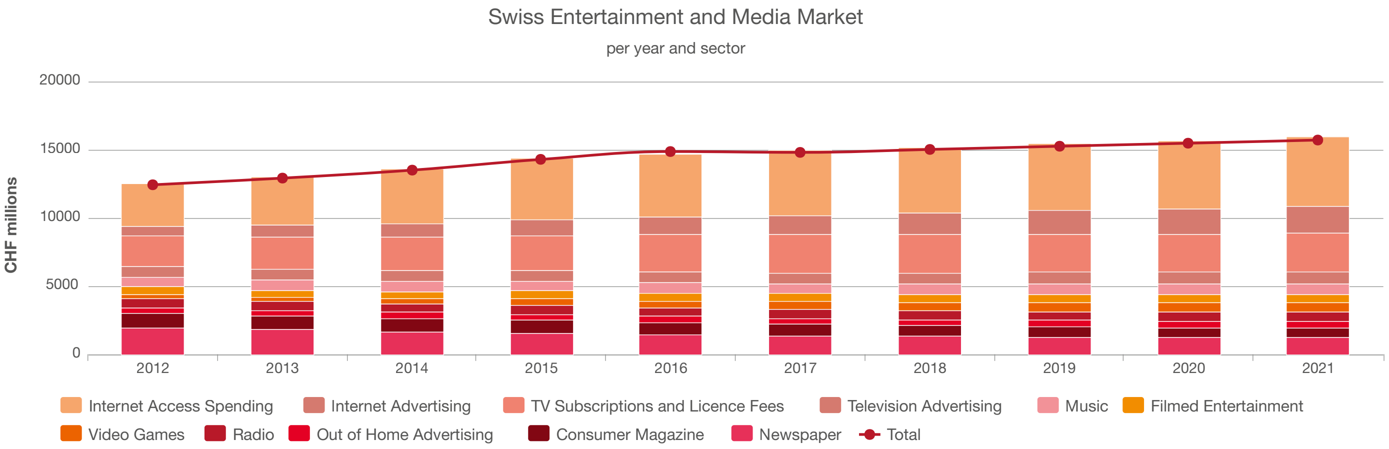
Executive summary

Swiss market situation

Thursday, 12 October 2017 – Dramatic shifts are underway in how entertainment and media (E&M) companies compete and generate value, as the quality of the experience they deliver to consumers becomes their primary means for strategic differentiation and revenue growth. To thrive in a marketplace that is increasingly competitive, crowded, and growing slower, companies are developing strategies and building capabilities to engage and monetise their most loyal and passionate users — their fans. According to PwC's Swiss Entertainment and Media Outlook 2017-2021, this means they must combine compelling content with breadth and depth of distribution, and then connect it all to create a great user experience as well as an environment where content is discoverable easily on an array of screens and at an attractive price.

In 2016, total Swiss E&M revenues climbed by 2.1% to CHF 14.6 billion, a slower growth rate than in previous years. However, the analysed segments performed quite differently, which explains the variety of challenges and chances for market players within the industry. Not surprisingly, the digital-oriented segments of the industry are growing faster than the more traditional ones. In many of the analysed segments, businesses are approaching or already confronted with a certain degree of saturation: This effectively puts the industry on a plateau.

For 2017, we are forecasting a cooldown in the E&M market, with growth coming in at only 1.4% since industry drivers such as internet access spending and TV subscriptions will grow slower than in past years. Furthermore, the decline of the printed media segment, which includes newspapers and magazines, still persists.



Analysis by PwC

However, the next wave of content and entertainment is emerging in areas such as E-Sports and virtual reality **(VR)**, which are just beginning to ramp up. By 2021, Switzerland's overall E&M industry is expected to grow at a CAGR of 1.5% to approximately CHF 16 billion.

Thriving in a world of intense competition for attention and continual disruption will indeed be a challenge. This points up that the modern way of consuming entertainment content has an impact, for better or worse, on the whole industry and therefore calls for adaptability. But the opportunities inherent in this field are immense. The data, analyses and perspectives in our Swiss Entertainment and Media Outlook provide compelling insights into how companies are adapting, investing and innovating in effort to succeed in this new environment.

Four shifts in entertainment and media

Shift 1: User experience is taking the lead

Amid shifting consumer preferences, rapid advances in technology, as well as ongoing disruption to business models, the new strategic imperative for E&M companies is to turn customers into fans; this by innovating to create the most compelling, engaging, and intuitive user experiences. E&M companies have been accustomed to competing and creating differentiation primarily via two avenues: content and distribution. Now they must focus more intensely on a third dimension: user experience. Simply taking existing approaches to capture the natural growth in consumers and their uptake of services and content is no longer sufficient. Thus throughout the industry, the quest is now to deliver superior user experiences.

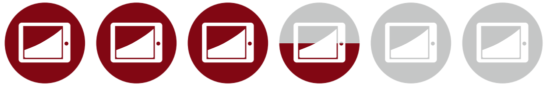
Shift 2: Changing behaviour of the millennials

Due to advanced technology, the consumer behaviour of youths has changed; hence, the industry must adapt its business models and monetisation strategies. The heightened expectations of millennials have already impacted the service offerings, but the trend for more flexibility and personalised content will be driven even more by the growing number of so-called generation Z (those born between 1998 to now). They stream songs or watch videos on YouTube instead of buying albums; they consume free news on Facebook or Snapchat instead of spending hundreds of dollars for home delivery of newspapers. Rather than subscribing to expensive Pay-TV bundles, they source their video through a combination of over-the-top services. Given today's effortless access to free content through a variety of channels, the competition for attention will become even more intense – and young people's lofty expectations must be fulfilled. For a business to be successful going forward, it is imperative that the needs and lifestyle of this target group be taken into account.

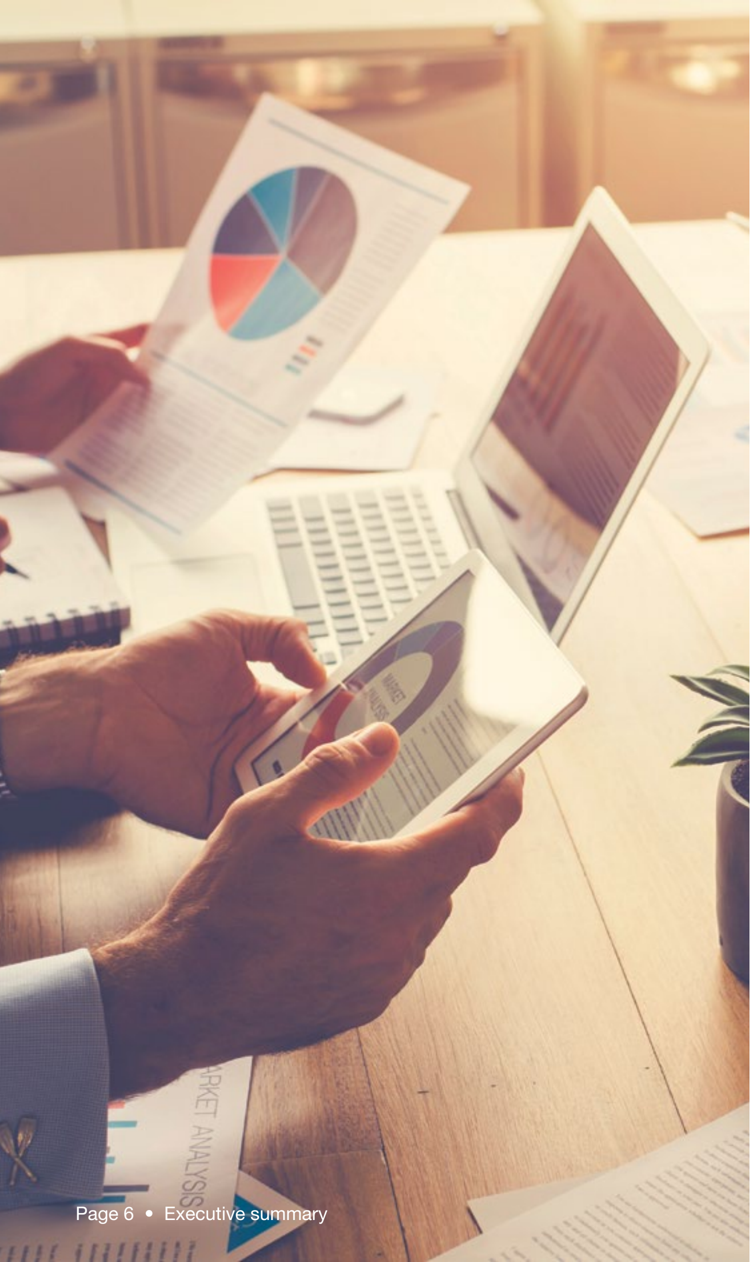
Generation Z

50% *of so-called generation Z consumers are regularly online …*

… whereby ***60%*** *of them are streaming videos and using WebTV*



58% *listed the tablet as their preferred device*



Shift 3: Personalised content is still king

Overwhelmed by content choices, consumers fall back on the familiar; they rely on recommendations from friends, algorithms and rankings. The result: content that is popular becomes more popular. But to get closer to consumers and reach that level of popularity, service offerings must be personalised and adapted to individual needs. As people have gradually become accustomed to paying for certain offers, their willingness to pay for premium content has also increased in recent years. Hence, offering the right content to the right people in the right way is the key to success for companies, and it is a crucial differentiation factor in terms of customer experience.

Shift 4: Data is evolving into a kind of currency

Any buyer/seller transaction or relationship involves an exchange of value. Historically, that value has been measured in currencies. But it is increasingly likely that for E&M companies, value will eventually become measured in the monetisable currency called 'data'. By mere virtue of conducting their daily business, E&M companies gather an immense amount of powerful information about user behaviour and preferences, performance, and transactions. Businesses could be implicitly (if not explicitly) capturing today the value of user data through the abundance of free, freemium, and subscription-based pricing for content.

Companies can become far more efficient in building audiences, attracting advertisers, extending the brand experience, interacting, and upselling across the customer spectrum. They can also become much better at designing the user experience in a way that extends the amount of time consumers spend with content and the amount of brand equity gained through loyalty and recommendations to others.

Outlook for Switzerland's entertainment and media market

Internet access spending

Increasing data volume requires further investments

This, the largest segment of Switzerland's E&M – accounting for about one third of its revenues – is still on a roll and grew by 2.8% in 2016. But due to the saturation of the mobile market, that growth rate was much lower than in previous years. Nonetheless, infrastructure investments in broadband access and fibre optic connectivity as well as the more and more digitalised economy will have a positive impact on the segment's future growth. New technologies like **LTE-A** or 5G will play a bigger role over the forecast period, whereby the data volume will also increase massively.

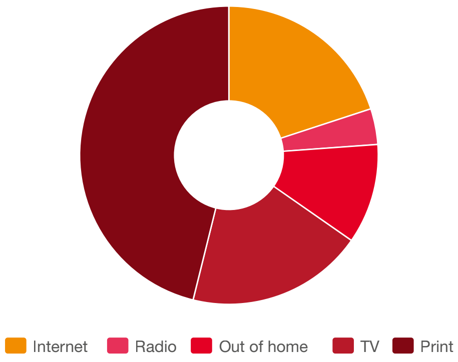
Internet advertising

Rapidly growing and controlled by a few international players

Online advertising is still the fastest-growing segment of Switzerland's E&M, with a 13% climb for 2016 and a 9.2% CAGR for 2016-2021. By contrast, non-digital advertising is forecast to shrink at a 4% CAGR. This is part of a secular trend: ever more industries are acknowledging the significance of the internet. And it is not just the internet's ubiquity that they like; they also value its ability to track and target advertising. They are increasing their presence by shifting budget from the classic advertising channels like print to internet advertising, whose share of the 2016 media mix grew to approximately 30%. We expect this trend to continue for the next five years, with internet advertising making up nearly 50% of PwC's analysed advertising revenue streams in 2021. TV and out-of-home advertising as established mass media are expected to hold its share.

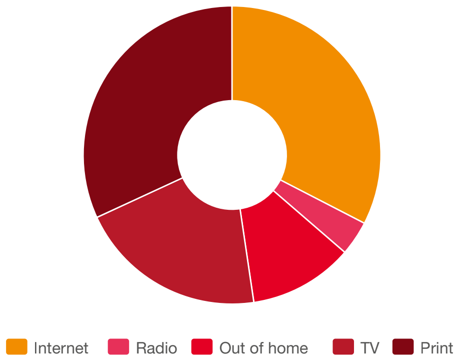
Less obvious is the concentration of advertiser spending: rather than being spread across many outlets, more and more advertising now flows disproportionately to a few large international platforms such as Facebook and Google.

Advertising mix
2012



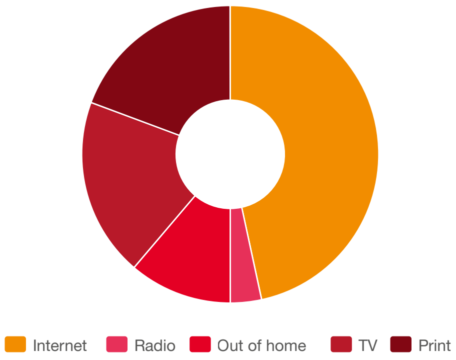
Analysis by PwC

Advertising mix
2016



Analysis by PwC

Advertising mix
2021



Analysis by PwC

These figures do not represent the total Swiss advertising market. Only internet, radio, TV, out-of-home and print (consumer magazines and newspapers) advertising revenues are included, which are analysed within the Swiss Entertainment and Media Outlook by PwC.

TV subscription and license fees

Tailored TV packages are the future
The landscape for Swiss TV subscription and licence fees has changed, and growth rates are expected to be lower than in the past – over the next five years, the market is forecasted to grow at a CAGR of 0.8%. Embedded in this growth rate are two offsetting factors – the decline in traditional cable offerings, and an increase in **IPTV**. The latter is expected to grow at a CAGR of 5% through 2021.

With linear programming on the decline, and on-demand and time-shifted content here to stay, we believe consumers now seek tailored and personalised TV packages. Although tailored packages may increase customer satisfaction and stickiness, they would serve to reduce the **ARPU** generated. Licence fees are expected to remain flat, while royalties should grow by around 5.6% a year for the next five years.

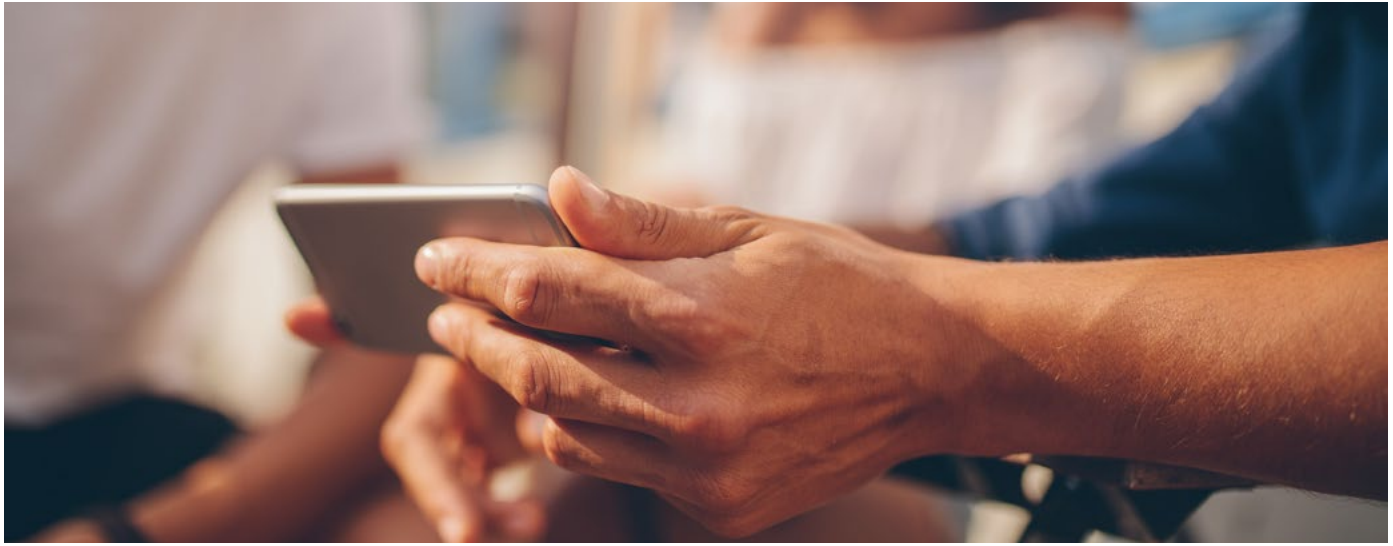
TV advertising

Challenged by time-shifted viewing and streaming platforms
This segment lost its predominance to internet advertising in 2012, and it is still heavily challenged by the rise of 'time-shifted viewing', which enables viewers to fast-forward through or even skip adverts. Nonetheless, after a decline in 2015, TV Advertising grew by 4.2% in 2016. This development was mainly driven by an increase in revenues generated by Swiss private channels.

Internet advertising is expected to increase its outperformance of TV in the next five years. However, we predict that TV ad revenues will also continue to rise, albeit at a more modest rate of 0.8%. Both platforms are important to consumers, so brands seeking to engage future audiences effectively will need to keep developing and growing their ability to plan, deliver and measure coordinated campaigns across multiple platforms.

Music

For the first time in years, steady growth for recorded music
In 2016, digital recorded music revenue managed to extend its lead over physical – and streamed music has made downloads almost obsolete. Music streaming services grew apace during 2016, pushing digital revenues up by 17%, even as the physical segment suffered a 7% decline. In 2016, total recorded music showed the highest growth rate of the last five years – the market is again on the rise as streaming revenues are more than offsetting the losses in physical distribution. Whilst digital recorded music accounted for about 60% of the overall recorded music revenues in 2016, that proportion is set to rise to nearly 80% in 2021. Live music, e.g. at concerts and festivals, is a still-profitable but very mature market in Switzerland.



Filmed entertainment

Global players gain market share
Digital video took in more than twice as much revenue as physical home video in 2016. The internet video segment has expanded rapidly in recent years and will continue its growth with a projected CAGR of 8% to reach some CHF 350 million in 2021, while the terminally declining market for DVDs and Blu-ray will have fallen to CHF 40 million. The shift towards the more immediate and convenient video-on-demand **(VOD)** market is evident. There, the content is accessible via a wide range of connected devices and consumers can view it whenever and wherever they so desire. While there remains a strong market for ownership of content through transactional VOD **(TVOD)** services, the growth will be mainly focused on subscription VOD **(SVOD)** platforms, with subscribers attracted

to full seasons of original content and back-catalogues they can binge view. Digital channels will continue to be a major battleground. Existing TV providers like Swisscom and UPC are trying to differentiate their offerings through exclusive content such as sport events, while international players such as Netflix continue to expand their strong position.

The cinema market was faced with several challenges in 2016 and as a result declined by 10%. Since Netflix and other digital platforms have put pressure on this industry by creating more and more proprietary content, double-digit growth rates will be even more difficult to achieve. Seasonal fluctuations due to major sport events, the variety of other leisure time activities, and the dependency on blockbuster quality will lead to ups and downs; a CAGR of -1% is estimated over the next five years.

Video games

E-Sports has the potential to bring gaming to the next level

'Gamification' is a powerful trend, with VR and AR increasingly becoming simply 'reality'. But another business-model innovation has the potential to bring gaming to the next level and even create a whole new global industry where gaming and real life meet: E-Sports. Although the global market for this is huge and the potential even bigger, the E-Sports market in Switzerland is still in its infancy. Sales of physical games are tumbling as gamers go online, but console and PC revenues are still rising modestly. Social and casual gaming (Angry Birds, Pokémon, etc.) as well as traditional online gaming are skyrocketing, with CAGRs of more than 10%. Overall, the segment's 2016-2021 CAGR is forecasted at 7%.

Radio

Challenged by global streaming platforms

As indicated in previous Outlooks, radio is still popular in Switzerland and will remain so in future due to its local focus. This industry has experienced a very consistent consumption rate over the past years, the flux between years is minimal, and from 2015 to 2016 consumption in all regions decreased by only four minutes. Radio is mostly used for music and news, which means its main competitors are music streaming platforms like Spotify and Apple Music. On the technical side, conventional FM broadcasting is being overtaken by digital broadcasting; FM will be switched off for good in 2024.

Revenues here should rise only modestly – driven by their main source, public license fees – at a 2016-2021 CAGR of 0.6%. This will also be thanks to the stipulations of a new radio and television law **(RTVG)**, which provides for increased licence fees.

Out-of-home advertising

Physical OOH revenue slipped into decline in 2016

Growth in physical out-of-home (OOH) revenue has been trending downwards for some time as an ever-growing share of advertising spending is diverted to digital out-of-home **(DOOH)**. This trend reached a tipping point in 2016 when physical OOH revenue started to decline, falling by -1.9%. Through 2021, the rate of year-on-year decline is projected to be -1.7%, while DOOH is expected to grow by 21.5% on average through 2021.

Generally speaking, advertisers are aware of the value of OOH advertising, so improved measurement techniques and more personalised content on the digital screens will drive this market. But even though digital OOH has immense potential, it will not exceed non-digital OOH over the next five years.

Consumer magazines

Digital news and videos are pressuring traditional consumer magazines

The vast supply of digital news is causing a further decrease in readership for traditional print magazines. Digital news sources, video platforms and a variety of other substitutes are pressuring traditional consumer magazines. Further losses in print advertising and print circulation are the consequence.

Although digital circulation has experienced robust growth in the past three years, as well as the fact that digital advertising has continued its positive trend with an anticipated CAGR of 8% through 2021, the two segments play only a minor role in the overall market. It is unlikely that digital will generate the lion's share of revenues anytime soon and thereby offset the losses that are being incurred in print. Hence, the overall structural downturn within the segment persists especially due to decreasing print advertising revenues which are expected to shrink by 6.4% annually over the next five years. On the whole, we foresee a CAGR of -4.6 % through 2021 in the consumer magazine market.

Newspapers

The prospects remain gloomy

The newspaper industry has been faced with continuous margin shrinkage in recent years. But the forecasts for that shrinkage are disturbing: the rate of decline has begun to accelerate. While newspaper circulation revenue declined by 3%, advertising revenues fell dramatically by 10%. This downward trajectory will continue during the forecast period, with advertisers abandoning print editions in large numbers, and publishers increasingly being squeezed out of the digital ad space by Google and Facebook.

For the next five years, we are projecting that the annual growth (CAGR) for total advertising and circulation will average -3.2%, mainly due to losses in print advertising. Although the related revenues continue to fall, print advertising will remain the primary source of income over the forecast period.