Media, entertainment digital spend to rise 21%: PwC

SA's entertainment and media companies have reached the "end of the digital beginning", with digital activities now becoming the "new normal" for traditional media companies, according to a report by professional services firm PwC.

Digital spending in the local entertainment and media industry is expected to increase at an approximate 21% compound annual rate during the next five years, according to PwC's South African entertainment & media outlook 2012-2016, released on Monday.

Although comprising 20.4% of overall spending in 2011, digital channels will generate 52% of the total increase in spending during the next five years. This will largely be driven by the expanding internet market, broadband penetration as well as consumer spending on television subscriptions and video games.

According to the report, digital spending will comprise 32.6% of the total entertainment and media market in SA by 2016.

Vicky Myburgh, entertainment & media industries leader for PwC Southern Africa, says: "We believe that the industry is at the end of the beginning of its digital journey. Entertainment and media companies have made a commitment to the delivery of digital entertainment and are now in the process of making the necessary changes to their products and organisations.

Digital products and delivery is moving to the hearts of many media companies

"The PwC study confirms that digital products and delivery is moving to the hearts of many media companies and beginning to present the greatest opportunities for growth in the immediate future. The core challenge for entertainment and media companies lies in how to remain relevant to their consumers and business customers in a way that differentiates them from their competitors. There are long-term structural and organisational changes that are needed right across the industry."

However, the outlook warns that newspapers and print media are being eclipsed by tablets, mobile smart phones and a raft of new digital and online communications media, led by internet and television advertising and video games.

The third edition of PwC's South African entertainment and media outlook presents annual historical data for 2007-2011 and provides annual forecasts for 2012-2016 in 12 entertainment and media segments.

The Outlook includes historical and forecast data on the internet, television, filmed entertainment, radio, recorded music, consumer magazine publishing, newspaper publishing, consumer and educational book publishing, business-to-business publishing, out-of-home advertising, video games, and sports. It gives a detailed breakdown of each of these sectors.

"Despite the recent economic uncertainty, the past year has seen global and South African global sales of tablets and smart devices reach record levels underlining the growing revenue opportunities in the digital delivery of entertainment and media content as well as advertising to increasingly connected and mobile consumers. Companies are planning and executing their strategies to cross to the digital frontier," says Myburgh.

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

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

The fastest-growing sectors

The fastest growing sectors in 2011 were the internet at 27.3% and television at 13.4%. Out-of-home advertising, at 11.6%, was the only other category to increase by more than 10%.

Consumer magazine publishing rose 7.8% in 2011, followed by radio at 6.6% and newspaper publishing by 5.7%, the only other segments to grow by as much as 5%. According to the outlook consumer magazines were propelled by a jump in print advertising, largely due to stronger economic growth, the launch of several new titles in industry, growth in readership and rising circulation. Improvements in the economy also boosted radio. Advertising in print newspaper also benefited in 2011 as gross domestic product (GDP) posted its largest increase since 2008.

Myburgh says that the research shows that the internet is expected to be the fastest growing sector within the next five years with a projected 20.3% compound annual increase. Broadband and mobile access growth coupled with double-digit increases in internet advertising will drive this market. Television is expected to be the next fastest-growing segment with a projected 10.3% compound annual increase.

Out-of-home advertising will be next at 9.3% compounded annually, driven by an increase in the penetration of digital screens, which provide more potential in terms of revenue as the same site can accommodate multiple advertisers. Furthermore, radio and sports are expected to show compound annual increases of 6.5%, followed by video games at 6.4%.

Radio will be boosted

The findings of the study show that radio will be boosted by the addition of new commercial stations and the expansion of new community stations, while sports will largely be driven by rising media rights and strong growth in sponsorships. Consumer magazines and newspapers will be the only sectors projected to average in the vicinity of 5% growth compounded annually during the next five years. Consumer magazines will average 5.3% with Newspapers at an average of 5.1% as advertising growth offsets declines in circulation spending.

Spending in the industry is expected to reach a record level of R141.7bn in 2016, a 10.2% compound annual increase from R87.4bn in 2011.

"We anticipate that overall growth in the entertainment and media industry will closely track GDP growth over the forecast period," says Myburgh.

"By embracing digital as the engine of their business, companies can position themselves to meet consumers' changing demands through any channel and format - and more effectively and more profitably than ever before."