for *Call of Duty: Black Ops*. The map pack provides additional content to the game and is available exclusively as a download.

Growth in broadband penetration and online gaming subscribers (millions)



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Microtransactions are becoming an important source of online revenues. Approximately half of online gamers buy virtual items for online games. Microtransactions allow gamers to buy items that give them an advantage in the game or enhance the gaming experience

MMOGs are played simultaneously by thousands of people worldwide. Most MMOGs require an initial retail purchase of the game followed by a monthly subscription fee to play the game online. Players often also purchase additional equipment and accessories online 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. The most popular MMOG worldwide is *World of Warcraft (WoW)*, which has over 12 million subscribers. Its latest expansion pack, *Cataclysm,* which was introduced in 2010, is helping to maintain players' interest in the game. Games developers are always trying to develop the next best MMOG to dethrone *WoW. Star Wars: The Old Republic* is the highest profile MMOG to be introduced in 2011.

Although the MMOGs get the most publicity, it is actually the casual gaming segment that attracts more players. This segment is comprised of gamers who go to a website to play simple board or strategy games, often at no charge, with advertising generating revenues. There are a number of websites 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.

Online gaming on social network sites like Facebook 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 in which the games are usually free with the developers gaining revenues through advertising and microtransactions. Zynga, the major games developer on Facebook, is credited with introducing the first social game, *Zynga Poker,* in July 2007. Since then, the company has developed a number of other games, including *FarmVille* and *CityVille*, which have reached tens of millions of gamers around the world.

A key driver of online gaming is growth in the broadband universe because most games require a broadband connection to play effectively. The broadband universe in South Africa has grown by approximately 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 doubled to 85 000 from 45 000 in 2008. Spending in 2010 rose 27.9% to R78 million.

We expect the number of broadband household subscribers to increase almost five-fold during the next five years to 2.85 million by 2015, a 36.6% compound annual increase from 2010.

We project the penetration of online players to decrease from 14.2% in 2010 to 10.5% in 2015 due to the huge increase in the number of broadband households. Despite the decrease in penetration levels, we expect the number of online players to almost quadruple from 85 000 in 2010 to 300 000 in 2015, representing a 28.7% compound annual growth rate.

Aggregate spending on online games is expected to increase from R78 million in 2010 to R241 million in 2015, a 25.3% compound annual increase.

Cloud computing changes the game

OnLive introduced a gaming-on-demand service based on cloud computing in June 2010 in the United States. Instead of purchasing games online and then downloading them to one's 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 computer they are playing on. Gamers using low-end computers will experience the games in the same way as others using high-end machines, as the processing is taking place on the company's servers and not on the machines themselves.

Games are being 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 will not replace a high-end PC or console for the hardcore gamer but it will add more casual gamers to the market. OnLive introduced an all-you-can-play flat fee subscription service, which allows unlimited access to the majority of its games. OnLive can be used on PCs, Macs, and Android devices and while it is currently unavailable in South Africa, it is being tested.

SkillPod Media is a leading South African provider of casual online games as well as games played on social networks. The company has also developed a platform that enables other developers to deploy casual games quickly onto its game portals.

In the near-term, cloud-based services continue to face competition from companies that are already established in the digital distribution of games. They are trying to sell their products to a market whose consumers are already equipped with the required technology. Additionally, since pricing is not that much different from the current pricing of the download companies, there is little incentive to switch to cloud gaming.

Since multiplayer gaming is becoming a more important segment of the market, these companies must develop strategies to minimise the latency of playing games on a remote server. The business model for the cloud gaming companies has a better chance of success in the future, when consumers are faced with the choice of buying the next generation of consoles or playing games from the cloud.

In the long run, cloud computing will have an impact on many segments of the market, including having negative effects on retail sales of console games and PC games while having a positive effect in the subscription based online games segment. Cloud services will also have a positive impact on in-game advertising, because ads can be easily updated in the cloud.

Source: Global entertainment & media outlook 2011-2015 (PwC 2011)

Online games market

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Broadband subscribers (millions)	0.25	0.36	0.40	0.45	0.60	0.85	1.20	1.65	2.20	2.85	
% change	*127.3*	*44.0*	*11.1*	*12.5*	*33.3*	*41.7*	*41.2*	*37.5*	*33.3*	*29.5*	*36.6*
Online video game subscribers (thousands)	15	25	45	65	85	110	150	200	250	300	
% change	*150.0*	*66.7*	*80.0*	*44.4*	*30.8*	*29.4*	*36.4*	*33.3*	*25.0*	*20.0*	*28.7*
Online video game penetration of broadband households (%)	6.0	6.9	11.3	14.4	14.2	12.9	12.5	12.1	11.4	10.5	
Average monthly spending (R)	84	82	80	78	76	74	72	70	68	67	
% change	*-2.3*	*-2.4*	*-2.4*	*-2.5*	*-2.6*	*-2.6*	*-2.7*	*-2.8*	*-2.9*	*-1.5*	*-2.5*
Annual spending (R millions)	15	25	43	61	78	98	130	168	204	241	
% change	*150.0*	*66.7*	*72.0*	*41.9*	*27.9*	*25.6*	*32.7*	*29.2*	*21.4*	*18.1*	*25.3*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile games

Mobile games are games played on mobile phones or other mobile devices. Almost all new mobile phones are now Internet enabled, enhancing the downloading potential for games. The increasing sophistication of new handsets will make for a more enjoyable gaming experience. As people upgrade their existing handsets for newer models, the number of game-capable handsets will increase dramatically.

Most mobile games are very simple because the graphic capabilities of many handsets are limited. As a result, the most popular mobile games are single-player board games, puzzles and word games. These casual games widen the demographic reach of the mobile game players. In fact, more than half of mobile gamers are women who enjoy playing casual games such as *Tetris* and *Bejeweled*, two of the most often downloaded mobile 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 being developed for gamers on the move.

Initially, many handsets were embedded with games as a differentiator to drive sales of individual phones. These games provided enjoyment to users, but did not provide any additional revenue for operators. With the expansion of Internet-connected phones, operators have recognised the potential for additional revenues from downloading games at a modest fee. However, the carriers' download platforms were often not user friendly.

A number of third-party websites such as Jamster have been established to facilitate the downloading of games. These provide games from a variety of publishers and provide a more user-friendly environment. These websites also provide game developers who cannot get on carriers' decks an opportunity to sell their games to consumers. We would expect the number of games downloaded to increase as consumers find these websites more user-friendly.

Apple's introduction of the iPhone and the App Store has revolutionised the mobile games market. The App Store, which has 45 000 games available for download, improves the buying experience dramatically over the carriers' decks, has better descriptions and offers free trials. A number of other online services, such as the Android market have been established, which compete with the carriers' decks to provide content.

The sophistication of games for iPhones and iPads has caused many gamers to substitute these devices for their DS and PSP handheld devices.

In 2010, Apple introduced the iPad, a tablet computer that runs all of the iPhone apps including the games. With its enhanced graphic capabilities and its large touchscreen, the iPad is becoming the platform of choice for many gamers. A number of other tablet computers have been introduced to the market to compete against the iPad, further expanding the market for advanced mobile gaming devices. The sophistication of smartphones and tablets has caused many gamers to substitute these devices for their traditional portable devices like the DS and PSP.

There are a growing number of mobile games, both because of the rising penetration of smartphones, but also because the games are significantly cheaper than console games.

In June 2010, SkillPod Media joined with Ingrat, a mobile application service provider, to launch a mobile game portal called Play4Games.co.za, which supports all of the popular smartphones. The joint venture is porting many of SkillPod Media's online games to the mobile platform.

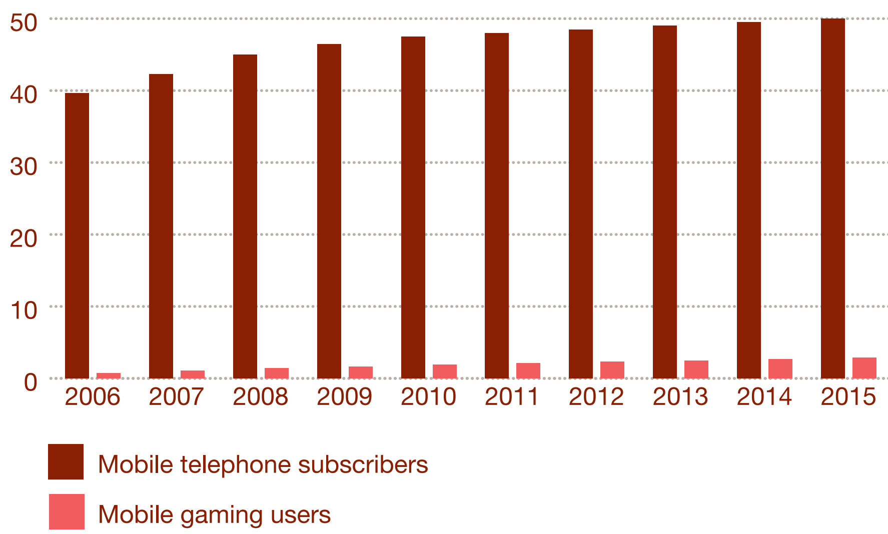
For many people in South Africa, the cost of a game console or a PC is prohibitive, but almost everyone has a mobile phone. People are eager to experiment with mobile games as their phones are the first devices they own that enable them to access entertainment in an electronic form. Mobile games are much cheaper than those developed for consoles.

The decline in handset prices and data access fees is also helping to drive the market for mobile gaming.

In contrast with broadband, mobile penetration in South Africa has reached the saturation point with penetration approaching 100% in 2010. As a result, the number of subscribers is expected to grow at a modest 1.0% on a compound annual basis through 2015 to 50.0 million from 47.5 million in 2010.

Growth of the mobile games market will thus depend more on increased penetration. In 2010, an estimated 4.0% of mobile telephone subscribers downloaded mobile games. We project this share to increase to 5.7% by 2015. We expect the number of people who download games to increase from 1.9 million in 2010 to 2.9 million in 2015, an 8.8% compound annual growth rate.

Growth in mobile subscribers and mobile gaming users (millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile games market

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Mobile telephone subscribers (millions)	39.66	42.30	45.00	46.44	47.50	48.00	48.50	49.00	49.50	50.00	
% change	*16.8*	*6.7*	*6.4*	*3.2*	*2.3*	*1.1*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*
Percent using mobile games (%)	1.7	2.5	3.0	3.5	4.0	4.3	4.7	5.0	5.4	5.7	
Number of users (millions)	0.7	1.1	1.4	1.6	1.9	2.1	2.3	2.5	2.7	2.9	
% change	*75.0*	*57.1*	*27.3*	*14.3*	*18.8*	*10.5*	*9.5*	*8.7*	*8.0*	*7.4*	*8.8*
Annual downloads per user	3.50	3.40	3.30	3.20	3.10	3.00	2.90	2.80	2.70	2.60	
% change	*-2.8*	*-2.9*	*-2.9*	*-3.0*	*-3.1*	*-3.2*	*-3.3*	*-3.4*	*-3.6*	*-3.7*	*-3.5*
Aggregate number of downloads	2.5	3.7	4.6	5.4	5.9	6.3	6.7	7.0	7.3	7.5	
% change	*78.6*	*48.0*	*24.3*	*17.4*	*9.3*	*6.8*	*6.3*	*4.5*	*4.3*	*2.7*	*4.9*
Average price (R)	33	34	35	36	37	38	39	40	41	42	
% change	*3.1*	*3.0*	*2.9*	*2.9*	*2.8*	*2.7*	*2.6*	*2.6*	*2.5*	*2.4*	*2.6*
Aggregate annual spending (R millions)	83	126	161	194	218	239	261	280	299	315	
% change	*84.4*	*51.8*	*27.8*	*20.5*	*12.4*	*9.6*	*9.2*	*7.3*	*6.8*	*5.4*	*7.6*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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 but sustainable rate. Additionally, early adopters are more likely to download games as they are the innovators, while those who become subscribers later on are more mainstream and thus likely to download fewer games.

In 2010, the average user downloaded 3.1 games compared with 3.5 in 2006. We expect this figure to continue to trend down as penetration increases. By 2015, the average mobile game user will download an average of 2.6 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 the consumer. As a result, we expect the average price to rise from R37 in 2010 to R42 in 2015, growing at a 2.6% compound annual rate. Spending on mobile games is projected to increase to R315 million by 2015, growing 7.6% compounded annually.

Top 10 mobile games downloaded in South Africa (2010)

Rank	Title	Publisher	Genre
1	FIFA 10 – World Cup South Africa	Electronic Arts	Sport
2	Pacman	Various	Action/Adventure
3	NFS Shift	Electronic Arts	Racer
4	Tetris	Various	Puzzle
5	SIMS 3 – World Adventures	Electronic Arts	Simulation
6	SIMS 3	Electronic Arts	Simulation
7	FIFA 10	EA Sports	Sport
8	SIMS 2	Electronic Arts	Simulation
9	Bejewelled	PopCap Games	Puzzle
10	FIFA 11	Electronic Arts	Sport

Sources: Aquidneck Consulting

In general, games publishers are interested in getting into the wireless games market because wireless games are relatively inexpensive to develop and can reach a wide audience. Games for smartphones are significantly cheaper than those for a DS or PSP, making smartphone games popular with casual gamers.

Sony Ericsson is set to unveil an Android-based smartphone that will integrate PSP functionality. It will be a slider device with a game pad.

Microsoft has no plans to develop a dedicated handheld gaming device and is instead pushing its Windows Phone 7 mobile operating system as a gaming platform. Electronic Arts and PopCap are among the publishers developing games for the platform.

Social networking games are finding their way to mobile phones, with microtransactions and advertising providing the requisite revenue streams.

Augmented reality combines computer-generated graphics with real video and is a promising wireless game technology. Actual video makes the game more realistic, while the augmented-reality component allows virtually any scenario to be played out in a game situation. The technology is available on iPhones, Androids and other smartphones and has potential to expand the mobile games market.

Advertising

As the number of video game players continues to increase, advertisers are turning to games as a means of reaching specific demographic groups that are becoming more elusive. The prime target is males aged 18-34, who are spending less time watching television and more time playing games. Video games provide a unique level of engagement that is missing in other advertising media. There are a number of components in the video game advertising market: static ads, dynamic ads, advertising on games portals and advergames.

The initial ads were static ads, such as billboards that appeared in the background of sporting events or product placements in which a character is shown with a branded product. These ads were placed in the games when they were developed and could not be changed. Sports games and games set in contemporary times benefit from ads as they give them a more realistic feeling as one could not imagine a soccer 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.

With the advent of online gaming, a more advanced type of advertising became possible. Advertisers can now place ads that can be changed dynamically through the Internet. For example, a billboard advertising a movie could be updated as new films hit the box office, thereby providing 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 advertisement. More specifically, players in one province of South Africa could see an ad for a different product than that seen by players in another province. The ads can also be programmed to be delivered at specific times of the day and can also be geared to specific demographic groups who identify themselves when they register. Since these games are online, it is also 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.

In 2006, Microsoft entered the games advertising market by acquiring Massive Inc., a pioneer in the in-game advertising industry. Massive had deals with Electronic Arts, THQ and Activision to insert ads in a number of their games. Any advertiser that wanted to place ads in Xbox 360 games had to work through Massive. In October 2010, Microsoft announced that it was closing down its Massive subsidiary and would deploy its technology into its first-party ad business. Electronic Arts severed its relationship with Massive in March, 2010 when it launched its own in-game ad unit.

Video games advertising market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Annual spending	3	10	15	17	19	22	25	28	31	34	
% change	*—*	*233.3*	*50.0*	*13.3*	*11.8*	*15.8*	*13.6*	*12.0*	*10.7*	*9.7*	*12.3*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

IGA Worldwide and Double Fusion have also developed similar technology to dynamically place ads in video games. Unlike Microsoft, which had its own advertising company, Sony has opened its platform to allow independent ad companies to broker deals with third-party games publishers. 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) 2011*, a major sports game in South Africa.

Studies have shown that as long as the ads do not interfere with their play, gamers react favourably to in-game advertising because they add realism to the games. 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 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.

Advergaming is the practice of using a video game to promote brands, products, or organisations. These games are often played free on corporate websites. Many different advertisers are experimenting with games to get their message across. Some of the most popular advergames in South Africa include *Lego Star Wars* and *Lego World Racers* promoting Lego toys, *No Extra Charge* promoting Energizer batteries, and *Mobil 1 Track Challenge* sponsored by Exxon Mobil. These games are popular in South Africa and around the world.

There are a number of South African companies including CDK Technologies, Digital Dynamite and QCF Design that are developing advergames. Some advergames developed in South Africa to promote local brands include *DJ on Fire* promoting Savanna, an alcoholic beverage and *Legends of Echo*, Vodacom's multiplayer social game.

Video game advertising has expanded to include advertising in social games such as *Farmville* on Facebook and also in mobile games. *Angry Birds*, a hugely popular mobile game worldwide, was a major success as a paid download on the App Store and gained even more fans as an ad-supported game once developed for the Android platform.

Display ads, advergames and advertising on Web-based game portals are the major advertising segments. In-game advertising is growing fastest in free-to-play/casual games, but is also increasing, albeit at a slower rate than expected, in the paid online category and it remains a presence for certain categories, such as sports games.

Advertising is still a very small segment of the video games market comprising only R19 million in 2010. However, we expect advertising revenues to nearly double by 2015, reaching R34 million, a 12.3% compound annual increase.

3D gaming[1]

An interesting dichotomy exists within the universe of video games: external experts on gaming believe there is a strong link between video games and 3D, but at the games studios, executives seem to be more skeptical.

The positive view notes the strong link between 3D immersion capability and the demand for immersive gameplay, that many game-players are early adopters of new technology, that there are no, or very limited, incremental production costs, and that 3D-capable game consoles already exist.

The more cautious view emphasises that most hardcore gamers seem more interested in the story and the gameplay than in the technology that accompanies it – and in the best-selling 'flagship games' that dominate the market, which are not yet available in 3D.

Many hardcore gamers are obsessed with performance and 3D reduces both resolution and the frame rate and can generate nausea in fast-motion games (like first-person-shooter games).

Sony's PlayStation 3 has been upgraded to accommodate 3D, making it the first 3D Blu-ray player. Microsoft's Xbox 360 is 3D-capable, but this feature has not yet been marketed by Microsoft. Some of the most popular games, such as *Gran Turismo 5*, *Motor Storm Pacific Rift*, *Wip3out*, *Pain, Mortal Kombat*, *NBA 2K11* or *Crysis*, will soon be available in 3D.

In some game categories, 3D adoption probably awaits its adoption by other entertainment formats. In action, adventure and heroic fantasy games, for example, gamers want to replicate their cinema experience – and 3D is not yet the standard for these categories of movies. In sports games, gamers also want to replicate their experience of watching games on television and the development of 3D sports broadcasting is probably needed to generate a market for 3D sport games.

More impetus may come from the introduction of movement detection technology – a 3D camera built into the game player that includes the player in the game. Movement detection systems, such as PS3's Move and Xbox 360's Kinect, could boost 3D game adoption as they improve the gaming experience while addressing the casual gamer population.

1 Source: "*3D Here and Now: The Goose that Lays the Golden egg?*", PwC France, 2010.

Global trends in the video games market

Global outlook

- Total global spending on video games will expand from $55.5 billion in 2010 to $82.4 billion in 2015, growing at an 8.2% compound annual rate.
- Global console games, the largest category at $28.1 billion in 2010, will expand at a 4.4% compound annual rate to $34.8 billion in 2015.
- PC games will continue to decline, decreasing at a 1.7% rate compounded annually to $3.6 billion from $3.9 billion in 2010.
- Online and wireless games will be the fastest-growing end-user categories with compound annual increases of 14.9% and 11.0%, respectively. Online games will total $28.4 billion in 2015 and wireless games $12.7 billion.
- There is emerging video games advertising market that totalled $1.8 billion in 2010, a figure that will increase to $3.0 billion in 2015, growing at a 10.0% compound annual rate.

Key drivers

- The console games market will continue to be driven over the next few years by new games being marketed for the current generation of consoles: Wii, Xbox 360, and PlayStation 3. We expect that by 2015, the next generation of consoles will begin to be introduced, which will spur renewed growth in console games.
- The online market will benefit from the increase in penetration of broadband households combined with the growing digital distribution of content. The increasing popularity of MMOGs with their subscription fees and microtransactions is also aiding the growth of this market. Casual games and social network games are further important components.
- The rapid take-up of smartphones and tablets – such as the iPad – with improved graphic capabilities, will raise the bar for the quality of wireless games and drive demand for these games. At the same time, new application stores will increase the number of gamers willing to purchase games. The growth of 3G/4G networks will enable wireless games to approach the quality of console games.
- The market for PC games will continue to deteriorate as consumers turn their attention to newer technologies. The growth of MMOGs, which usually require the retail purchase of a PC game, will partially offset the continuing decline of the retail PC games 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 games market.

Source: Global entertainment and media outlook 2011 – 2015 (PwC, 2011)

Global video games market by component (US$ millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Console games	20 041	25 793	30 690	28 817	28 066	28 605	29 626	30 832	32 326	34 815	
% change	*7.9*	*28.7*	*19.0*	*-6.1*	*-2.6*	*1.9*	*3.6*	*4.1*	*4.8*	*7.7*	*4.4*
Online games	5 458	7 500	9 866	11 858	14 190	16 327	18 945	21 972	25 224	28 396	
% change	*35.4*	*37.4*	*31.5*	*20.2*	*19.7*	*15.1*	*16.0*	*16.0*	*14.8*	*12.6*	*14.9*
Wireless games	3 203	4 015	5 522	6 486	7 527	8 492	9 595	10 652	11 735	12 684	
% change	*41.4*	*25.4*	*37.5*	*17.5*	*16.0*	*12.8*	*13.0*	*11.0*	*10.2*	*8.1*	*11.0*
PC games	4 746	4 604	4 297	3 900	3 902	3 794	3 747	3 707	3 637	3 574	
% change	*2.8*	*-3.0*	*-6.7*	*-9.2*	*0.1*	*-2.8*	*-1.2*	*-1.1*	*-1.9*	*-1.7*	*-1.7*
Total end-user spending	33 448	41 912	50 375	51 061	53 685	57 218	61 913	67 163	72 922	79 469	
% change	*13.4*	*25.3*	*20.2*	*1.4*	*5.1*	*6.6*	*8.2*	*8.5*	*8.6*	*9.0*	*8.2*
Advertising	660	1 032	1 361	1 574	1 845	2 075	2 310	2 530	2 765	2 967	
% change	*277.1*	*56.4*	*31.9*	*15.7*	*17.2*	*12.5*	*11.3*	*9.5*	*9.3*	*7.3*	*10.0*
Total video games	**34 108**	**42 944**	**51 736**	**52 635**	**55 530**	**59 293**	**64 223**	**69 693**	**75 687**	**82 436**	
% change	***15.0***	***25.9***	***20.5***	***1.7***	***5.5***	***6.8***	***8.3***	***8.5***	***8.6***	***8.9***	***8.2***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The market for handheld gaming consoles is coming under pressure in a convergent world. Devices such as the iPad and advanced smartphones offer gaming in addition to Internet browsing, social media and entertainment.

PwC's *Australian Entertainment and Media Outlook 2011-2015*

Chapter 13
Sports

The sports market consists of gate/ticket revenues for live sporting events, media rights fees paid to show sports on television stations, sponsorships (which include payments to have a product associated with a team or event as well as naming rights) and merchandising revenues (which includes the selling of licensed products with team or league logos and/or other intellectual property). For the first time, overall spending also includes sports betting, which consists of the house win or the revenues retained by sports books.

The large jump in revenues in 2010 reflects the impact of the 2010 FIFA World Cup. Comparisons with 2010 will be unfavourable as there will be no event that will generate comparable revenues to that of the 2010 FIFA World Cup.

Outlook at a glance			
Sports market (R millions)	**2010**	**2015**	**2011-15 CAGR (%)**
Gate revenues	6 600	4 100	-9.1
Media rights	3 500	2 300	-8.1
Sponsorships	5 400	4 400	-4.0
Merchandising	990	620	-8.9
Sports betting	2 000	2 215	2.1
Total	18 490	13 635	-5.9

Shane Murugen
Associate Director
PwC Southern Africa

Mohamed Varachia
Senior Manager
PwC Southern Africa

Outlook in brief

- *Revenues for the total sports market was fuelled by the 2010 FIFA World Cup.*
- *Due to significant improvements in infrastructure in preparation for the 2010 Soccer World Cup, South Africa is well positioned to host other sporting events.*
- *The South African sponsorship market is dynamic with new players continually trying to harness value.*
- *The largest sponsorship for 2010 was Absa's sponsorship of Springbok Rugby.*
- *Counterfeit merchandising is a big threat to this market.*
- *A stronger TV advertising market is reinvigorating the demand for sports rights.*

Access Outlook online for the full forecasts and economic analyses for 13 industry segments.

www.pwc.com/za/outlook

Overview

Revenues for the total sports market totalled R18.5 billion in 2010, representing an 84.6% increase on the levels recorded during 2009.

This large jump in revenues reflects the economic impact of the 2010 FIFA World Cup, which was hosted in the middle of the year. Although providing a major lift to South Africa, there were fewer international visitors than expected by FIFA and prices were substantially reduced in order to sell tickets. Consequently, gate receipts were less than originally anticipated, although more than three million people did attend matches.

Much has been written about the legacy of the World Cup. In preparing to host the event, 10 stadiums were either built or refurbished, large investments were made to modernise the transportation system (including the introduction of the Gautrain and the Rea Vaya bus system), and telecommunication networks were upgraded. The infrastructure is now largely in place to host other major international events. South Africa is bidding to host the 2013 Women's Soccer World Cup, the 2013 F1 Grand Prix and the 2019 Rugby World Cup.

With its sports infrastructure in place, South Africa is also well positioned to host events with little notice. The 2011 African Youth Championship, originally scheduled to be held in Libya in March 2011 was switched to South Africa by the Confederation of African Football (CAF) because of the turmoil prevailing in Libya. South Africa was consequently also recently announced as the host of the 2013 African Cup of Nations Football tournament, with Libya now hosting the 2017 tournament.

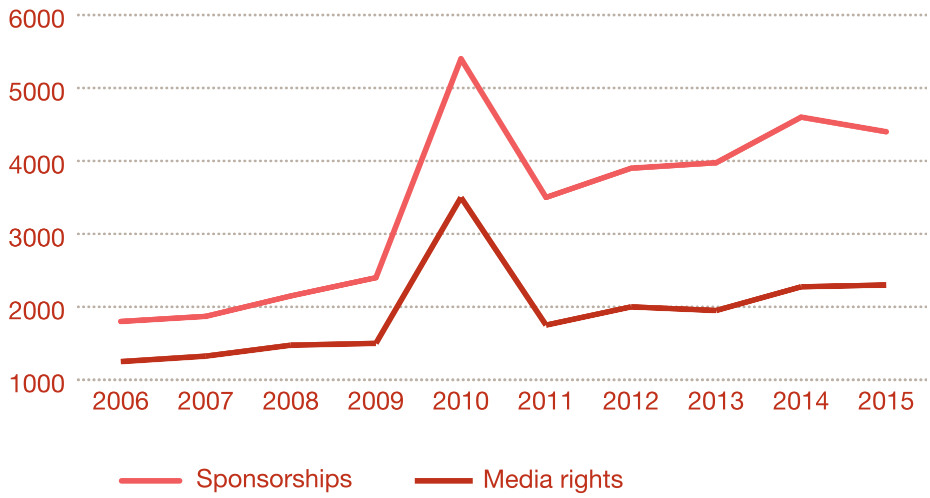
Recently, South Africa was announced as the host of what has been described as the world's richest golf event, a US$10 million World Golf Championship (WGC) event featuring the sport's top 70 players. This deal was concluded for a five-year period, commencing in 2012/2013. To be known as the *Tournament of Hope*, the event will be used to create awareness of poverty and Aids in Africa. The *Tournament of Hope* will be only the second WGC event outside the United States after the HSBC Champions in China.

It was hoped that the new and refurbished stadiums would also provide a boost to the domestic association football by increasing capacity and attracting patrons. So far this has not been the case in respect of sporting events, although some of the stadiums have been successfully utilised for live music events. Only three of the stadiums used during the World Cup are being used for Premier Soccer League (PSL) matches and none of the stadiums were used for the PSL Top Eight Tournament. Attendance at domestic league games remains weak and does not yet justify using the new stadiums. Although *Kaizer Chiefs* will be using FNB Stadium extensively this season, *Orlando Pirates* are using the Orlando Stadium in Soweto as their home venue.

Rugby on the other hand, remains a popular gate attraction and is making use of the new facilities. The Tri Nations match played in August 2010 between South Africa and New Zealand attracted 94 000 spectators to the FNB Stadium in Johannesburg.

The sponsorship and media rights markets also remain strong. Super Rugby has made various changes, adding a new team from Australia, expanding the number of matches, revamping the format and signing a new TV rights deal. We are expecting a significant jump in revenues for the tournament from 2011.

Impact of 2010 FIFA World Cup on the South African sports market (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The underlying market will also benefit from an improved economic environment over the forecast period, a rebound in TV advertising and growth in pay-TV penetration. Globally, the return of financial services and motorcar companies to the sponsorship market is contributing to significant growth in sponsorship spending. Major international events, including the London Olympics in 2012 and the FIFA World Cup to be held in Brazil in 2014, will boost media rights fees and sponsorship revenues in all regions in those years and gate revenues and merchandising in the regions in which they will be held.

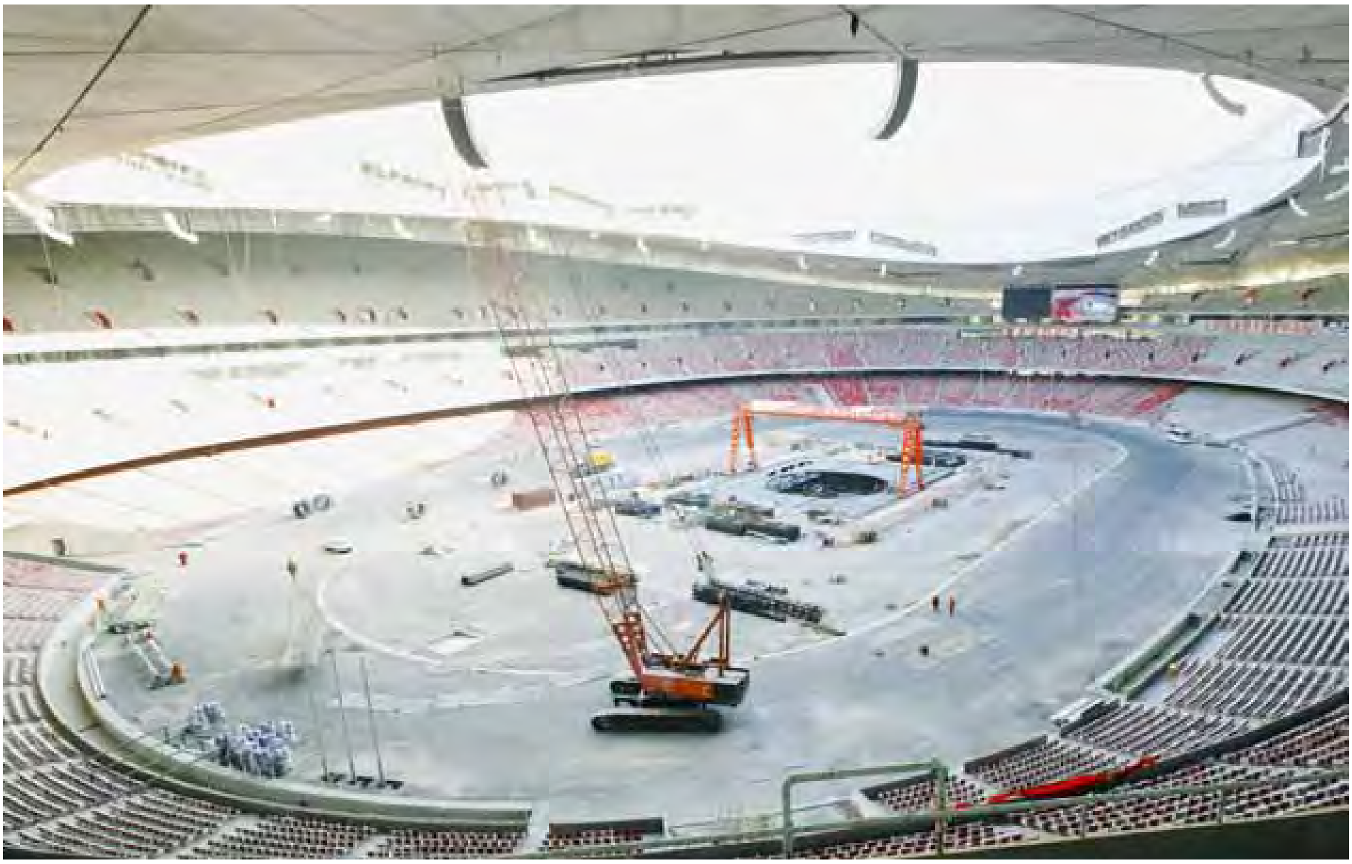
Nevertheless, in South Africa, comparisons with 2010 will be unfavourable since there will be no event that will generate comparable revenues to that of the 2010 FIFA World Cup.

We expect total spending in the sports market to plunge by 43% in 2011, returning to levels that are more comparable to 2009, which did not include the extraordinary impact of the 2010 FIFA World Cup. We then look for the market to expand, averaging 5.0% compound annual growth between 2011 and 2015. Compared with 2010, however, the R11.4 billion in projected spending for 2015 will be 7.1% lower than 2010 on a compound annual basis.

Sports market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Gate revenues	3 350	3 500	3 650	3 925	6 600	3 600	3 700	3 825	3 960	4 100	
% change	*6.3*	*4.5*	*4.3*	*7.5*	*68.2*	*-45.5*	*2.8*	*3.4*	*3.5*	*3.5*	*-9.1*
Media rights	1 250	1 325	1 475	1 500	3 500	1 750	2 000	1 950	2 275	2 300	
% change	*13.6*	*6.0*	*11.3*	*1.7*	*133.3*	*-50.0*	*14.3*	*-2.5*	*16.7*	*1.1*	*-8.1*
Sponsorships	1 800	1 870	2 150	2 400	5 400	3 500	3 900	3 975	4 600	4 400	
% change	*17.6*	*3.9*	*15.0*	*11.6*	*125.0*	*-35.2*	*11.4*	*1.9*	*15.7*	*-4.3*	*-4.0*
Merchandising	500	525	550	580	990	550	560	575	595	620	
% change	*6.4*	*5.0*	*4.8*	*5.5*	*70.7*	*-44.4*	*1.8*	*2.7*	*3.5*	*4.2*	*-8.9*
Sports market total	6 900	7 220	7 825	8 405	16 490	9 400	10 160	10 325	11 430	11 420	
% change	*10.4*	*4.6*	*8.4*	*7.4*	*96.2*	*-43.0*	*8.1*	*1.6*	*10.7*	*-0.1*	*-7.1*
Sports betting	1 460	1 860	1 640	1 610	2 000	1 780	1 800	1 850	2 260	2 215	
% change	*25.9*	*27.4*	*-11.8*	*-1.8*	*24.2*	*-11.0*	*1.1*	*2.8*	*22.2*	*-2.0*	*2.1*
Total sports spending	**8 360**	**9 080**	**9 465**	**10 015**	**18 490**	**11 180**	**11 960**	**12 175**	**13 690**	**13 635**	
% change	***12.8***	***8.6***	***4.2***	***5.8***	***84.6***	***-39.5***	***7.0***	***1.8***	***12.4***	***-0.4***	***-5.9***

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Gate revenues

Gate revenues rose 68.2% in 2010 to R6.6 billion. This was fuelled by the FIFA World Cup, which attracted 3.18 million fans in total attendance. This was the third-highest attendance for the FIFA World Cup behind the 3.6 million who attended the event in the United States in 1994 and the 3.3 million in Germany during 2006. However, gate revenues for the World Cup were lower than expected because prices were reduced at the last minute to boost attendance and to provide all South African fans with an affordable opportunity to watch the games. The cheapest tickets for South African spectators were priced at R140, while overall gate revenues for the event totalled approximately R2.7 billion.

The gate revenue market is relatively weak in South Africa. The run up to the World Cup saw boosted attendances at PSL games, but this was followed by reduced attendances once the World Cup was over. Rugby and cricket are, however, doing comparatively well. Without the FIFA World Cup to boost revenues and declining PSL revenues, a 45.5% decline in 2011 to R3.6 billion is expected.

South Africa is bidding for future international events which, if successful, will have a positive impact on gate revenues. The country hopes to host a Grand Prix event in Cape Town in 2013 and the 2013 Women's Soccer World Cup. Until confirmed, these events are not factored in our gate revenue projections. When going to print the forecast of 2013 African Cup of Nations football tournament was not included in our projections.

Gate revenues (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Gate revenues	3 350	3 500	3 650	3 925	6 600	3 600	3 700	3 825	3 960	4 100	
% change	*6.3*	*4.5*	*4.3*	*7.5*	*68.2*	*-45.5*	*2.8*	*3.4*	*3.5*	*3.5*	*-9.1*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Based on the new format of the Super 15, it is expected that the additional matches will provide a lift to gate revenues. However, there has been much debate in the media regarding the current length of the tournament, which is generally considered to be too long. We also look for a rebound in PSL attendance spurred on by lower prices and the development of local talent. Admissions and gate revenues are also expected to benefit from improved economic conditions.

Between 2011 and 2015, we project gate revenues to grow at a 3.3% compound annual rate to R4.1 billion. Compared with 2010, however, gate revenues will be 9.1% lower on a compound annual basis.

Sponsorships and merchandising

Advertising plays a major part in professional sport, as a significant number of blue-chip companies seek this avenue as a cost-effective method of building their brand and engaging their target audience.

Advertising opportunities in the sports arena include the sponsorship of sporting events, stadium naming rights, sponsorship of teams and prominent athletes. Sports also drives advertising in the form of adverts displayed at sporting events, during live television broadcasts and through digital media.

Sponsorships

Sponsorships are valued because they provide access to an audience that has an emotional attachment to a team or sport. Companies have found it productive to link brands to sports teams.

The sponsorship market is highly influenced and affected by major international events that boost spending in the years when they are held. The FIFA World Cup and Olympic Games continue to attract significant sponsorship revenue and generally take place on a two-yearly rotational basis, providing continuous momentum to the global sports industry.

The sponsorship market in South Africa is vibrant. MTN became Africa's global FIFA World Cup sponsor paying R475 million over four years, while FNB is a lower-tier FIFA World Cup national sponsor paying R220 million.

Measuring value for money

Decisions to invest in sports marketing (sponsorships) need to be underpinned by sound commercial logic and shown to be the most efficient way of achieving marketing objectives.

Measuring sponsorship's effectiveness is an increasingly important part of the sports marketing process. Marketers are under pressure to deliver quantifiable 'bang for their bucks' and are keen to know that their activation programmes are delivering effectively.

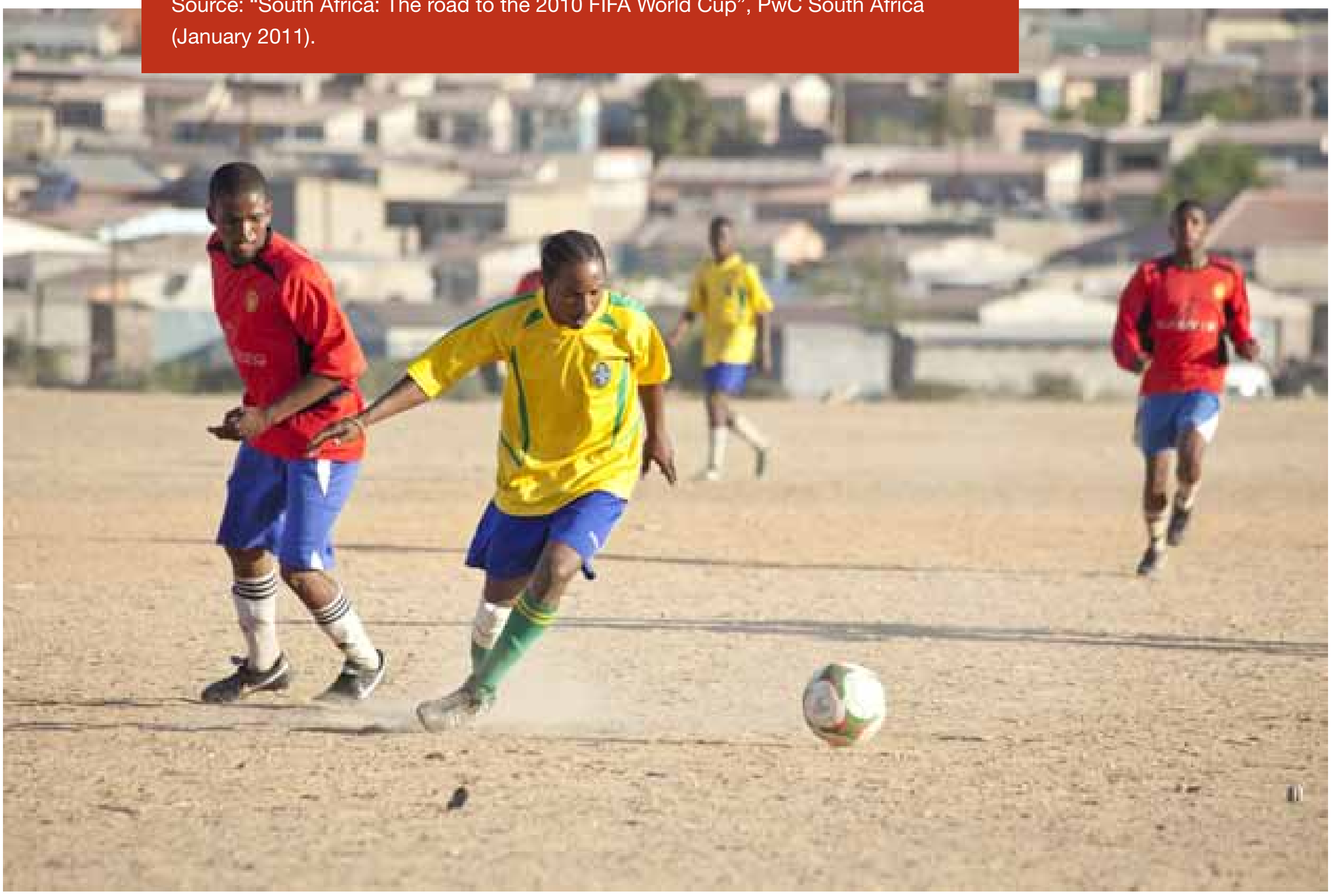
Source: Fraser Houlder, "Sponsorship Measurement and Evaluation" www.sportbusiness.com, (accessed April, 2011).

MTN realises the benefits of sponsorship

The 2010 Global Brand Valuation was commissioned to determine if the value of the MTN brand had grown since the 2008 Global Brand Valuation and how much of that growth could be attributable to the 2010 FIFA World Cup sponsorship. In summary: MTN's Global Brand Value has increased by approximately 15% in two years to R82.6 billion ($11.3 billion), irrespective of revenue performance.

Brand Strength, which demonstrates MTN's performance versus competitors and subsequent ability to sustain demand through customer preference and loyalty, has increased from 61% to 67%. A significant part of this brand strength increase has been driven by the FIFA sponsorship. FIFA's contribution to brand value growth was over R3.65 billion ($500m). This estimate was generated by evaluating the effect of the 2010 FIFA World Cup on purchase intent amongst MTN users and non-users.

Source: "South Africa: The road to the 2010 FIFA World Cup", PwC South Africa (January 2011).



Sponsorship revenues (R millions)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Sponsorship revenues	1 800	1 870	2 150	2 400	5 400	3 500	3 900	3 975	4 600	4 400	
% change	*17.6*	*3.9*	*15.0*	*11.6*	*125.0*	*-35.2*	*11.4*	*1.9*	*15.7*	*-4.3*	*-4.0*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Some of the significant sponsorships in the South African market are as follows:

- While Castle Lager (SAB) is no longer the title sponsor of the PSL, it is still its official beer as well as the official beer for Super Rugby. SAB has committed to be the principal sponsor of the *Proteas* test cricket team and the associate sponsor of the *Springboks*.
- Mr Price has extended its partnership with professional rugby union club, *The Sharks*, by acquiring the naming rights to its 55 000-capacity home ground, Kings Park Stadium, in Durban.
- Although it has cut back somewhat, Vodacom remains a major rugby sponsor, sponsoring the *Blue Bulls* and being the title sponsor of the Super 15 tournament. Vodacom also sponsors two teams in the PSL, namely *Kaizer Chiefs* and *Orlando Pirates* as well as *Bafana Bafana* and *Amajita* (the under-20 national football team). Vodacom credits its sports sponsorships with building brand awareness and credibility.
- Recently, MTN and DHL South Africa entered the rugby sponsor market. MTN is now the primary sponsor of the *Lions*, while DHL South Africa is the official sponsor of Western Province Rugby, the Newlands Rugby Stadium and the *Stormers*.
- The competitive mobile phone market is attracting new sports sponsors. In addition to Vodacom and MTN, Cell C recently entered the sports sponsor market, becoming the inaugural title sponsor of the Cell C Tour of South Africa, a cycle tour that debuted in February 2011.
- Motorcar companies are also beginning to participate in sports sponsorships. Toyota sponsors the ***Cheetahs*** rugby team, while Chrysler South Africa has concluded a three-year sponsorship deal with the *Mamelodi Sundowns* football team.
- Nedbank is a major sponsor of golf, sponsoring the Nedbank Golf Challenge, the Sunshine Tour, the Nedbank Affinity Cup (a Sunshine Tour event) and the Nedbank South African Disabled Golf Open.
- Pepsi Cola has partnered with the Comrades Marathon Association (CMA) as the official carbonated beverage supplier for the next three years. Starting with this year's race, 44 000 litres of Pepsi Cola and other carbonated beverage were distributed at 48 refreshment stations along the Comrades Marathon route.
- The sponsorship market in South Africa is not static. Standard Bank ended many of its sports sponsorships in a cost-cutting initiative. Adidas is no longer the kit sponsor for *Bafana Bafana* and Sasol is no longer the sponsor of the Springboks. Absa has taken over with a R50 million/year sponsorship of the national soccer team, *Bafana Bafana*, and a R65 million/year sponsorship of the *Springbok* rugby team.
- Puma was recently unveiled as the new kit supplier to Bafana Bafana. BMW also entered the sponsorship market, signing a five-year deal to become the official vehicle sponsor of the Springboks while on test match duty in South Africa.

Sponsorship spending more than doubled during 2010, reflecting the significance of the FIFA World Cup. We forecast a 35.2% reduction in spending during 2011 as this spending leaves the market. Thereafter, sponsorships are forecasted to increase at a 5.9% compound annual rate to reach R4.4 billion in 2015, a compounded annual reduction of 4.0% from the 2010 level of R5.4 billion.

Top 10 global sponsorships for 2011

Rank	Sponsor	Country	Event or activity	Value ($)	Years
1	Bud Light	USA	American football: NFL	1 200 000 000	6
2	JP Morgan Chase	USA	Venue: Madison Square Garden	300 000 000	10
3	Gillette	USA	Venue: Gillette Stadium (New England Patriots)	300 000 000	15
4	Hyundai	International	Soccer: FIFA	280 000 000	8
5	Dow Chemicals	International	Olympics: IOC 2010-2020	250 000 000	10
6	Adidas	UK	Soccer: Chelsea FC	24 000 000	8
7	Vodafone	International	Formula 1: Vodafone McLaren Mercedes from 2011	225 000 000	3
8	Qatar Foundation	Spain	Soccer: Barcelona	220 000 000	5
9	UBS	International	Formula 1: Global Partner	200 000 000	5
10	Adidas	USA	Soccer: MLS	200 000 000	8

$:ZAR Average exchange rate for 2011 Q1: 7.13
Source: The World Sponsorship Monitor from IFM Sports Marketing Surveys

Top 10 South African sponsorships for 2011

Rank	Sponsor	Event or activity	Value ($)	Years
1	ABSA	Rugby: SARFU	30 000 000	5
2	MTN	Soccer: Bloemfontein Celtic	16 000 000	4
3	Puma	Conservation: International Year of Biodiversity	10 000 000	1
4	DHL	Rugby: Western Province	5 000 000-9 999 000	-
5	MTN	Rugby: MTN Golden Lions	5 400 000	3
6	Toyota	Rugby: Free State Cheetahs	4 800 000	3
7	MTN	Soccer: Manchester United	3 500 000	3
8	Samsung	Soccer: SAFA	1 000 000-2 499 000	1
9	Samsung	Rugby: Vodacom Bulls	1 000 000-2 499 000	-
10	General Motors	Cricket: Chevrolet Warriors	1 100 000	3

$:ZAR Average exchange rate for 2011 Q1: 7.13
Source: The World Sponsorship Monitor from IFM Sports Marketing Surveys

The big sports continue to receive the most money

When looking at the amounts reported as being committed to individual sports within the top 50 biggest global deals, we have included venue sponsorship in order to compare with the money spent on the hierarchy of major sports. As usual there is remarkable stability in the sports most popular with sponsors, with soccer keeping its traditional place at the top of the chart.

Rank	Event or activity	Value ($)
1	Soccer	1 906 203 000
2	American football	1 236 000 000
3	Motorsport – Formula 1	$811 000 000
4	Venues	600 000 000
5	Olympics	585 000 000
6	Multi-sport events	152 000 000
7	Tennis	140 000 000
8	Motorsport – NASCAR	135 000 000
9	Cricket	120 000 000
10	Basketball	100 000 000
11	Badminton	80 000 000
12	Cycling	78 000 000
13	Conservation/environment	36 000 000
14	Sailing/yachting	33 500 000
15	Horse racing	30 000 000
16	Motorcycle racing	30 000 000
17	Rugby union	30 000 000

Source: Fenton, W eds. *The World Sponsorship Monitor*, January 2011.

Innovative sponsorships

Although sponsorship offers brands and companies instant access to large crowds, sponsors are looking for ways to interact with the audience rather than simply continuing with the traditional approach that the market has become accustomed to. With sponsors demanding more clarity and specific measurement of the value they get in return for their investment, new innovative ways of reaching their target market are being explored, with some sponsors using the opportunity not only to sell their brand names, but also display their products. Companies are starting to collaborate with partners in using the new technologies available.

Innovative arrangements are stimulating the sponsorship market. A significant wave of interest in combining fans' passion and engagement across sport and entertainment is coming to the fore. This entails linking consumers' entertainment profiles with their sporting profiles and can be seen in companies' moves to sponsor TV transmissions of sports content. Sponsors are also increasingly regarding sponsorships as an alternative to advertising and are embedding themselves within the product to gain a higher profile and avoid ad-skipping.

Innovation in action

MiX Telematics, a vehicle tracking and fleet management solutions provider, entered into a partnership with the Old Mutual Two Oceans Marathon in 2011 to bolster runner safety during the race. MiX Telematics tracking technology was used to track the progress of the top runners and also the positions of fleet vehicles out on the route. The reliable tracking of fleet vehicles, including ambulances, emergency response and sweeper vehicles, enabled quicker response times and more efficient management of the vehicles.

Cyclists who stayed close to the leading male and female runners as well as the leading veteran runner, were equipped with tracking devices. Positions were submitted via GPS and displayed on a map in a MiX Telematics web application, allowing those who logged in to follow the leading runners and remain up-to-date on their progress.

Monitoring of the Two Oceans fleet vehicles and lead athletes was done from the organisers' control centre throughout the day. In the event of an emergency, they knew exactly which vehicle was closest to the location where help was needed.

Source: "Tracking Sponsor For Two Oceans Race" *www.sportindustry.co.za*, (accessed April, 2011)

Merchandising

Most merchandising revenue is generated at events themselves. In 2010, the FIFA World Cup boosted gate attendance and led to a 70.7% increase in merchandising revenues. International events also contributed to growth in 2010.

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 non-Olympic and non-FIFA World Cup years. The challenges faced by the industry include the risk of losing revenues through counterfeiting. This threat is especially apparent in emerging markets.

We forecast merchandising to plunge 44.4% in 2011 as non-recurring revenues generated during the FIFA World Cup leave the market.

Between 2011 and 2015, the merchandising market is projected to grow at a 3.0% compound annual rate. Merchandising will total an estimated R620 million in 2015, a compounded annual reduction of 8.9% from the 2010.

Merchandising revenues (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Merchandising revenues	500	525	550	580	990	550	560	575	595	620	
% change	*6.4*	*5.0*	*4.8*	*5.5*	*70.7*	*-44.4*	*1.8*	*2.7*	*3.5*	*4.2*	*-8.9*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Case Study: Super Rugby

Super Rugby is a rugby tournament between regional teams from South Africa, Australia and New Zealand. From 2006-10 Super Rugby involved 14 teams and was known as the Super 14. An additional side was added in 2011 and Super Rugby is now known as Super 15.

The new format raises the total number of matches from 94 to 125 and guarantees that at least one team from each country will move to the knockout stage of the competition. The format has increased the number of regular season local derbies to 20 in each country from 10 in South Africa and New Zealand and six in Australia.

The immediate result is expected to be an increase in revenues. In addition to more matches and more gate revenues, Super 15 comes with an enhanced TV package totalling R3.7 billion over five years, up from the previous R2.6 billion deal.

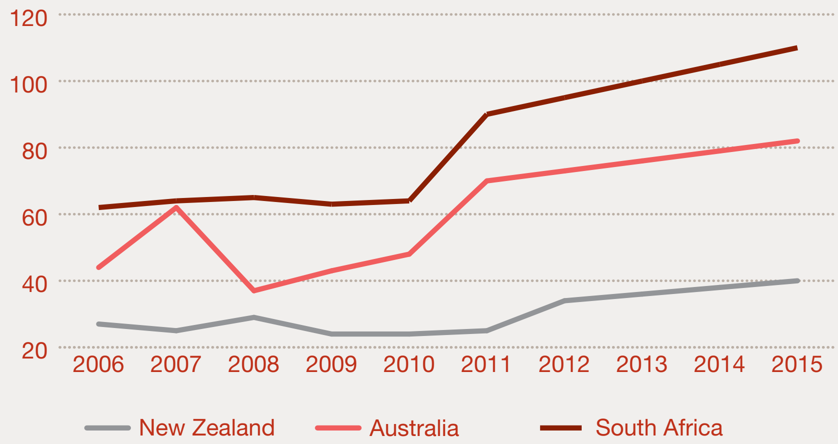
TV rights are divided equally among the participating teams. The additional team added in 2011 is the Melbourne Rebels, which raises Australia's representation from four to five, and gives Australia a larger increase in 2011 compared with South Africa and New Zealand. SuperSport has the TV rights in South Africa with terrestrial simulcasts on M-Net. Fox Sports has the rights in Australia and Sky Sport in New Zealand.

Rugby is very popular in South Africa, but less so in Australia, while New Zealand is a much smaller country. These disparities are reflected in gate revenues. Gate revenues for Super Rugby in South Africa were R64 million in 2010 compared with R48 million in Australia and R24 million in New Zealand.

South Africa and Australia are likely to each experience large increases in gate revenues in 2011 reflecting the increase in the number of matches and local derbies. We project a 45.8% increase in Australia and a 40.6% rise in South Africa. The accelerated growth in Australia will be as a result of the increase in the number of matches.

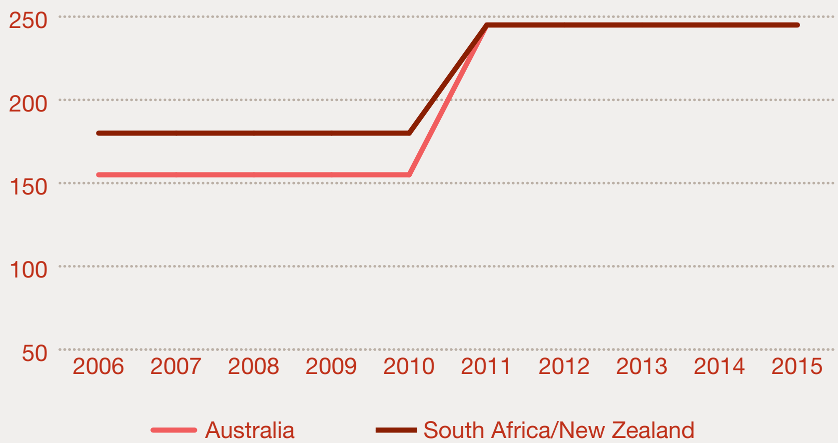
In New Zealand, the earthquake in Christchurch is disrupting economic activity and we expect it will have an adverse effect on sports attendance as well as other activities. Accordingly, we project a relatively modest 4.2% increase in gate revenues in 2011 followed by a 36.0% advance in 2012 as the country rebuilds and the full impact of the increase in matches is realised.

Gate revenue (R millions)



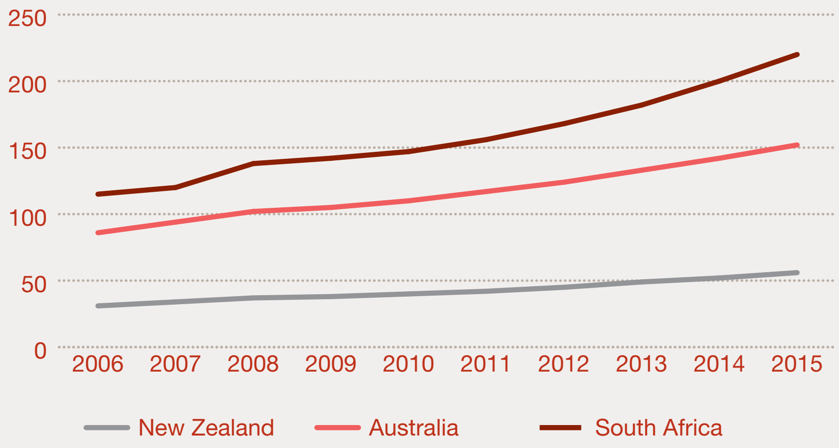
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Media rights (R millions)



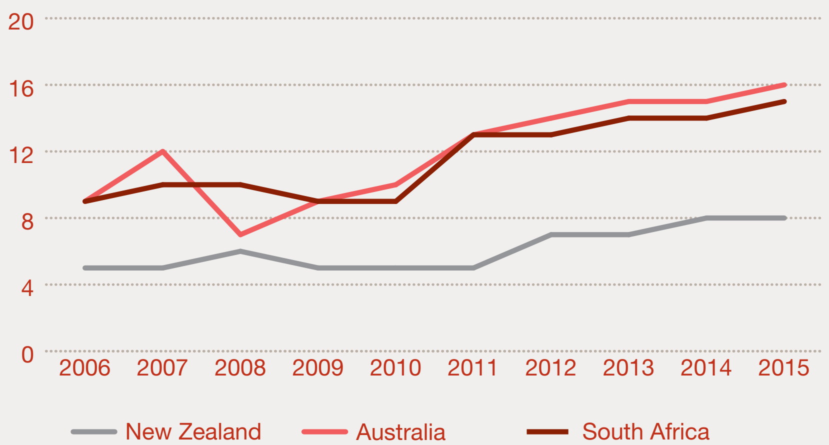
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Sponsorships (R millions)



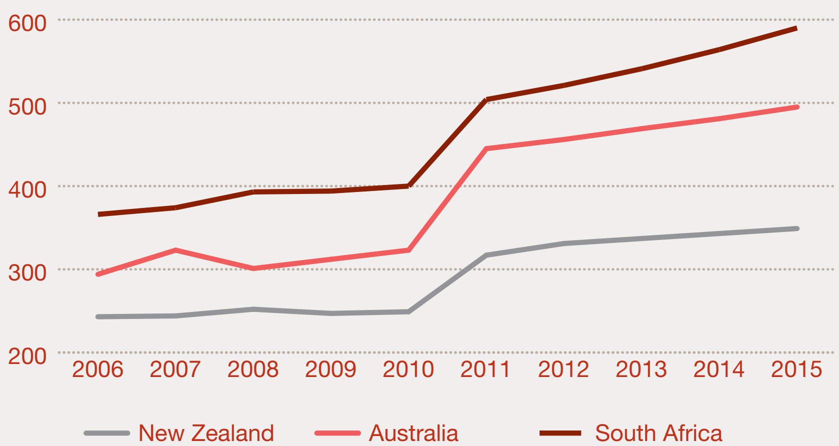
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Merchandising (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Total revenues (R millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Thereafter, we expect growth in each country to revert to mid-single-digit increases. We project gate revenues to rise to R110 million in South Africa in 2015, an 11.4% compound annual increase. Australia is expected to expand at an 11.3% compound annual rate to R82 million in 2015, while New Zealand will likely reach R40 million in 2015, up 10.8% compounded annually from 2010.

South Africa also has the largest Super Rugby sponsorship market at R147 million in 2010, compared with R110 million in Australia and R40 million in New Zealand. We also expect South Africa to have the fastest-growing sponsorship market during the next five years, reflecting a faster-growing economy and a growing interest among companies in rugby. Sponsorship spending will increase at a projected 8.4% compound annual rate to R220 million in 2015. At the same time, we project a 6.7% compound annual increase in Australia to R152 million and a 7.0% increase compounded annually in New Zealand to R56 million.

South Africa had the largest total Super Rugby market of the three countries at R400 million in 2010, approximately 41% of the total. We project South Africa to expand at an 8.1% compound annual rate to R590 million in 2015.

Media rights fees (R millions)											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Media rights fees	1 250	1 325	1 475	1 500	3 500	1 750	2 000	1 950	2 275	2 300	
% change	*13.6*	*6.0*	*11.3*	*1.7*	*133.3*	*-50.0*	*14.3*	*-2.5*	*16.7*	*1.1*	*-8.1*

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Media rights

Sports has followed the international trend and migrated to pay television because the pay television universe and pay TV revenues are growing. Essentially, sport is funded by pay television. This is a worldwide phenomenon and Africa is following the trend.

A stronger TV advertising market is reinvigorating the demand for sports rights. Growing competition will have a positive impact on rights payments resulting in steep increases in the cost of media rights.

Online and mobile media are also fuelling media rights. In 2010, 80 countries had mobile rights to the FIFA World Cup and online viewing was up significantly from 2006. As smartphone penetration increases, mobile rights will become more important.

In 2010, SuperSport (South Africa) along with Fox Sports (Australia) and Sky Television (New Zealand) acquired rights to the Super 15 competition and the Tri Nations series for a combined R3.7 billion five-year deal, a 35% increase over the previous deal. SuperSport also outbid broadcasters for PSL rights in a five-year deal that began in 2008 and again for the the next five years starting with the 2013 series. A feature of the award is that, for the first time rights have been awarded by the PSL on a platform-neutral basis. This means the PSL content will be available on both mobile and internet platforms as of the current season.

In addition to the economy and competition, rights to major international events such as the Olympics and the FIFA World Cup have a significant effect on the market. After surging in 2010, we expect media rights to decline by 50% in 2011 to a more normalised level.

The Olympics in 2012 will lead to a projected 14.3% increase while a further 16.7% rise in 2014 is expected in light of the FIFA World Cup to be hosted in Brazil.

After falling to R1.8 billion in 2011, media rights will increase to R2.3 billion in 2015, a 7.1% compound annual increase from 2011. Compared with 2010, however, media rights will be 8.1% lower in 2015 on a compound annual basis.

Sports betting

Sports betting has become increasingly popular in South Africa, generating an estimated R2 billion in 2010 for sports bookmakers. Sports shown on television generate the most activity. Soccer is the leading sports betting category, while cricket and rugby, particularly Super Rugby, also generate substantial wagering. Titan Bet, Bet 365, Sportingbet South Africa and 888 Sports are the leading books in South Africa.

The prohibition of online betting in South Africa does not apply to sports betting, which is permitted to operate under local licences under strict regulation, which even includes the software that online sports books are permitted to use.

The introduction of special bets, such as Soccer 6, provides high payouts for punters that can pick multiple matches in a single wager. These special bets are stimulating betting volumes.

The economy is a major driver of betting in general, including sports betting. Improving economic conditions will have a positive impact on sports betting during the forecast period.

Also affecting the market are major events that attract interest, such as the FIFA World Cup. During 2010, wagering on the World Cup contributed to the 24.2% increase in overall sports betting. We expect sports betting to decline by 11.0% during 2011, reflecting the absence of FIFA World Cup activity.

Sports betting (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Sports betting	1 460	1 860	1 640	1 610	2 000	1 780	1 800	1 850	2 260	2 215	
% change	25.9	27.4	-11.8	-1.8	24.2	-11.0	1.1	2.8	22.2	-2.0	2.1

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

A new gambling tax is scheduled to become effective in 2012 that will subject winnings over R25 000 to a 15% withholding tax. We expect the tax to cut into sports betting and project a modest 1.1% increase in 2012 and a 2.8% advance in 2013. We do not expect the new gambling tax to have an incremental impact on the market beyond 2013.

The FIFA World Cup in 2014 will provide another lift to the market and we project a 22.2% increase that year followed by a 2.0% decrease in 2015, reflecting the loss of wagering associated with the tournament but cushioned by betting on the Rugby World Cup.

For the forecast period as a whole, sports betting will increase at a 2.1% compound annual rate to R2.2 billion by 2015. Sports betting will be the only sports category projected to be higher in 2015 than in 2010. Compared with 2011, sports betting will increase at a 5.6% compound annual rate.

Chapter 14
Gaming

The gaming market consists of casino gaming, limited payout machines and sports betting. Sports betting is also covered in the Sports chapter. Spending totals represent gaming revenue, also known as the house win or net gaming win, and represents the gross amount wagered by punters, less the amount returned to punters as winnings.

Gaming is particularly sensitive to the economy and an improving economic environment is expected to have a positive impact on the market, although this may be dampened by the proposed new gambling tax scheduled to be introduced in 2012.


10¢
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Outlook at a glance			
Gaming market (R millions)	**2010**	**2015**	**2011-15 CAGR (%)**
Casino gaming	14 200	15 600	1.9
Limited-payout machines	950	1 325	6.9
Sports betting	2 000	2 215	2.1
Total	**17 150**	**19 140**	**2.2**

Nikki Forster
Director
PwC Southern Africa
Hospitality Industry Leader

Pietro Calicchio
Associate Director
PwC Southern Africa

Outlook in brief

- *Rapid growth is expected in the limited payout machines industry, as new licences are issued.*
- *Slow growth is expected in the casino gaming market as it reaches saturation.*
- *It appears that online casino gaming will not be legalised in South Africa in the near future.*
- *Gaming is sensitive to economic conditions and an improving economic environment is expected to have a positive impact on the market.*
- *Gambling tax has provisionally been scheduled to be introduced in 2012. This is expected to lead to reduced casino revenues.*

Overview

The gaming industry in South Africa is seeing rapid growth in limited payout machines as new licences are issued, but relatively slow growth in casino gaming as that market is approaching saturation.

During the past three years, the revenue from limited payout machines increased from R670 million in 2008 to R950 million in 2010, a 22.6% compound annual growth rate, compared with only 2.6% compound annual growth for casino gaming. Sports betting declined by a cumulative 13.4% between 2007 and 2009 before rebounding in 2010 with a 24.2% increase, buoyed by wagering on the 2010 FIFA World Cup.

Even with the boost to sports betting from the World Cup, limited payout machines were still the fastest-growing category in 2010 with a 26.7% increase. Casino gaming, by contrast, rose only 3.5%. On the strength of gains in excess of 20% for both limited payout machines and sports betting, the overall market rose 6.7% in 2010, its largest increase since 2007.

Online gaming

The National Gambling Amendment Act provided for the legalisation and regulation of online casino gaming. As recently as 2009, South Africa had planned to issue 10 online casino gaming licences. Following a court ruling in 2010, however, it now appears that online casino gaming will not be legalised in the near future.

Piggs Peak Casino, an online casino owned by Casino Enterprises, applied to be declared a licensed operator in South Africa, but this application was denied in August 2010 by the Northern Gauteng High Court. The Court found that although Piggs Peak Casino operates through a server in Switzerland, access occurs through Internet connections located in South Africa. Consequently, gambling through Piggs Peak Casino was considered to occur in South Africa and laws that currently prohibit online gambling taking place in South Africa consequently apply.

One operator, which is based outside South Africa, has successfully sought leave to appeal the judgement and continues to operate until such time as the appeal is heard. The Gambling Board has threatened to seize all revenues made in this interim period. Unless or until the issue is clarified, we do not expect online casinos to be available in South Africa during the forecast period.

Following the high court ruling, the Financial Surveillance Department of the South African Reserve Bank directed banks to notify their customers that it is illegal to use credit cards for online casino gaming and to purchase foreign-issued lottery tickets online.

The ruling differentiates online casinos, which provide the betting environment, from online communications to betting outlets licensed in South Africa. In the case of sports betting, people can patronise a betting outlet, place a bet over the phone, or place a bet online. In these cases, the online option is simply an alternative communications channel. Additionally, while bookmakers facilitate the placing of bets, they do not operate the events themselves. The sports event and their outcomes are independent of the betting activity. Online betting through licensed operators is permitted in South Africa and sports bets can therefore be placed online. It is not, however, permissible to visit an online casino website.

Gaming is sensitive to the economy and an improving economic environment is expected to have a positive impact on the market compared with the past few years. However, a new 15% income tax on winnings of R25 000 or higher, was announced in February 2011. This new tax is provisionally scheduled to go into effect in April 2012 and is expected to have an adverse impact on the market.

Gaming market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Casino gaming	11 655	13 165	13 500	13 715	14 200	14 500	14 300	14 450	14 900	15 600	
% change	*15.1*	*13.0*	*2.5*	*1.6*	*3.5*	*2.1*	*-1.4*	*1.0*	*3.1*	*4.7*	*1.9*
Limited payout machines	350	515	670	750	950	1 020	1 075	1 140	1 225	1 325	
% change	*100.0*	*47.1*	*30.1*	*11.9*	*26.7*	*7.4*	*5.4*	*6.0*	*7.5*	*8.2*	*6.9*
Sports betting	1 460	1 860	1 640	1 610	2 000	1 780	1 800	1 850	2 260	2 215	
% change	*25.9*	*27.4*	*-11.8*	*-1.8*	*24.2*	*-11.0*	*1.1*	*2.8*	*22.2*	*-2.0*	*2.1*
Total	**13 465**	**15 540**	**15 810**	**16 075**	**17 150**	**17 300**	**17 175**	**17 440**	**18 385**	**19 140**	
% change	***17.1***	***15.4***	***1.7***	***1.7***	***6.7***	***0.9***	***-0.7***	***1.5***	***5.4***	***4.1***	***2.2***

Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

According to the Casino Association of South Africa's (CASA) June 2011 newsletter, there is currently no indication as to how the proposed tax is to be collected, what periods are to apply for its calculation, whether losses may be offset against winnings, and numerous other details that are of importance to the industry.

In addition to economic drivers, new venues will also play a role in market developments.

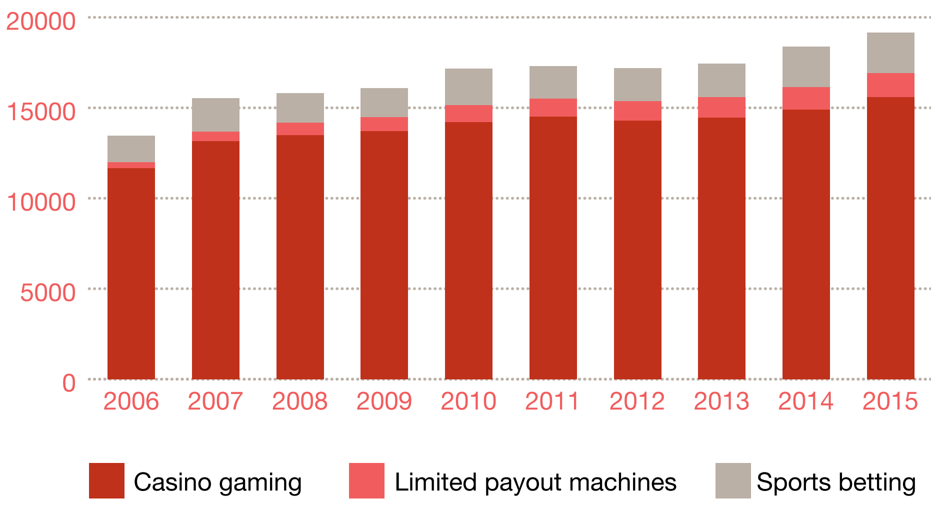
Casino upgrades and a new casino licence issued in December 2010 will enhance the casino market, but compared with the previous decade when a number of new casinos opened, it is expected that there will be relatively little growth from new casinos during the forecast period. We project casino revenues to increase at a 1.9% compound annual rate to R15.6 billion in 2015 from R14.2 billion in 2010.

There are still many licences to be awarded for limited payout machines and we expect growth in the installed base to fuel spending. On a percentage basis, however, increases will drop to single digits as the market matures. We project revenues to rise from R950 million in 2010 to R1.3 billion in 2015, a 6.9% compound annual increase.

Sports betting will generally show large increases in FIFA World Cup years, but otherwise will grow at moderate rates as this market is mature. While sports betting is likely to benefit from a faster growing economy, growth will average only 2.1% compounded annually from 2010 to 2015. Revenues will total an estimated R2.2 billion in 2015 compared with R2.0 billion in 2010.

The gaming market as a whole is expected to expand from R17.2 billion in 2010 to R19.1 billion in 2015, a 2.2% compound annual increase.

Gaming revenues (R millions)

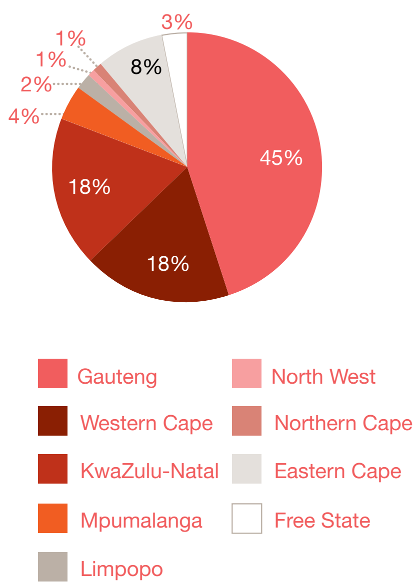


Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Casino gaming

Casinos attracted more than 60 million visitors in 2010, who wagered just under R200 billion, generating R14.2 billion in gaming revenues.

Amounts wagered per province (2010)



Source: National Gambling Board Statistics 2009/2010

Amounts wagered versus gaming revenue

The amount wagered is the actual bet placed or amount played on a slot machine by a punter. Gaming revenue or net gaming win represents the total amount wagered by punters less the amounts returned to the punters as winnings. The table below lists the total amounts wagered by punters versus the net gaming win retained by casinos in the various provinces during 2010, which in total is less than 10% of the total amount wagered by punters. Provincial gaming levies and value added tax are calculated as a percentage on the gaming revenue.

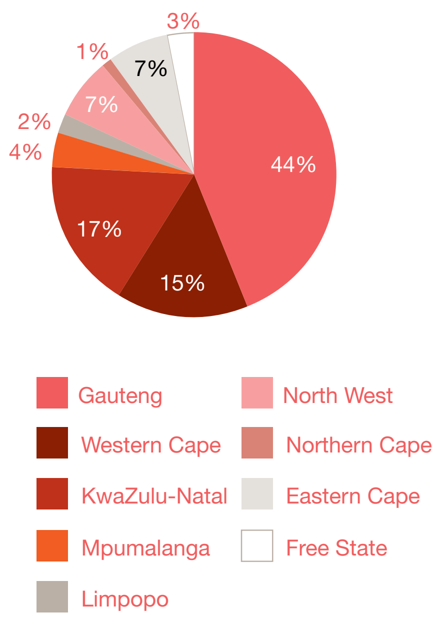
Amounts wagered vs. gaming revenue 2009/2010

Province	Amounts wagered by punters (R millions)	Gaming revenue recognised by casinos (R millions)
Gauteng	88 618	5 997
Western Cape	33 229	2 091
KwaZulu-Natal	35 237	2 385
Mpumalanga	8 447	586
Limpopo	4 727	303
North West	2 567	908
Northern Cape	2 279	161
Eastern Cape	15 101	916
Free State	6 568	379
Total	**196 773**	**13 726**

Source: National Gambling Board Statistics 2009/2010 financial year

The casino market had been growing at double-digit annual rates through to 2007, fuelled by an expanding economy and the opening of new casinos. Beginning in 2008, growth abruptly dropped to low single digits, reflecting both a slowdown in the economy and a slowdown in new casino openings.

Share of gaming revenue earned per province (2009/2010)



Source: National Gambling Board Statistics 2009/2010

Growth dropped to 2.5% in 2008 and to 1.6% in 2009, the year the impact of the recession was most acutely felt in South Africa. The market expanded by 3.5% in 2010, helped by a recovering economy and an influx of tourists for the 2010 FIFA World Cup. The absence of that tourism boost is expected to lead to a drop in growth in 2011 to a projected 2.1%.

Sun International, Peermont Global Group, the newly merged Tsogo Sun Gaming and Gold Reef Resorts group, London Clubs International and Northern Cape Casino Consultants Kairo are the principal casino companies operating in South Africa.

The National Gambling Act permits 40 licensed casinos in South Africa. There are currently 37 operating casinos in operation, which leaves little room for further significant expansion.

Number of licensed casinos in South Africa

	Sun International	Peermont Global	London Clubs	Tsogo Sun / Gold Reef	Other	Total casinos
Eastern Cape	2	–	–	2	–	4
Free State	2	1	–	1	–	4
Gauteng	2	1	1	3	–	7
KwaZulu-Natal	1	1	–	3	–	5
Limpopo	1	1	–	–	–	2
Mpumalanga	–	1	–	2	–	3
North West	2	2	–	–	–	4
Northern Cape	1	–	–	–	2	3
Western Cape	2	–	–	–	–	–
Total	**13**	**7**	**1**	**14**	**2**	**37**

Source: Casino Association of South Africa Survey 2010

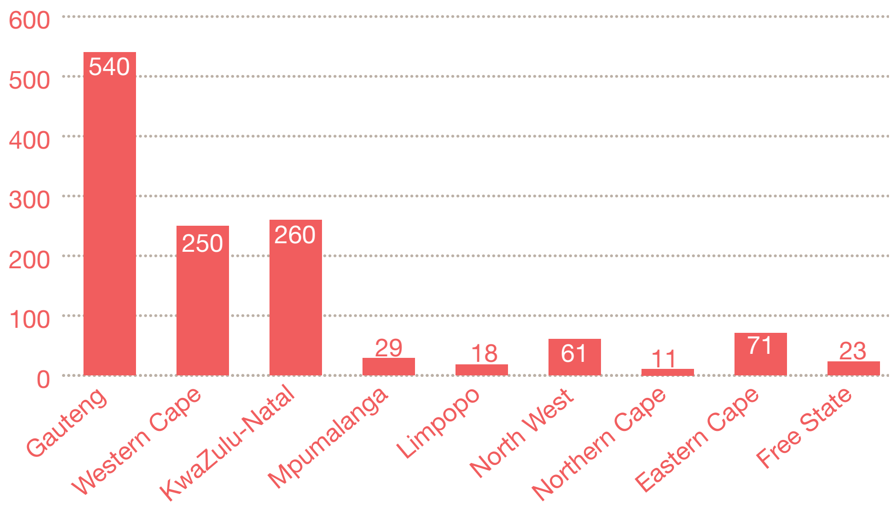
Nevertheless, we do expect new investment in the casino market. The Limpopo Gambling Board awarded a casino licence in December 2010 to the Peermont Global Group, which is spending R320 million on the project. Once this casino opens, South Africa will have 38 operating casinos. Peermont has also invested R120 million to upgrade the Umfolozi Hotel and Convention Resort.

Sun International plans to spend R1 billion on the Boardwalk Casino in Port Elizabeth and Tsogo Sun Gaming plans to spend R340 million to upgrade the Hemmingway Casino, having been awarded a new 15-year licence by the Eastern Cape Gambling Board.

These upgrades combined with an expanding economy will provide a lift to the casino market.

That lift will be delayed, however, by the imposition of the new gambling tax provisionally scheduled to go into effect in 2012. The tax will be in addition to the provincial gaming levy and the 14% VAT paid on gaming wins. Gaming taxes reduce winnings, which lowers the incentive to place bets. The tax may lead to a drop in casino wagering that will translate into reduced casino revenues.

Provincial gaming levy and VAT on gaming revenue collected (2010) (R millions)



Source: National Gambling Board Statistics 2009/2010
VAT calculated on gaming revenue shown above

We project a 1.4% decline in casino gaming revenue in 2012 and only a 1.0% increase in 2013 despite new and upgraded casinos and an economy that has returned to healthy growth. Our projected growth for 2012 and 2013, excluding the impact of the new gambling tax, is 2.4% and 2.7% respectively.

While the new gambling tax will continue to affect the market in the long run, we do not expect it to have an incremental impact on the market beyond 2013. By 2014-15, the underlying positive developments will have a larger incremental impact on total spending than the gambling tax.

We are projecting a 3.1% increase in 2014 and a 4.7% advance in 2015. Such gains would be the largest increases since 2007.

Casino gaming market (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Casino gaming	11 655	13 165	13 500	13 715	14 200	14 500	14 300	14 450	14 900	15 600	
% change	*15.1*	*13.0*	*2.5*	*1.6*	*3.5*	*2.1*	*-1.4*	*1.0*	*3.1*	*4.7*	*1.9*

Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Casino gaming market assuming no new gambling tax

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Casino gaming (R millions)	11 655	13 165	13 500	13 715	14 200	14 500	14 850	15 250	15 725	16 460	
% change	*15.1*	*13.0*	*2.5*	*1.6*	*3.5*	*2.1*	*2.4*	*2.7*	*3.1*	*4.7*	*3.0*

Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

For the forecast period as a whole, casino gaming will increase at a 1.9% compound annual rate to R15.6 billion in 2015. We have also included projections for the forecast period assuming the new gambling tax is not introduced. This indicates that the forecast percentage growth rates in 2014 and 2015 would be the same assuming the tax is introduced, but that casino gaming would have increased at a 3% compound annual rate to R16.5 billion.This reflects the negative impact on expected growth that the introduction of the new gambling tax is likely to have in the short term.

Limited payout machines

The market for limited payout machines (LPMs) is at a different stage of development compared with casinos. LPMs have been licensed relatively recently and are not yet available throughout the country, in contrast with casinos, which are present in every province.

As recently as 2005, LPMs were operating only in the Western Cape, Mpumalanga and Eastern Cape provinces. LPMs began operating in Limpopo in 2006, in KwaZulu-Natal in 2007 and Gauteng in 2009. LPMs have not yet been rolled out in the North West, Northern Cape and Free State provinces.

During the past five years, growth in the LPM market has been fuelled principally by the licensing and rolling out of LPMs in more provinces and in more locations. Revenues from LPMs nearly tripled from R350 million in 2006 to R950 million in 2010.

Each LPM is connected to a data storage system that records turnover, payouts and other activity. A total of 50 000 LPMs were authorised nationally, most of which have yet to be licensed. Consequently, the LPM market still has substantial upside potential.

LPMs are limited to five per location with a maximum wager of R5 per game and a maximum win of R500. LPMs are typically located in liquor stores and similar establishments.

With LPMs starting to become available in most of the country, we project growth to drop to single-digit levels beginning in 2011.

Whether or not the remaining provinces will licence and roll out LPMs is a key issue. Our projetions assume that LPMs will be phased in over the forecast period.

In addition to new rollouts, the LPM market will benefit from an expanding economy.

We project LPM revenues to increase at a 6.9% compound annual rate to R1.3 billion by 2015. LPMs will be the fastest-growing gaming activity during the next five years.

Limited payout machines (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Limited payout machines	350	515	670	750	950	1 020	1 075	1 140	1 225	1 325	
% change	*100.0*	*47.1*	*30.1*	*11.9*	*26.7*	*7.4*	*5.4*	*6.0*	*7.5*	*8.2*	*6.9*

Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Sports betting

Sports betting includes bookmaking and pari-mutuel wagering on horse racing and other sports events. More than R12 billion was wagered on sports through licensed outlets in 2010, generating gross gaming revenues of R2 billion.

Titan Bet, Bet 365, and 888 Sports are the leading sports bookmakers in South Africa. SportsBet, William Hill Sport, Betfair Sport, Betsson Sport, Unibet Sport, PartyBets, Betway Sport, MyBet, Top Bet and Sportingbet are other sports books. Phumelela Gaming and Leisure is a major pari-mutuel operator of horse race betting, but also covers association football and other sports.

Online wagering is permitted for sport betting through licenced operators in South Africa. Most sports bets are still made in person or by phone.

The top sports in South Africa – association football, rugby and cricket – also generate the most sports betting. Golf also attracts significant wagering. Betting during sports events is popular in South Africa, particularly in cricket, where matches take a long time to complete.

Specialty wagers, such as Soccer 6, attract betting because they offer large payouts. Those offers, however, could be threatened by the new gambling tax which targets high payouts.

As with other gaming, sports betting is affected by the economy and the economic recovery will provide a boost to the market during the next five years.

Major international sports events, however, typically have a much larger impact on revenues in any year than the underlying economy. The 2010 FIFA World Cup was a major factor in propelling the market by 24.2% in 2010, and the absence of the World Cup will lead to an 11.0% decline in 2011.

We expect the FIFA World Cup in 2014 to boost the market by 22.2%, while revenues will decline by 2.0% in 2015, a decrease that would have been larger without incremental wagering on the Rugby World Cup in 2015.

For the forecast period as a whole, we project sports betting to increase at a 2.1% compound annual rate to R2.2 billion in 2015.

This forecast masks the underlying strength of the market because it compares a FIFA World Cup year (2010) with a non-FIFA World Cup year (2015). Looking just at revenues between 2011 and 2015, growth will average 5.6% compounded annually, a better reflection of the underlying market.

Sports betting (R millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR (%)
Sports betting	1 460	1 860	1 640	1 610	2 000	1 780	1 800	1 850	2 260	2 215	
% change	*22.2*	*27.4*	*-11.8*	*-1.8*	*24.2*	*-11.0*	*1.1*	*2.8*	*22.2*	*-2.0*	*2.1*

Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Global trends in gaming

As an industry, casino gaming has always been a unique source of entertainment for its customers, and – all too often – a focus of governments' regulatory spotlight. As a highly discretionary element of consumer spending, it is also exposed to changes in economic confidence and conditions. Today, all these longstanding attributes are reflected in a range of challenges and opportunities facing both the industry's established players and also those contemplating entering the market.

Not the least of these challenges is the continuing global economic uncertainty. Recent experience confirms that the casino gaming industry is not immune to recessions. While the 2.8% decline in total global spending on casino gaming in 2009 appears at first sight to be a fairly resilient performance, the global figure masks a slump of 12.2% in 2009 in EMEA, and of 3.4% in the United States. What is more, spending in these regions fell for the three successive years up to 2010 and will trend upward only modestly in 2011.

In contrast, the Asia-Pacific region – which overtook EMEA in 2008 as the world's second-largest region for casino gaming revenues – has hardly paused for breath, registering a modest slowdown in spending growth to 7.4% in 2009, before rebounding back into double-digits with growth of nearly 50% in 2010. The much smaller Latin American market has also stayed in positive territory in terms of growth.

A similarly stark contrast in growth rates will be evident during the recovery phase that is now under way. Globally, spending is showing a steady recovery, growing at 9.3% compounded annually through 2014. The Asia-Pacific region will grow at a compound annual growth rate (CAGR) of 23.6%, dramatically outpacing the United States, EMEA and Canada. As a result, the Asia-Pacific casino gaming market – which was just over one-third, or 34.3% the size of the US market in 2008 – will be equivalent to 92% of US spending in 2014. Latin America will also achieve double-digit CAGR over the five years, at 12.8% compounded annually.

In assessing the outlook for growth across the world, it is important to take into account the likelihood that supply-side changes will tend to overpower cyclical effects. Recent examples of this include the effect of changes in visa restrictions on the market in Macau and the opening of major resort casinos in Singapore. However, in the absence of significant changes on the supply side, then cyclical effects will come through strongly, as seen with US casinos in the past three years. A further factor clouding the issue in Europe is smoking bans. These were introduced into many countries during 2007-2008, and have undoubtedly had a negative impact over and above the effects of the recession.

New markets and facilities opening up

Such considerations aside, Asia-Pacific's differentiated growth outlook reflects three main factors. Inevitably, the first is the role of economic growth in driving disposable incomes and the emergence of a prosperous middle class. The second is the deep attachment to casino gaming and other forms of gambling in many societies in the region – an attachment that consumers increasingly have the resources to indulge.

The third factor is the growing opportunity to take part in casino gaming as new centres are established and as new facilities are opened up in existing centres, often following a delay during the economic downturn. Prime examples of new territories entering the market include Singapore's rapid emergence as a casino gaming centre, surging from a standing start in 2010 to revenues totaling more than $8 billion in 2014. Meanwhile, in the long-established gaming centre of Macau, work on Sands China Ltd's extension to the Venetian Macau complex and on the new Galaxy Macau resort has restarted, with completion of both currently scheduled for 2011. In the Philippines, the completion of the $15 billion Manila Bay resort in 2013 will help spending in 2010-2014 to reach an impressive CAGR of 17.6%.

The dramatic impact of new casino gaming opportunities on spending is equally evident in a number of markets outside the Asia-Pacific. In Spain, the delayed Gran Scala project is now back on track, and its completion in 2013 will dramatically expand the market in Spain, resulting in a five-year CAGR of 70.7%.

Similarly, new casino openings in Chile in 2010 will boost the market by 39.7% in a single year. And in Canada, a new Paragon Gaming casino opening in 2013 will combine with improved economic conditions to lift the casino gaming market to double-digit growth during that year.

Growing complexities for operators and regulators

Throughout the casino gaming industry, it is clear that better opportunities trigger spending. But who can claim the biggest share of growth – and how? Expansion in some segments can intensify competitive pressures for others. In the US, for example, regional casinos are cannibalising spending in Atlantic City, where revenues in 2014 will still be below the 2009 level.

Across the world, shifting demand and rising consumer expectations are forcing gaming operations to find ways to differentiate themselves from the competition. This drives innovation, and ever-larger and more compelling offerings. The MGM Resorts International's CityCenter in Las Vegas is the largest privately funded construction project in the history of the United States. And online gaming offerings are growing apace, as quickly, and in some cases, faster, than the enabling legislation and regulatory frameworks.

To address the market challenges while sustaining and growing their daily operations, gaming owners and operators must interact with many organisations in both the public and private sectors – ranging from investment banks, analysts, and commercial lending institutions, to governing bodies and licensing agencies that regulate and monitor their operations. Complex issues also confront gaming regulators: how to monitor and safeguard enterprises that provide gaming tax revenues, while also preserving the integrity of the gaming environment and the reputation of all parties involved.

In the emerging area of online gaming services, the regulatory complexities and sensitivities are even greater. In our view, the currently predominant approach of in-country or in-state regulation and licensing of online will be steadily eroded during the next five years, under the impact of rising demand for cross-border gaming and liquidity for disciplines such as poker. In Europe, we are likely to see continued local country regulation, but with pooling of poker. While pan-European regulation on online gaming may eventually be agreed, this is unlikely to happen within the next five years.

Casino gaming

According to our projections, global casino gaming revenue across the United States, EMEA, Asia-Pacific, Latin America, and Canada will grow at a 9.3% compound annual rate during the next five years, rising from $100.5 billion in 2009 to $156.8 billion in 2014.

The United States will increase by 3.6% compounded annually, from $57.2 billion in 2009 to $68.3 billion in 2014. However, it will remain the largest region ahead of Asia-Pacific, which will be the fastest-growing region with a projected 23.6% increase compounded annually to $62.9 billion in 2014 from $21.8 billion in 2009.

In EMEA, casino gaming revenues will rise to $19.7 billion in 2014 from $17.3 billion in 2009, a compound average annual increase of 2.6%, with Spain reporting the region's greatest percentage growth. Growth in Canada will be spurred by a major new casino opening in 2013. This will help spending to grow on a percentage basis much more quickly than in the US, advancing from $3.7 billion in 2009 to $5.1 billion in 2014, a 6.7% compound annual rate. In Latin America, annual growth will average 12.8% from a very small revenue base of $425 million in 2009, rising to $776 million in 2014.

Source: "Playing to Win", PwC UK (November 2010).

View year-on-year growth for every data line.

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Glossary of terms

3G	Third Generation
3D	Three Dimensional
4G	Fourth Generation
ABC	Audit Bureau of Circulations South Africa
ACE	Africa Coast to Europe Cable
ADSL	Asymmetric Digital Subscriber Line
AMPS	All Media Products Survey
B2B	Business-to-business
BRT	Bus Rapid Transit
CAGR	Compound annual growth rate
CAF	Confederation of African Football
CDE	Collaborative digital enterprise
CMA	Comrades Marathon Association
CTV	Cape Town Television
DAB	Digital Audio Broadcasting
DoC	Department of Communications
DRL	Digital Rights Lockers
DRM	Digital Radio Mondiale
DSL	Digital subscriber line
DTI	Department of Trade and Industry
DTT	Digital terrestrial television
DVB-H	Digital Video Broadcasting – Handheld
DVB-T2	Digital Video Broadcasting – Second Generation Terrestrial
DVD	Digital Versatile Disc
DVR	Digital video recorder
E & M	Entertainment and media
EASSy	Eastern Africa Submarine Cable System
ECT Act	Electronic Communications & Transactions Act
EMEA	Europe, the Middle East and Africa
FIFA	Fédération Internationale de Football Association
GCIS	Government communication and Information System
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
I-ME-WE	India-Middle East Western Europe
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
LED	Light-emitting diode
LPM	Limited payout machine
LTE	Long Term Evolution
MMOG	Massively multiplayer online game
MPEG-4	Moving Picture Experts Group standard for coding of audio-visual objects
NAB	National Association of Broadcasters
NFC	Near field communication
NFVF	National Film and Video Foundation
NGP	Next Generation PlayStation
Npod	Nielsen Personal Outdoor Device
OBE	Outcomes-based education
ODM	On Digital Media
OHMSA	Out of Home Media South Africa
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
PRASA	Passenger Rail Agency of South Africa
PS2	Sony PlayStation 2
PS3	Sony PlayStation 3
PSL	Premier Soccer League
PSN	PlayStation Network
PSP	Sony PlayStation Portable
PVR	Personal video recorder
RAB	Radio Advertising Bureau
RAMS	Radio Audience Measurement Survey
RDS	Radio Data System
RiSA	Recording Industry of South Africa
SAARF	South African Advertising Research Foundation
SABC	South African Broadcasting Corporation
SAex	South-Atlantic Express
SAMPRA	South African Music Performance Rights Association
SAT3	South Atlantic 3 cable system
SD	Standard definition

STV	Soweto Television
Tbps	Terabits per second
TOPS	Telmar Outdoor Planning System
TTV	Tshwane Television
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
WGC	World Golf Championship
WiMax	Worldwide Interoperability for Microwave Access
WoW	World of Warcraft

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