Increased internet access set to boost consumer spend

A new PwC report, released yesterday, 18 September 2014, predicts that increased internet access will generate more consumer spend than any other media product or service in the next five years in the South African entertainment and media industry.

South Africa's entertainment and media market is expected to grow by 10.2% compounded annually (CAGR) from 2014 - 2018 to a value of R190.4bn. By far the largest segment will be the internet. Combined revenues from internet access and internet advertising will account for an estimated R71.6bn in 2018, accounting for 37.6% of total revenues, according to PwC's *South African Entertainment and Media Outlook: 2014-2018 ('The Outlook')*.

Vicki Myburgh, Entertainment & Media Industries Leader for PwC South Africa, says: "Growth in the South African entertainment and media industry is largely being driven by the internet and by consumers' love of new technology, in particular mobile technology, such as smartphones and tablets, as well as applications powered by data analytics and cloud services. Technology is increasingly being driven by consumers' needs and expectations."

Annual forecasts

The fifth edition of PwC's *South African Entertainment and Media Outlook* presents annual historical data for 2009-2013 and provides annual forecasts for 2014-2018 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 these sectors.

The Outlook also includes detailed information for South Africa, Nigeria and Kenya in each of the 12 industry segments.

Aside from the internet, *The Outlook* predicts that the fastest growth will be seen in video games and radio, which will enjoy growth rates at 9% and 8.2% respectively. "Video games has made the greatest transition to digital, largely due to the popularity of mobile gaming, but also because of the increased potential for digital distribution of console games," adds Myburgh. The study projects that 27% of console revenues are forecast to be digital in 2018.

Slowest growing segment

The slowest growing segment in the E&M industry will be the music industry, according to the survey. Annual revenue is forecast to grow marginally by a CAGR of 0.5% to remain relatively flat at R2.18bn in 2018.

Television is the second-largest segment, with combined revenues from TV subscriptions and advertising projected to reach R39.6bn in 2018. The study shows that advertising accounted for 38% of revenue in the E&M industry in 2013, although this share is expected to fall to 33% in 2018, largely due to internet access increasing its market share significantly over the same period.

The strongest drivers of growth in the sports segment will come from sponsorships and media rights. South Africa will see total sports revenues of an estimated R20.5bn in 2018, up from R14.8bn, and rising at a CAGR of 6.7%.

End-user spending, consisting of spending by consumers and other end-users on products and services produced by the entertainment and media industry, will rise at 12% CAGR over the next five years from R72.8bn in 2013 to reach an estimated R128.1bn. Although there is a significant change in the way consumers spend their money, digital revenues in other segments remain relatively small. Nevertheless digital is on the rise both in terms of consumers and advertising revenues.

The study also shows that revenue in the film industry is expected to grow by a 7.1% CAGR over the next five years to reach R3.4 billion in 2018. Electronic home video is also catching on rapidly in the film segment. Far less digital take-up is being seen in the magazine, newspaper and book segments, with digital revenues for each forecast to be under 7% of the total, even in 2018. Although consumers may be browsing newspapers and magazine-style websites online, monetising these consumers presents much more difficulty for E&M businesses.

Nigeria

Nigeria's entertainment and media revenues will reach an estimated $8.5bn in 2018, more than doubling from the 2013 figure of $4.0bn at a CAGR of 16.1%. This represents one of the fastest growth rates in the world.

The internet will be the key driver for Nigeria, where the number of mobile internet subscribers is forecast to surge from 7.7 million in 2013 to 50.4 million in 2018.

Television in the form of advertising and subscriptions and licence fees, will also become a $1 billion-plus market in 2018, while the market will grow steadily.

Kenya

Kenya recorded $1.7bn in entertainment and media revenues in 2013, and this is forecast to rise to $3.1bn in 2018. Once again, it is Internet access that is driving growth television and radio will account for combined $1 billion-plus of revenues at the end of the forecast period.

PwC Africa Connectivity Index

The objective of the PwC Country Connectivity Index is to measure the state of connectivity for all markets in sub-Saharan Africa (SSA) with a population of over 10 million. The findings presented in the Index highlights those markets that offer the greatest potential for the future consumption of entertainment and media services because of their relative maturity in terms of connectivity.

As the most mature of Africa's markets, it should be no surprise that South Africa tops the Index as it offers significant potential as a strong entertainment and media market. Although South Africa scores highly (83%) across current connectivity and quality of connectivity, there is still room for improvement. Mobile broadband services are still expensive for consumers with almost 0.5% of a South African consumer's average GDP per capita going towards mobile broadband services.

Kenya (75%) also performs well in the rankings with the continued rise in its international bandwidth usages.

Although broadband penetration may be high - as in the case of Nigeria - this does not necessarily mean that a country scores highly. At 0.6% of the average GDP per capita in Nigeria, the cost of mobile broadband services is too high.

The next wave of growth markets in SSA

Highlighted below are three snapshots of SSA markets with a particular focus on their TV and broadband markets and assessment of the scope for growth in their entertainment and media sectors.

Angola

Much of the media in Angola is government-controlled. Deregulating the media is a gradual process and the handful of emerging 'private' radio and newspaper operations are mostly bankrolled - so limiting their independence. Among TV households, pay-TV penetration is high at 75%.

TV currently comprises 28% of advertising spend, a figures that is likely to drop by two percentage points over the next five years. Angola is comparatively well connected, with about one in ten Angolans able to access the internet by way of a mobile network and two percent of households also able to access fixed broadband services. However, international bandwidth is still scarce. If the country's internet market is to be better penetrated, greater infrastructure investment will be required.

Ghana

A relatively mature TV and internet infrastructure in Ghana assists in making it a market in which consumers are more receptive to advertising. At the end of 2013, 58% of households had access to a TV set, according to the study. The leading four terrestrial channels comprised 96% of audience time and 12% of TV households were digital.

In spite of a decline in 2011, total advertising revenues are now on the rise again with total spend reaching GHS245.6 million ($73.3 million) in 2012. Ghana scores well in the Connectivity Index. The Government appears committed to supporting growth plans for broadband services which are relatively affordable compared to other markets in the continent.

Tanzania

As at the end of 2013, 13% of Tanzanian households had access to a TV set, according to independent analyst and consultancy firm Ovum. This number has dropped slightly in the last two years as a result of the state's decision to proceed with an analogue terrestrial switch-off before the public was ready, leading to many households actually losing their access.

Ovum forecasts another fall in TV adoption in 2015 when national analogue switch-off takes place, but the numbers of those with access to TV will rise again to one in five of the population in 2019.Radio dominates the advertising sector in Tanzania, contributing just over 50% of revenues, with TV accounting for about 30%. Of the three markets covered in our studies, Tanzania ranks highest. The Government has embraced competition and the role of the private sector in improving economic and social development.

Myburgh concludes: "The future may well be digital in South Africa, as with the rest of the world - many of its products and services can already be delivered in digital form. But we believe that progress in the South African E&M market will be gradual and that there are still plenty of opportunities for 'old' and 'traditional' media yet."