Internet

Television

Publishing and Out-of-Home

Filmed entertainment

Interactive games

Recorded and live music

Radio

Mobility is reshaping the future

Five year forecasts on the entertainment and media industry in New Zealand.

August 2012

pwc

Use of Outlook data

New Zealand figures were produced and reviewed between 7 February and 12 July 2012. We'd like to thank relevant parties (eg associations and industry bodies) for their support and guidance with the numbers and trends. This publication went to print on 20 July 2012.

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Prepared and edited by

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PwC
PricewaterhouseCoopers Tower
188 Quay Street
Auckland +64 (9) 355 8000

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Contents

2 Introduction

6 New Zealand entertainment and media snapshot

8 Methodology

11 Internet

19 Television

31 Publishing and Out-of-Home

41 Filmed entertainment

49 Interactive games

57 Recorded and live music

65 Radio

Welcome to the second edition of PwC New Zealand's entertainment and media outlook.

We're excited to present you with our forecasts and analysis for the industry and give our insights into the trends that drive our forecasts.

All of us at PwC New Zealand continue to stay on top of trends and developments that may impact your business now and in the future, and we look forward to further sharing our insights with you.

We thank you for your support and wish you an exciting and rewarding year ahead.

Kind regards,

Keren Blakey, Partner

Grant Dennis, Partner

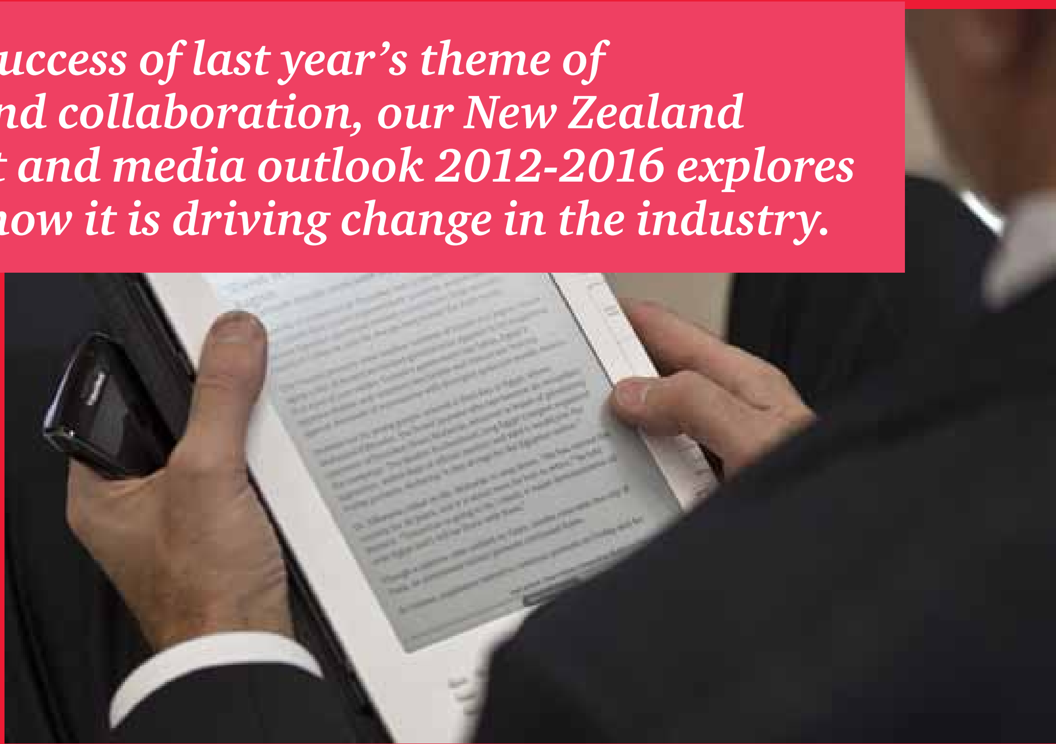
Mobility is driving change and reshaping the future

What do we mean by mobility?

Our basic definition of mobility is the consumerisation of technology that allows people to consume entertainment and media on the move or away from traditional locations, such as movie theatres. Mobility is being led by product developments, such as smartphones, tablet computers, digital music players, apps, by infrastructure developments such as advanced mobile networks, and the digitisation of content and services that allow consumption in non-traditional locations, such as e-commerce and online, social media, online shopping, online banking, internet television, and other learning media. Within this complex and evolving environment, we are seeing innovation and disruption that starts with changing customer behaviour and then leads to radical shifts in where value lies within the industry and commensurate changes to business models.

With the recent technological innovations and the digitisation of media, the entertainment and media industry landscape has changed, and users' expectations are both growing and more demanding. Companies are now finding it is essential their business models and strategies reflect this focus on mobility if they are to stay up with the ever-changing environment of new devices that their customers are so eagerly embracing.

Based on the success of last year's theme of partnership and collaboration, our New Zealand entertainment and media outlook 2012-2016 explores mobility and how it is driving change in the industry.



The entertainment and media market - today and tomorrow

New Zealand's entertainment and media market is now showing signs it is beginning to embrace the new ways New Zealanders wish to consume entertainment and media content.

Organisations now have a better understanding of how to not only engage with, but also make money from today's digital consumer, and to date, the industry has held its ground over the past year and has an encouraging future.

Revenues in the sector grew by 4.3 per cent in 2011, and we expect this growth to continue throughout the 2012-2016 forecast period by an average of five per cent.

Yet, the challenge remains: how to keep pace with consumer trends, new technologies and the ever evolving ways of consuming content in this increasingly digital and mobile world? And perhaps, the biggest mission is to shift advertising dollars online and convince consumers to open their wallets and start paying to access their entertainment and media content.

By staying on the digital course and having the courage to make bold changes to their business models, New Zealand's entertainment and media players will be able to retain and grow their revenue streams.

So, what are the key highlights and lowlights, from this year's New Zealand entertainment and media outlook that you ought to know?

- Consumer expectations are changing and becoming more demanding.
- Technology is disrupting the industry – changing consumer behaviours are changing where value lies.
- Mobility is driving change in the way users consume content.
- Major investment in New Zealand's infrastructure is underpinning the transition from traditional to digital.
- It is becoming increasingly complex for businesses to engage and stay connected with their customers across multiple channels.
- Value pools are shifting to customers, global players and holders of content – we are seeing an increasing need for change in business models as local players seek scale to compete effectively.
- Advertisers are following consumers as they spend more time online.
- Businesses are focused on getting better insights and more value from data intelligence.

Digital is now moving towards the heart of many media companies and presents the greatest opportunities for growth – what previously looked like a wide gap between old and new operating models is being bridged.

Sales of tablets and smartphones are rocketing and fuelling growing revenue opportunities in the digital delivery of advertising, entertainment and media content to an increasingly connected and mobile consumer. Consumers can now be reached anywhere, anytime.

The shift in emphasis to digital and online media is expected to continue apace, driven by the development of faster and cheaper digital devices (such as internet televisions, smartphones, tablets and notebooks), the increasing footprint of high speed connectivity and the advent of ultra-fast broadband. No segment is unaffected.

Companies are becoming more agile as pressure comes on them to keep up with the pace of changing consumer needs and finding ways to maintain revenues.

Newspaper companies are working hard in the digital space to replace shrinking revenues; television (TV) companies are transforming from linear broadcasting to a multi-media model as ultra-fast broadband, cloud technologies, and internet TVs make 'placeshifting' of content between devices more convenient, and video-on-demand and catch-up services transform consumers viewing habits; internet service providers are moving to leverage the increased speed and capacity of fibre and new mobile networks by signing content deals with SKY and other content aggregators; radio companies are watching the introduction of free global streaming services closely.

Consumers now spend large amounts of their time online through social media, snacking on entertainment and looking for the lowest cost purchases, making it difficult for business and advertisers to engage, and keep engaged with consumers. Leading businesses are using cross media platforms and promotions to attract and stay connected to consumers.

New Zealand is small by global standards and our businesses now compete with large overseas and global players. Our local businesses need to find ways to effectively compete in an online and global world and we see evidence of increasing local partnerships and rationalisation within and across sectors. It is unclear what the future may hold as businesses test the waters for new and innovative ways to deliver services to consumers and extract value from the industry.

Total entertainment and media market (NZ$ millions)

	Historical data					Forecast data					
NZ$	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-2016 CAGR*
New Zealand	**4,297**	**4,944**	**4,818**	**4,991**	**5,206**	**5,508**	**5,859**	**6,135**	**6,395**	**6,655**	***5.0%***
% Change		15.1%	(2.6)%	3.6%	4.3%	5.8%	6.4%	4.7%	4.2%	4.1%	

Sources: PwC New Zealand, Wilkofsky Gruen Associates

* CAGR: Compound Annual Growth Rate

Sales of tablets and smartphones are rocketing and fuelling growing revenue opportunities in the digital delivery of advertising, entertainment and media content to an increasingly connected and mobile consumers.

Consumers can now be reached anywhere, anytime.

Internet: affecting everyone

Trends in the internet sector are having a big effect on all entertainment segments, from gaming, publishing and radio, to music, film and TV.

Internet access continues to be a strong driver of spending in most market segments, with some 86 per cent of New Zealanders and 79 per cent of households now connected in some way. It is estimated 68 per cent of households access the internet using broadband, and while there is expected to be some growth here, it is nearing saturation. Internet-capable services will continue to grow at a rapid rate, while the uptake of mobile advertising will increase. Advertising revenue from online media is expected to rise as more people go online and advertisers switch budgets from other media to include online advertising. More people are predicted to switch to the internet to do business and to access information, on the back of the New Zealand Government's rollout of ultra-fast broadband and fibre to the home. Trends in devices are expected to drive market revolution, with value shifting to device providers, application and content providers. The two big unknowns are the fibre take-up and the resulting changes to fixed broadband, and the effect that ever increasing mobile network infrastructure will have on the adoption of mobile broadband and substitution from fixed broadband services.

Television: embracing changes

The TV segment is predicted to undergo structural change in reponse to digital advancement, with TV advertising expected to remain relatively stable in the medium term. Major challenges for free-to-air broadcasters will be to make the transition from mainly linear broadcasting to a multi-media business model that is financially viable and it will include online advertising. 'Cloud' technologies and internet TVs will make 'place-shifting' of content between devices more convenient and fuel the mobility trend, as will 4G technology, which is set to make an impact by the end of the survey period. Over-the-top services, such as video-on-demand are gathering momentum and will continue to put pressure on traditional subscription TV, although the penetration of pay TV is expected to climb. Viewer 'timeshifting', enabled by video recorders, may also help drive advertising spend toward online channels as advertisers look for new ways to engage consumers.

Publishing and Out-of-Home: adapting and changing

The publishing world continues to work hard to counter the challenge from the uptake in electronic devices and the internet, and this is expected to intensify over the forecast period. With little sign of the decline in print runs being arrested, companies are enhancing their online presence to ensure they deliver quality material and retain readership. The circulation trend is expected to have a direct adverse impact on print advertising revenues, although the shift to the internet will offset that to some extent. Likewise, consumer magazine circulations and advertising revenues are facing the challenge from the internet and tablets, with both forecast to decline, although growing digital readership will fuel digital advertising and an emerging digital spending market. The challenge for publishers is to adapt their business models and monetise their digital readers. The increasing popularity of tablet devices and e-readers will continue to have a big effect on the book market, with significant spending on e-books, although the shift from higher-priced print books is expected to dampen overall spending growth in the sector.

Out-of-Home advertising continues to be an effective way for advertisers to reach their audience. It will be driven by the growth of digital technologies, which will allow advertisers to create eye catching and innovative displays.

Filmed entertainment: becoming brighter

The conversion of cinemas to digital is expected to speed up after a slow start, and box office spending will continue to see moderate growth, with the advertising spend increasing on the back of that. The spread of 3D technology is expected to continue throughout New Zealand, but this is not expected to be reflected in homes. Cinema advertising will benefit from box office growth and favourable demographics, and will continue to allow advertisers to reach young people and provide an environment where viewers are watching the screen and engaged in the advertisements. Home video is predicted to continue its moderate revenue growth, although as video streaming, video-on-demand, and pay-per-view gains more of a hold, this growth will switch from physical to electronic delivery.

Interactive games: growing fast and furious

Gaming is the fastest-growing entertainment sector in the world. This is expected to continue in the forecast period as it experiences a shift to online and wireless games, on the back of faster internet and more powerful mobile devices. Smartphones and tablets, with their improved graphic capabilities, are fast becoming the devices of choice for casual game players. This rising uptake is enabling developers to produce more advanced wireless games and will drive demand for these games. This is expected to affect the console market, although the three major console providers – Xbox, PlayStation and Nintendo will fight back. The New Zealand development industry, which has boomed in recent years, is expected to continue to grow. Game developers and publishers are continuing their push towards digital distribution, leading to deteriorating retail sales.

Recorded and live music: transforming and growing

The recorded and live music market, which has been in the doldrums for years, is climbing back to growth, with the rise in digital sales now reportedly outstripping the decline in physical sales. Both trends are expected to continue apace over the forecast period. The internet, music streaming services and the 'cloud' are revolutionising the way music is stored and consumed, and the shift in this direction will continue. Many music labels are looking at the very real prospect of the decline in sales bottoming out and sales increasing. The entry into the market of streaming services could spark another paradigm shift. As in the film sector, illegal copying continues to be a problem, although the recently enacted anti-piracy legislation seems to be putting a brake on the problem. If that continues, the future for recorded and live music is expected to be bright.

Radio: tuning in differently

The way people are listening to radio is changing, with more people tending to use the internet and mobile devices as they become faster and more accessible. Radio companies have invested heavily in gaining internet presence, and this could be the way of the future, even to the extent that the long-talked-about introduction of digital radio is bypassed. Companies are looking outside the traditional model to maintain advertising growth and revenue, by bundling products that also encompass their websites and smartphone apps. The entry of subscription music streaming services into the market is predicted to eat into listenership and put increasing pressure on advertising revenues and listenership, particularly among the young and mobile. A major challenge is free global streaming services.

Methodology

This report draws on historical data from trade associations and publications, government agencies and other industry sources. Recent trends in industry performance are analysed and the factors underlying those trends identified. Factors considered include economic, strategic, operational, technological, demographic, political, cultural, institutional, behavioural, competitive and other drivers that may affect particular entertainment and media markets.

The forecasts have been prepared in conjunction with Wilkofsky Gruen Associates and consider the dynamics of each segment in each region, and the factors that affect those dynamics. We recognise unforeseeable events, such as acts of terrorism or significant natural or environmental catastrophes, can occur at any time and affect the outlook. But due to their unpredictable nature, such events have not been contemplated in this forecast.

We provide annual growth rates for the years 2007–2016 and a compound annual growth rate (CAGR) that covers the 2012–2016 forecast period. In calculations of the CAGR, 2011 is the beginning year, with five years during the forecast period: 2012, 2013, 2014, 2015 and 2016.

The formula is:
CAGR = 100*((value in 2016/ value in 2011)^(1/5)–1).

Models are then developed to quantify the impact of each factor on industry spending. A forecast scenario for each causal factor is created and the contribution of each factor on a prospective basis is identified. Proprietary mathematical models and analytical algorithms are used to provide an initial array of prospective values. We rely on our professional expertise and institutional knowledge to review and adjust these values, if required. The entire process is then examined for internal consistency and transparency vis-à-vis prevailing industry wisdom.

All figures are reported in nominal terms and include the effects of inflation. Segment spending consists of advertising and end-user spending on entertainment and media content. We do not include spending on hardware or on services that may be needed to access content. For example, in TV, radio, recorded and live music, filmed entertainment and interactive games, we do not include spending on TV sets, radio sets, CD players or portable listening devices, DVD players, or video game consoles. Spending is at the end-user level and includes retail mark-ups where applicable. Advertising is measured inclusive of agency commissions. All figures are presented in New Zealand dollars.

Internet

Author:

Blair Woodbury, PwC New Zealand

Market definition

Wired and mobile internet revenue consists of fees paid by consumers to internet service providers (ISPs) and to wireless carriers for internet access via mobile devices – whether provided for a standalone service or as part of a service bundle where the internet component is estimated – and advertising, which consists of spending on paid-search, display, classified, video, and other online formats. Figures do not include spending on entertainment content downloaded over the internet or to mobile phones, which is included in the respective content chapters.

TOTAL Internet advertising (wired & mobile)

Mobile internet advertising		
Total wired internet advertising	Search	
	Banner/display	
	Classified	
	Video	

TOTAL Internet (wired & mobile)

Mobile internet	
Wired internet	Broadband
	Dial-up

Internet

Snapshot

Internet

- Fibre network rollouts and the extension of the broadband infrastructure into under-served areas will drive broadband subscriptions and fuel broadband spending.
- The fixed internet market is nearing saturation, although the New Zealand Government's ultra-fast broadband initiative and rural broadband initiative are expected to improve broadband availability and quality, which should lead to further market volume and revenue growth.
- Rising prices for premium services will further boost average monthly spending.
- In the mobile market, the enormous popularity of smartphones is driving penetration, with mobile subscriptions soaring in 2011. Worldwide, mobile access spending jumped 30.5 per cent. In New Zealand, smartphone ownership has jumped to 44 per cent of households in 2012, up from 13 per cent in 2011[1].
- Mobile internet revenue is expected to grow rapidly as users devote more of their spend to internet access services at the expense of other telecommunications activities.
- Overseas, carriers are rolling out fourth-generation (4G) wireless networks to provide faster speeds and to accommodate surging data traffic while, in New Zealand, the 4G rollout will not commence in earnest until spectrum is freed up by the television digital switchover, due in 2013.
- Wireless network upgrades, enabled by improved wireless technologies and high-bandwidth cell site backhaul, will sustain the growth in mobile internet access.

Advertising

- Broadband household growth will be the main driver of wired internet advertising.
- Online banner and display advertising revenue will continue to rise as people spend more time online across multiple devices, and as advertisers rebalance their spend online, whilst they chase end users. The increasing traffic on social networking sites will also play a significant part in this shift.
- Faster broadband and increased TV streaming from broadcasters and over-the-top providers will drive online video advertising.
- Growing tablet and smartphone penetration and growth in the mobile internet access subscriber base will boost mobile advertising.
- Paid search, a format not available in other media, will continue to attract spending to the internet.

1 'Smartphone ownership jumps', stuff.co.nz/business/money/6905647/Smartphone-ownership-jumps, 11 May 2012.

Internet access spending (NZ$ millions)

NZ$	Historical data 2007	2008	2009	2010	2011	Forecast data 2012	2013	2014	2015	2016	2012-2016 CAGR
Broadband		304	422	473	517	632	697	746	793	836	*10.1%*
Dial-up		89	56	40	25	19	14	9	4	0	*(100.0)%*
Mobile		197	208	221	260	281	392	479	540	604	*18.4%*
Internet (wired and mobile)		**590**	**686**	**734**	**802**	**932**	**1,103**	**1,234**	**1,337**	**1,440**	***12.4%***

Sources: Commerce Commission, PwC New Zealand, Wilkofsky Gruen Associates

Internet households and mobile internet subscription (millions)

	Historical data 2007	2008	2009	2010	2011	Forecast data 2012	2013	2014	2015	2016	2012-2016 CAGR
Broadband - Copper		0.66	0.88	0.95	1.00	1.17	1.24	1.28	1.34	1.38	*6.7%*
Broadband - Fibre		0	0	0	0	0.01	0.03	0.05	0.08	0.1	*n/a*
Dial-up		0.4	0.35	0.3	0.25	0.2	0.15	0.1	0.05	0	*(100.0)%*
Total fixed line		**1.06**	**1.23**	**1.25**	**1.25**	**1.38**	**1.41**	**1.43**	**1.46**	**1.48**	***3.4%***
Mobile internet - USB dongles		0.02	0.038	0.05	0.05	0.09	0.13	0.15	0.16	0.17	*25.9%*
Mobile internet - data on device		0.25	0.23	0.24	0.26	0.57	0.63	0.66	0.70	0.73	*23.4%*
Mobile internet -phones		1.4	1.53	1.62	2.00	2.13	2.65	3.22	3.38	3.55	*12.1%*
Total mobile		**1.67**	**1.80**	**1.91**	**2.31**	**2.79**	**3.41**	**4.03**	**4.24**	**4.45**	***14.0%***

Sources: Commerce Commission, PwC New Zealand, Wilkofsky Gruen Associates

Internet advertising market (NZ$ millions)

NZ$	Historical data 2007	2008	2009	2010	2011	Forecast data 2012	2013	2014	2015	2016	2012-2016 CAGR
Search	34	60	78	93	135	137	159	176	191	206	*8.8%*
Banner/display (excluding video advertising)	42	58	64	81	89	119	140	156	171	185	*15.8%*
Classified Internet advertising market	59	75	71	84	94	123	145	164	182	201	*16.4%*
Video internet *	1	1	3	4	10	13	16	21	27	33	*27.1%*
Total wired internet	**136**	**194**	**216**	**262**	**328**	**392**	**460**	**517**	**571**	**625**	***13.7%***
Mobile internet	n/a	n/a	n/a	n/a	1	6	9	13	20	28	*113.2%*
Internet (wired and mobile)	**136**	**194**	**216**	**262**	**329**	**398**	**469**	**530**	**591**	**653**	***14.7%***

* 2007 - 2010 Wilkofsky Gruen Associates

Sources: PwC New Zealand, Wilkofsky Gruen Associates, IABNZ

A year of change

The rollout of ultra-fast broadband and rural broadband initiative were confirmed and deals were signed with the Government last year. Chorus was demerged from Telecom and became a public company in its own right. The Government also announced the full digital switchover would start in September 2012 and be completed by late 2013.

The digital switchover will free up spectrum for the introduction of long term evolution (LTE), the 4G mobile network technology that some see as the holy grail of the mobile industry. 4G will enable significantly higher capacity and speed than 3G, enabling movie downloads to wireless devices within 90 seconds and music within a few seconds – at a lower average cost per unit. Telecom has announced it will start trials in Wellington and Auckland in the second half of 2012 using hundreds of consumers and at least four big businesses[2]. The Government said it expected to announce the crucial spectrum auction rules late in 2012, with the auctions themselves in 2013, and we expect the long term evolution network rollout to begin late 2013 or early 2014. Yet, there have been questions raised about the financial viability of multiple long term evolution networks in such a large but sparsely populated country.

Trends in the internet segment continue to have a substantial reach and impact across this industry sector ranging from gaming, publishing and radio, to music, film, TV and business-to-business interactions. Chorus CEO Mark Ratcliffe notes a fibre network gives the ability to push more control over entertainment services into the hand of the end user[3].

"A fibre network gives the ability to push more control over entertainment services into the hand of the end user."

– Mark Ratcliffe, CEO, Chorus.

Internet access will continue to be a strong driver of spending in most market segments, with some 86 per cent of New Zealanders now accessing the internet via various means. It is estimated 79 per cent of households are now connected to the internet[4]. We expect dial-up customers to migrate to mobile broadband or fixed broadband as the reach and quality of those services improves. It is estimated 68 per cent of households access the internet using fixed broadband, and we expect that to grow, although we believe the fixed broadband market may be nearing a natural saturation point as some households opt to connect to the internet via other means or not at all.

Internet access continues to be driven by the proliferation of internet-capable devices, including connected televisions, wi-fi and mobile tablets, and smartphones. The latter two have driven a big jump in mobile internet access, particularly among younger people as devices become cheaper and faster. The availability of video-on-demand content – for example by TVNZ , TV3, iSKY, and offerings from subscription services such as Quikflix – is also having an effect, and poses the question as to whether there would be any need for regulatory intervention in digital media markets.

Internet access continues to be driven by the proliferation of internet-capable devices.

2 'Telecom plans 4G customer trials', Tom Pullar-Strecker, stuff.co.nz, 14 May 2012.
3 Interview with Mark Ratcliffe, CEO, Chorus, 27 April 2012.
4 World Internet Project New Zealand: The Internet in New Zealand 2011, Discourse and Communication, The Institute of Culture, AUT University, December 2001.

We expect the rollout of the Government-backed ultra-fast fibre network to continue to be slow and steady in line with the commitments made by the Government and their partner companies. We also expect fibre take-up will be triggered by content-rich play rather than value or price. It is expected by the end of the forecast period some 100,000 additional households will be connected to fibre. The majority of these are likely to be new houses and the remainder technology early-adopters and those seeking to take full advantage of fibre's ability to deliver content-rich and bandwidth-heavy services.

We believe copper broadband will continue to be appealing to the majority of the market, thanks to continuing price changes, innovation (eg Orcon's Genius service) and value (Telecom's doubling of data caps). It is likely dial-up will disappear as end-users migrate their internet access to mobile services or to broadband as the reach and quality improves, particularly in rural and remote areas.

Mobile broadband usage is expected to grow at a rapid rate as new devices come to market at lower price points, and long term evolution networks with improved mobile broadband economics, supporting lower mobile broadband charges, are introduced. We foresee a wide range in average revenue per user across mobile and fixed broadband services representing the diverse needs of end users, and similar to the post-paid versus pre-paid revenue splits of today.

We are seeing the beginning of major industry restructuring as retailers look for scale and efficiencies following the seismic shift of Chorus being separated from Telecom and Vodafone New Zealand announcing they have agreed to acquire TelstraClear[5] (subject to approvals from the Commerce Commission, Overseas Investment Office and Ministry of Business, Innovation and Employment)

It is also possible other smaller entities may have to merge to seek scale themselves in order to compete effectively. Chorus CEO Mark Ratcliffe points out Chorus has a significant number of retail service providers in a small market. Five or six of which make up 95 per cent of the market, leaving a lot sharing a very small Percentage in an area where everybody's margins are shrinking[6].

"You'll have consolidation at one end and innovation at the other."[7]

– Rod Snodgrass, Chief Products Officer, Telecom New Zealand.

The merger of Vodafone and TelstraClear (number two and number three players in the market) would create a much larger, full-service company to compete more effectively with Telecom. There would likely be a reduction in the number of bidders for the long term evolution spectrum, de-risking Vodafone's long-term plans but also likely benefiting end users by way of lower prices (as less investment is required to deliver service). A merged TelstraClear/Vodafone would also be likely to bring more 'bundled' services across entertainment, broadband, and mobile as a point of differentiation in the market.

We also foresee further regulatory hurdles ahead as the separation of Telecom and Chorus creates different pressures between network owners and retail service providers as evidenced by the pricing of copper services currently under consideration by the Commerce Commission.

Copper broadband will continue to be appealing to the majority of the market.

"As a wholesaler, we have a significant number of retail service providers in a very small market. Five or six of those customers make up 95 per cent of the market place, so that is a lot of people sharing a very small Percentage of the market in an area where everybody's margins are shrinking."

– Mark Ratcliffe, CEO, Chorus.

5 'Vodafone agrees to buy TelstraClear in NZ', sharechart.co.nz, 12 July 2012.
6 Interview with Mark Ratcliffe, CEO, Chorus, 27 April 2012.
7 Interview with Rod Snodgrass, Chief Products Officer, Telecom New Zealand, 17 April 2012.

Advertising follows users online

We expect the internet to continue to attract a bigger share of the advertising market as more people go online, with all online advertising channels currently experiencing double-digit year-on-year growth. This trend is likely to continue as the penetration of broadband steadily improves the reach and quality of online services to consumers. Advertisers will continue to develop innovative-rich media formats, improving their ability to deliver their message and engage with and enhance their customers' experience.

The increase in online advertising's share of total advertising spend is gradually coming into line with the share of time that people spend online compared to other media (this is currently estimated to be around 24 per cent)[8].

The ability to selectively target segments of the audience group continues to be a key driver for the growth of spending for online advertising. Online advertising also provides a relatively cost-efficient approach to marketing for small-to-medium businesses, as can be seen by Google beginning to target small businesses in New Zealand with a simplified online advertising tool[9].

Information service Localist is building what CEO Blair Glubb refers to as a local marketplace online, where consumers and smaller businesses engage and transact, where businesses not only advertise their services but consumers are able to rate them and comment, and the presence and priority that businesses get is based on the quality score they have rather than just how much they pay to advertise[10].

Growth drivers for online advertising include the increasing use of technology by consumers, as well as social media and cross-media efficiencies[11]. The market remains relatively immature when it comes to online advertising, with more than half of all small businesses having no online presence at all[12]. This is particularly relevant as advertising agencies provide marketing-packaged solutions that deliver across various channels. Advertisers are leveraging from the benefits from each of the respective channels to deliver their message to their target audience. For example, using social media to support brand engagement while using mobile advertising and location-specific applications to deliver advertising to the customer.

Though mobile advertising is in its infancy, it has enormous potential. Localist CEO Blair Glubb believes the biggest thing impacting local search and transactions will be mobile and he expects mobile to be the dominant platform for this within two years[13]. Smartphone penetration has increased rapidly in recent years, rising to 44 per cent of households in 2012, up from 13 per cent in 2011[14]. The mobile platform presents more positive opportunities for advertisers to connect with consumers 'on the go', and as mobile internet usage continues to increase so will the advertising spend in this area[15].

Conclusion

With such significant changes in the internet sector, it is difficult to forecast how the internet market will evolve. Consumer choices will increase as internet applications, services and connected devices proliferate. The corresponding improvement of the quality of fixed and mobile broadband networks will create a tidal wave of digital activity.

Advertisers will follow the end users online and we anticipate advances in the richness of the style and format of online communications. The two big unknowns are the fibre take-up and the resulting changes to fixed broadband, and the effect that ever increasing mobile network infrastructure will have on the adoption of mobile broadband and substitution from fixed broadband services.

"The biggest thing impacting local search and transactions will be mobile and we expect that to be the dominant platform for this within two years."

– Blair Glubb, CEO, Localist.

"If you're like us and like complex problems then it's the place to be." [16]

– Rod Snodgrass, Chief Products Officer, Telecom New Zealand.

8 'Online advertising continues to grow', William Mace, stuff.co.nz, 15 February 2012.
9 'Google wants small biz advertisers', William Mace, stuff.co.nz, 6 June 2012.
10 Interview with Blair Glubb, CEO, Localist, 17 May 2012.
11 'IABNZ presents...Online Advertising in 2012', Interactive Advertising Bureau New Zealand, iab.org.nz, 2012.
12 Interview with Blair Glubb, CEO, Localist, 17 May 2012.
13 Interview with Blair Glubb, CEO, Localist, 17 May 2012.
14 'Smartphone ownership jumps', stuff.co.nz/business/money/6905647/Smartphone-ownership-jumps, 11 May 2012.
15 PwC New Zealand & Interactive Advertising Bureau New Zealand, Online Advertising Expenditure Report Q4 2011, 2012.
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NATE

Television

Authors:

Tova Haydock, PwC New Zealand

Nicola Oberste-Berghaus, PwC New Zealand

Market definition

The television segment consists of revenues generated by distributors of television programming to viewers. It comprises free-to-air, which generates income from advertising, and subscription or pay TV, which generates income mainly from subscription fees and pay-per-view services, complemented by advertising.

TOTAL TV advertising

Broadcast advertising	Multichannel
	Terrestrial
Online & mobile TV	Online TV advertising
	Mobile TV advertising

Television

Snapshot

Television

- The television segment is predicted to undergo change in response to digital advancement, with new delivery mediums and business models. If there is a review of the regulation of wholesale content, this could provide further impetus to the market. The potential impact of such regulation has not been considered in our forecasts.
- The major challenge for free-to-air broadcasters will be to make the transition from mainly linear broadcasting to a multi-media business model that is financially viable. Video-on-demand offerings will continue to put pressure on traditional subscription TV. Yet, the penetration of pay TV is expected to climb.
- Providers are enhancing their offerings with more high-definition and video-on-demand selections, while upgrading digital video recorder services to retain and upsell subscribers.
- Ultra-fast broadband, 'cloud' technologies, and internet TVs will make 'place-shifting' of content between devices more convenient and fuel the mobility trend.

Advertising

- TV advertising is expected to remain relatively stable in the medium term as the most effective way of reaching a mass audience[1], this is despite there being a clear shift towards multi-channel or integrated campaigns using all available advertising channels.
- The television audience is growing, which is helping it increase its share from print advertising media.
- Broadcast advertising will benefit from three key trends: more channels becoming available to more people from new or expanded multi-channel platforms; the influence of social media stimulating TV viewing; rising levels of viewing generated by growing high-definition penetration and improvements in the size and picture quality of TV sets. Catch-up or video-on-demand services and over-the-top launches, combined with tablet penetration, are boosting online viewing, which is in turn driving online TV advertising.

1 ThinkTV 2012 TV Handbook.

The subscription television market (NZ$ millions)

	Historical data					Forecast data					
NZ$	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-2016 CAGR
TV subscription	561	596	639	678	718	770	828	872	901	932	5.4%
% change		6.3%	7.1%	6.1%	5.9%	7.3%	7.5%	5.3%	3.2%	3.4%	

Source: Statistics New Zealand, Sky Network Television, TVNZ, MediaWorks NZ, PwC New Zealand, Wilkofsky Gruen Associates

Subscription TV subscribers vs free-to-air viewers (millions)

	Historical data					Forecast data					
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-2016 CAGR
Cable	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	*0.0%*
Satellite	0.62	0.67	0.71	0.74	0.77	0.81	0.87	0.91	0.91	0.89	*3.0%*
IPTV	n/a	*	*	*	*	*	0.01	0.02	0.03	0.08	*n/a*
Total subscription TV	**0.67**	**0.72**	**0.76**	**0.79**	**0.81**	**0.86**	**0.93**	**0.97**	**0.99**	**1.01**	***4.5%***
Freeview and other	*	0.16	0.27	0.40	0.50	0.58	0.68	0.73	0.73	0.73	*8.1%*
Analogue	0.85	0.67	0.56	0.43	0.33	0.23	0.08	0	0	0	*n/a*
Total free-to-air	**0.85**	**0.83**	**0.83**	**0.83**	**0.83**	**0.80**	**0.75**	**0.73**	**0.73**	**0.73**	***(2.5)%***

* Negligible
** n/a: non applicable

Sources: Statistics New Zealand, SKY Network Television, TelstraClear, Freeview, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Percentage of subscription TV and free-to-air households

	Historical data					Forecast data					
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-2016 CAGR
Cable TV	3.2%	3.2%	3.1%	2.9%	2.7%	2.7%	2.7%	2.6%	2.6%	2.6%	*(1.2)%*
Satellite	39.8%	42.2%	44.4%	45.8%	46.7%	48.9%	52.1%	53.5%	52.9%	51.0%	*1.8%*
IPTV	n/a	*	*	*	*	*	0.8%	1.0%	1.9%	4.3%	*n/a*
Subscription TV	**43.0%**	**45.3%**	**47.6%**	**48.7%**	**49.4%**	**51.6%**	**55.6%**	**57.1%**	**57.5%**	**57.9%**	***3.2%***
Freeview and other	*	10.4%	16.7%	24.8%	30.2%	34.9%	40.4%	42.9%	42.5%	42.1%	*6.8%*
Analogue	55.8%	43.4%	35.5%	26.5%	20.3%	13.6%	4.5%	0.0%	0.0%	0.0%	*n/a*
Free-to-air only	**55.8%**	**53.8%**	**52.2%**	**51.2%**	**50.6%**	**48.4%**	**44.8%**	**42.9%**	**42.5%**	**42.1%**	***(3.6)%***

* Negligible

Sources: Statistics New Zealand, SKY Network Television, TVNZ, MediaWorks NZ, PwC New Zealand, Wilkofsky Gruen Associates

TV Advertising market (NZ$ millions)

	Historical data					Forecast data					
NZ$	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-2016 CAGR
Multichannel television	32	29	27	24	24	28	29	33	33	34	*7.3%*
Terrestrial television	625	618	544	583	594	613	641	667	699	731	*4.2%*
Total broadcast television	**657**	**647**	**571**	**607**	**618**	**641**	**670**	**700**	**732**	**765**	***4.3%***
Online television	3	6	8	11	14	16	21	25	32	37	*21.4%*
Mobile television	n/a	n/a	n/a	n/a	1	1	3	3	3	4	*30.6%*
Total online and mobile television	**3**	**6**	**8**	**11**	**15**	**17**	**24**	**28**	**35**	**41**	22%

Sources: Advertising Standards Authority, PwC New Zealand, Wilkofsky Gruen Associates

The New Zealand television market continues to be dominated by two major free-to-air broadcasters – state-owned TVNZ and privately-owned MediaWorks NZ – and listed subscription provider SKY, which also offers one free-to-air channel.

Advertising expands

In 2011, the overall TV advertising market continued to expand, by around two per cent, to reach $618 million[2]. The challenge for free-to-air broadcasters is how to make the transition to a multi-media model in the face of the mobility trend. With a trend towards the growth of digital and online viewing, the question becomes, how fast will audience viewing patterns change to online and catch-up services, rather than if they will change.

Digital platforms such as MY SKY and MyFreeview enable viewers to timeshift and skip over advertising, tending to reduce its effectiveness. Catch-up TV and video-on-demand, attract less advertising but it cannot be skipped, so has the potential to be highly effective, especially as ultra-fast broadband is rolled out, increasing delivery speed and quality. In January 2012, the Nielsen Television Audience Survey showed results that suggested 95 per cent of all TV is still watched live[3], indicating that perhaps change is slower than anticipated and that TV will continue to hold up as the number one electronic advertising channel for the medium term.

Yet, both free-to-air networks see significant growth in online advertising, a strategy around offering multi-channel advertising, and the use of technology to create smarter, more targeted advertising based on viewer behavioural data. MediaWorks NZ Group Managing Director Sussan Turner believes the biggest change for brand-funded content will be in the integration space, with clients looking for ways of getting consistent messaging across. And she doesn't see the spend shift as a structural one, believing that most retailers and agencies still see television as a very cost-effective way to get a message across[4].

Digital broadcasting is already the key viewing platform with some 83 per cent of households with TVs having already converted to digital at December 2011[5]. The digital switchover will be completed by November 2013[6]. Based on the latest Digital Tracker results[7] and the Government's scheme[8] for pensioners, our forecast assumes the majority of remaining analogue TV households will convert as the switchover date nears.

A polarised landscape.

"I think clients are increasingly looking for ways they can align their messaging inside environments that are conducive to the core values of their brands. There has been a definite increase in the number of requests for campaigns that can deliver over and above 30 and 60 second commercials. Multi-platform campaigns are on the increase - as are clients wanting integrated solutions. Thankfully, we're well placed to do so owning radio, television and online assets."

– Sussan Turner, Group Managing Director, MediaWorks NZ.

2 ThinkTV research report, 26 January 2012.
3 'TV recorders not making us skip the ads, survey suggests', New Zealand Herald, 26 January 2012.
4 Interview with Sussan Turner, Group Managing Director, MediaWorks NZ, May 2012.
5 Households with a working TV used in the last six months.
6 Freeviewnz.tv, 29 February 2012.
7 Digital Tracker, November 2011 – January 2012 summary results, reported on Goingdigital.co.nz.
8 'Pensioner TV deal limited to free to air', New Zealand Herald, 25 January 2012.

"The shifting spend is still at a low base, so I don't think it is a structural shift. I still think most retailers and agencies conclude that the fastest and most cost-effective way to get a message to the biggest possible audience is television. It still has a 'priority one' tick around it in terms of efficiencies."

– Sussan Turner, Group Managing Director, MediaWorks NZ.

Pay TV continues slow rise

More than half of TV households in New Zealand are now pay TV subscribers. 40 per cent of these subscribers have taken the MY SKY service – an increase of 45 per cent since last year. With average revenue per user under pressure, in part due to subscribers downgrading their packages and the continued reduction in purchases of pay-per-view programmes, the rising penetration of MY SKY helped SKY improve its overall average revenue per user by 3.4 per cent, to $71.81 per month[9].

Although we forecast an increased penetration rate of pay TV, subscription TV average revenue per user may be diluted over the next few years from the launch of a new low-cost distributer, until internet protocol TV picks up momentum. In late 2011, TVNZ and SKY announced a joint venture called Igloo. This new digital pay TV service is aimed at the lower end of the market and households still on analogue. Branded 'pre-pay TV', Igloo will offer all free-to-air and 11 SKY channels for around $25 a month. The set-top box will allow access to live pay-per-view sports events (no sports channel is included as standard) and on-demand movies and TV episodes streamed over a broadband connection. Cost is saved by using an online customer service model and not providing high-definition, which also ensures the strain on data caps is limited.

The risk for SKY is the cannibalisation of its pay TV customer base by the cheaper service and the associated profit share with TVNZ, but SKY Network Television CEO John Fellet says SKY believes both can be successful by targeting different customer segments of the market[10]. The Commerce Commission's investigation into Igloo found that the venture is not likely to substantially lessen competition in any relevant market. The investigation did not attempt to judge the level of competition in the pay TV market overall[11].

"I love the debate about which model is best [Igloo or Sky] because we believe both can be successful by targeting different customer segments of the market."

– John Fellet, CEO, SKY Network Television.

The mobility trend

The way New Zealanders watch TV is evolving. Increasingly, television viewers are also checking their mobile phones and many have laptops or tablets in front of them[12]. Some 83 per cent of homes view content online[13], partially driven by the popularity and falling price of tablets. Well aware of this trend, all three major broadcasters have launched online catch-up TV, video-on-demand and apps to engage with customers on multiple fronts.

At the announcement of his recent appointment, TVNZ CEO Kevin Kenrick reiterated the importance of mobility, supported by the rollout of fibre networks, to the future of the business[14]. In 2010/11, TVNZ's new iPhone and iPad apps were downloaded more than 150,000 times with 55,000 active monthly users[15]. But developing apps is expensive, particularly in a small market like New Zealand, and to get economies of scale, TVNZ is working with global technology leaders wanting to use New Zealand as a test market for new technology.

9 SKY Interim Report, SKY Network Television, December 2011.
10 Interview with John Fellet, CEO, SKY (New Zealand), 23 April 2012.
11 Investigation Report - The joint venture between Television New Zealand Limited and Sky Network Television, Igloo, Commerce Commission NZ, 16 May 2012.
12 Reported on The Marketing Bureau's website, TV Ads' New Digital Role, 14 November 2011.
13 'TVNZ eyes digital expansion as more viewers go online', sharechart.co.nz, 1 March 2012.
14 'TVNZ appoints Kevin Kenrick as Chief Executive', TVNZ media release, 10 April 2012.
15 TVNZ annual report financial year 2011.

"Many customers are interested in watching content on multiple devices, but prefer to use the best and biggest screen available. The exception is information deemed urgent, such as the rugby score, where people are happy to use a small screen, eg a smartphone or a tablet."

– John Fellet, CEO, SKY Network Television.

SKY has focused on creating and delivering content 'when and where you want'. For example, it makes the popular US TV show Game of Thrones available on iSKY within 12 hours of it playing in the US, and broadcasts it on the SoHo channel the following Friday. Challenges, particularly with US content, occur when broadcasters air shows much later than they play in their original country as some viewers have already watched the shows via the internet or followed them on social media.

Some market participants have arrangements with internet service providers (ISPs) to zero-rate their content, meaning shows can be downloaded or streamed without eating into a viewer's data cap. SKY Network Television CEO John Fellet says many customers are interested in watching content on multiple devices, but prefer to use the best and biggest screen available. The exception is information deemed urgent, such as the rugby score, where people are happy to use a small screen, eg a smartphone or a tablet[16].

Illegal downloads continue to be a threat to revenues, despite much international content being available quickly and legally via broadcasters' websites in New Zealand. Another reason for the decline in SKY's pay-per-view revenue is the increasing popularity of video-on-demand, which offers newer releases and access at any time. Video-on-demand is likely to go mainstream as internet-enabled TVs and other integrated multi-media devices become more prevalent, and aided by such moves as Telecom doubling its data caps. New multi-media devices may make it easier for New Zealanders to access premium international content such as premier league soccer, for which rights are sold to several broadcasters around the world.

Video-on-demand

There has been an emergence of new business models for content, ranging from rent-fee per movie to a monthly subscription fee. Video-on-demand services offered by broadcasters and telcos are now in direct competition with independent over-the-top providers such as Apple and Quickflix. These offer online delivery of video and audio independent of ISPs. Quickflix launched its New Zealand service in March 2012, on a monthly subscription basis. It also offers pay-per-view for new DVD releases, and can stream content to any web-enabled device[17]. Although over-the-top providers are not captured in this forecast, they could put increasing pressure on traditional broadcasters' video-on-demand and pay-per-view revenues. Over-the-top services have been slow to take hold in New Zealand, mainly due to the tightly held content rights[18]. This may change over time as content distribution services become more embedded in media devices such as TV sets, set-top boxes, and gaming machines. Freeview's potential launch of an on-demand channel is a recent example[19].

16 Interview with John Fellet, CEO, SKY Network Television, 23 April 2012.
17 'Competition heats up for pay TV', New Zealand Herald, 29 March 2012.
18 High speed broadband services demand side study, Commerce Commission, 9 February 2012.
19 'NBR Online gets sneak peak at Freeview's on-demand channel', nbr.co.nz, 31 May 2012.

Reaching the audience first with quality content and a compelling charging model could determine who captures the biggest share of the total spend on television services. There is a 'localisation' trend where New Zealand content, such as rugby and New Zealand's Next Top Model, is becoming a key differentiator for broadcasters[20 21]. We expect to see various strategies start to take shape during the next five years as companies position themselves for the future. But SKY Network Television CEO John Fellet says "you would still recognise SKY if you woke up in five years' time"[22]. The priority for SKY over the next five years is to continue to refine its pricing models and provide the latest content and innovative services. There is a trend for market players to investigate new business models, explore customised advertising offers across platforms and potential partnering arrangements with telcos.

Ultra-fast broadband and fibre to the home

The rollout of the ultra-fast broadband network has the potential to dramatically shift the competitive landscape. It has the potential to drive the popularity of video-on-demand, internet TV and 'cloud' services, but will depend on pricing and speed of customer take-up. Fibre to the home provides an opportunity for telco retailers, some of whom already re-sell pay TV and Freeview packages, and existing broadcasters to launch internet protocol TV. Internet protocol TV is a system which delivers TV via the internet, encompassing anything from standard streaming to customers having the ability to select a programme from a pool of content.

The main challenge facing telco retailers and smaller broadcasters which consider entering the internet protocol TV market is access to premium content, including live sport, feature films, and first-run series. At present, the New Zealand wholesale market for content is unregulated. SKY, which holds most of the rights to popular sports, wholesales its programme packages with the SKY branding, but does not offer disaggregated content that would enable telco retailers to differentiate internet protocol TV service offerings. There have been repeated calls from telcos and broadcasters, including MediaWorks NZ, TelstraClear and Quickflix, to regulate the wholesale content market and lift restrictions in SKY's content deals to improve competition.

"You would still recognise SKY if you woke up in five years' time".

– John Fellet, CEO, SKY Network Television.

The main challenge facing telco retailers and smaller broadcasters which consider entering the IPTV market is access to premium content.

The rollout of the ultra-fast broadband network has the potential to dramatically shift the competitive landscape.

20 Interview with John Fellet, CEO, SKY New Zealand, 23 April 2012.
21 Interview with Sussan Turner, Group Managing Director, MediaWorks NZ, 14 May 2012.
22 Interview with John Fellet, CEO, SKY New Zealand, 23 April 2012.

But the entry of Quickflix shows competition is possible. CEO Chris Taylor has called on the Government to follow Australia and introduce 'anti-siphoning' legislation[23]. This would prevent broadcasters, such as SKY, from buying exclusive rights to major sporting events. These concerns notwithstanding, at the recent Future Broadband Conference in Auckland Communications and Information Technology Minister Amy Adams said she saw no immediate need to intervene in the emerging wholesale market for video content.

However, there is a potential complication that could force the Government's hand. The Commerce Commission has launched a probe into SKY's control of premium content and contracts with ISPs to investigate if the company is in breach of the Commerce Act. Quickflix joined MediaWorks NZ in calling for an independent, non-political regulator to monitor the rapidly changing and merging telecommunications and broadcasting sectors[24 25].

Triple-play bundles

Residential take-up of fibre in overseas markets has been linked to the availability of attractive internet protocol TV offers, which often form part of a 'triple-play bundle' (around 30 per cent in several major countries). A triple-play bundle is the provision of telephone, broadband and internet protocol TV services by a telco. In New Zealand, most residential customers are unwilling to pay more than $10 extra for ultra-fast broadband services and are most interested in high definition movies and video-on-demand[26].

To drive take-up, telco retailers need to make new triple-play services attractive and/or cheap enough to entice SKY customers to switch provider. Telcos need to weigh the required investment against how many customers they would risk losing if they decided not to offer triple-play. Triple-play services are proven to reduce customer churn, which may warrant a modest price discount, but assuming SKY continues to manage the content, compelling differentiation may be difficult to achieve.

TelstraClear has openly discussed the option of sourcing its content directly[27]. Some see a partnership model between telcos and broadcasters as likely to develop further, perhaps leading to increasing consolidation of the two industries over time. Telecom New Zealand Chief Products Officer Rod Snodgrass believes the triple-play market is splitting into those who really just want broadband but will take voice if the deal is right, and others who want just voice but will take the internet because it's available[28]. International trends show that penetration of internet protocol TV is highest in countries with a fragmented pay TV sector.

> ***Telcos need to weigh the required investment against how many customers they would risk losing if they decided not to offer triple-play.***

23 'Quickflix asks for anti-siphoning law', Stuff.co.nz, 30 March 2012.
24 'Regulator tools too blunt for web-TV convergence: Quickflix', Sharechart.co.nz, 17 May 2012.
25 'Kiwis pay up for popular TV shows', Stuff.co.nz, 17 May 2012.
26 High speed broadband services demand side study, Commerce Commission, 9 February 2012.
27 'TelstraClear boss – SKY partnership reaching pain point', NBR.co.nz, 18 April 2012.
28 Interview with Rod Snodgrass, Chief Product Officer,Telecom New Zealand, 23 April 2012.

If household take-up of ultra-fast broadband proves to be slow, the Government may be forced to consider regulation in order to protect its return on investment. However, at this point, Communications and Information Technology Minister Amy Adams is hoping to see market forces develop competitive solutions. As SKY Network Television CEO John Fellet says, ultra-fast broadband was built to increase New Zealand's business productivity, not necessarily just to deliver entertainment content to consumers[29]. An independent wholesaler such as FetchTV in Australia could have a significant impact on market dynamics, but the barriers to entry into the New Zealand market make this unlikely in the near future without regulation. It is likely that sport, and rugby in particular, will continue to be the most crucial content in the battle to win and secure customers.

"Ultra-fast broadband was built to increase New Zealand's business productivity, not necessarily just to deliver entertainment content to consumers".

– John Fellet, CEO, SKY Network Television.

The future 'cloud'

The 'cloud' is another technological leap that is likely to have an impact on the way New Zealanders watch TV in the future. Cloud-based services require high-speed access to the internet and are usually bandwidth hungry. In many other countries, the cloud is supported by all-you-can-eat data plans that offer uncapped access to the internet. Data caps are currently the norm in New Zealand and act as a deterrent for people wanting to watch video-on-demand. A move to the all-you-can-eat-charging model, expected by many industry participants we have spoken to and supported by the ultra-fast broadband rollout, could lead to an increase in video-on-demand viewing. all-you-can-eat also represents a way for telcos to circumvent the pressure from broadcasters to zero-rate their content. The cloud enables customers to 'placeshift' their content, meaning they can choose the device they want to watch live or pre-recorded content on, for example their laptop, set-top box, tablet or TV. Cloud services are therefore likely to be a driver for the uptake of ultra-fast broadband[30].

If household take-up of ultra-fast broadband proves to be slow, the Government may be forced to consider regulation in order to protect its return on investment.

Conclusion

The television segment is already starting to experience change with new participants, such as Quickflix, and partnerships, such as Igloo on the horizon. The challenge for the industry is to adapt to digital advances with increasing 'timeshifting', video-on-demand and 'placeshifting' of content between devices. While advertising revenues are forecast to grow, this will depend on the ability of free-to-air broadcasters to make the transition to a multi-media business model. Online advertising spend is predicted to increase significantly. Ultra-fast broadband, cloud technologies and internet-enabled TVs will make 'placeshifting' of content between devices more convenient and fuel the mobility trend. Over-the-top services, such as video-on-demand, are gathering momentum and will continue to put pressure on traditional subscription TV. The penetration of pay TV is set to climb. The big question is to what extent telco retailers will actively participate in the television market, with the opportunity to offer triple-play bundles over the ultra-fast broadband network. It seems likely most major telco players will rely on a content partnership model and offer some sort of SKY/free-to-air re-sell service. However, there is little differentiation in this offering so up-take seems likely to be slow. The entry of Quickflix into the market shows competition is possible, and with the Government seemingly keen to let the market do the talking, our forecast assumes that wholesale content will remain unregulated. However should this not be the case then the market landscape would shift in response.

29 Interview with John Fellet, CEO, SKY Network Television, 23 April 2012.
30 High speed broadband services demand side study, Commerce Commission, 9 February 2012.

Publishing and Out-of-Home

Author:

Gareth Thomas, PwC New Zealand

Market definition

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

Consumer magazine publishing consists of spending by advertisers in print magazines and on magazine websites, mobile websites, and magazines distributed to tablets and other mobile devices. It includes spending by readers to buy magazines via subscriptions or at retail outlets, as well as paid digital circulation, principally through downloads to tablets and smartphones. Magazines published under contract (custom publishing) are included in the print advertising component. Figures do not include licensing, or other ancillary revenues, and trade magazines are not covered.

The consumer and educational book publishing market consists of retail spending by consumers on consumer books; spending by schools, government agencies, and students on textbooks, including post-graduate textbooks; spending on books in electronic formats (e-books). It includes library and institutional subscriptions to e-book databases. Print sales include audio books. Professional books are not included.

The Out-of-Home segment consists of advertiser spending on media such as billboards, street furniture (eg bus shelters, kiosks), transit displays (eg bus sides, on-train print, taxi toppers), sports arena displays, 'captive' networks (eg in elevators) and other formats.

TOTAL Publishing market

Total book spend	Consumer and educational books	Print
	Consumer and educational books	Digital
Magazines	Total magazine circulation	Print
	Total magazine circulation	Digital
	Total magazine advertising	
Newspapers	Total newspaper circulation	Print
	Total newspaper circulation	Digital
	Total newspaper advertising	

Publishing and Out-of-Home

Snapshot

Newspapers

- Publishers are under pressure from the availability, price, speed and convenience of the internet, via both fixed and mobile devices.
- The steady shift of readers from print to online has been evident over the past few years and is expected to continue, furthering the erosion of print circulation units. This will flow into numbers and print advertising revenues, which are expected to show further decline.
- This shift to online will gather pace as ultra-fast broadband is rolled out, based on overseas experience which shows falling circulations in countries with high broadband uptake.
- Newspapers with popular websites and rising traffic will see a boost in digital advertising revenues.
- It is too soon to say if the distribution of newspapers on tablets on a paid basis, as seen overseas where a paid digital circulation market is developing, will take on in New Zealand.

Consumer magazines

- Print consumer magazine sales are expected to continue to decline as the internet and the use of tablets increases. There will be a corresponding shift in revenues from print advertising to digital advertising.
- The popularity of tablets and a willingness by consumers to pay for mobile content will drive an emerging digital circulation spending market.

Books

- Sales of print books are estimated to decline out to 2016, but there will be a significant increase in spending on e-books as electronic readers and tablets become faster and cheaper.
- The shift from higher-priced print to lower-priced e-books will have an adverse impact on spending, and will dampen overall spending growth.
- However, the industry as a whole will benefit from the shift because publishers' margins on e-books are generally higher than on print.

Out-of-Home

- With people spending more time out of doors, both commuting and shopping, Out-of-Home advertising is proving a very effective way for advertisers to reach their targets.
- Out-of-Home advertising will be driven by the growth of digital technologies, with advertisers being attracted by innovative and spectacular Out-of-Home displays.

Total circulation and advertising spending by segment (NZ$ millions)

	Historical data					Forecast data					
NZ$	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-2016 CAGR
Total magazine circulation spend	258	252	229	215	207	203	200	197	199	199	*(0.8)%*
Total newspaper circulation spend	249	253	250	253	257	262	267	273	279	286	*2.2%*
Total magazine advertising spend	197	192	168	171	172	170	169	169	170	171	*(0.1)%*
Total newspaper advertising spend	840	780	645	611	603	577	553	527	505	483	*(4.3)%*
Total book spend	326	331	336	345	342	341	340	339	339	335	*(0.4)%*
Total publishing market	**1,870**	**1,808**	**1,628**	**1,595**	**1,581**	**1,553**	**1,529**	**1,505**	**1,492**	**1,474**	***(1.4)%***

Sources: PwC New Zealand, Wilkofsky Gruen Associates

Print and digital circulation spending (NZ$ millions)

	Historical data					Forecast data					
NZ$	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-2016 CAGR
Magazine print	258	252	229	215	207	202	197	192	187	183	*(2.5)%*
Magazine digital	n/a	n/a	n/a	n/a	*	1	3	5	11	16	*n/a*
Total magazine circulation	**258**	**252**	**229**	**215**	**207**	**203**	**200**	**197**	**199**	**199**	***(0.8)%***
Newspaper print	249	253	250	253	257	261	266	271	274	278	*1.6%*
Newspaper digital	n/a	n/a	n/a	n/a	*	1	1	2	5	8	*n/a*
Total newspaper	**249**	**253**	**250**	**253**	**257**	**262**	**267**	**273**	**279**	**286**	***2.2%***
Consumer and educational book print	326	331	336	343	340	337	335	331	329	325	*(0.9)%*
Consumer and educational book digital	n/a	n/a	n/a	2	2	4	5	8	10	10	*38.3%*
Total book spend	**326**	**331**	**336**	**345**	**342**	**341**	**340**	**339**	**339**	**335**	***(0.4)%***

* Negligible

Sources: PwC New Zealand, Wilkofsky Gruen Associates

Newspaper circulation (thousands)

	Historical data					Forecast data					
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-2016 CAGR
Daily print circulation	700	696	667	645	633	620	610	600	590	580	*(1.7)%*
Daily digital circulation	n/a	n/a	n/a	n/a	1	4	9	21	39	59	*126.0%*

Sources: Audit Bureau of Circulations, PwC New Zealand, Wilkofsky Gruen Associates

Out-of-Home advertising (NZ$ millions)

	Historical data					Forecast data					
NZ$	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-2016 CAGR
Total Out-of-Home spending market	78	75	68	70	83	86	88	91	93	96	*3.0%*

Sources: Advertising Standards Association, PwC New Zealand, Wilkofsky Gruen Associates

Headwinds slow growth

There were a number of 'big news' events in 2011, including the Christchurch earthquake, the Rugby World Cup and the general election. But, the positive impact of these was offset somewhat by broader forces at work in the newspaper industry that have put downward pressure on revenues. Readers are using faster and more convenient smartphones and tablets to access the wide range of free and immediate news available on the internet. Overall, in 2011, the newspaper publishing market declined by 0.4 per cent but this was an improvement on the 3.5 per cent decrease in 2010.

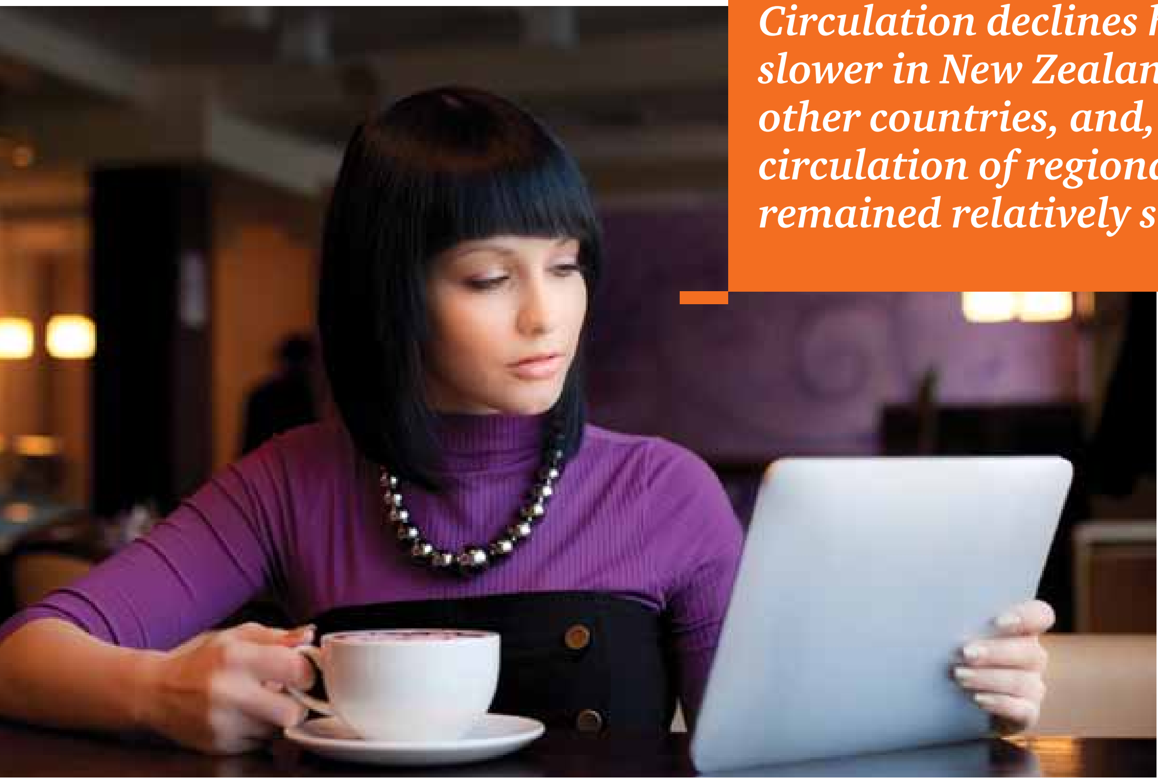
Total paid newspaper circulation is predicted to decrease at a 1.7 per cent compound annual rate from 633,000 in 2011 to 580,000 in 2016. However, price rises and continuing efforts to boost subscription customers will see print circulation revenues increase from $257 million in 2011 to $278 million in 2016, a 1.6 per cent rate compounded annually, repeating the modest increases of 2010 and 2011.

Circulation declines have been slower in New Zealand than in other countries, and, in particular, circulation of regional titles has remained relatively strong. Fairfax New Zealand CEO Allen Williams points out that 70 per cent of newspaper circulation for dailies in the Group is pre-paid home delivery, which is very high by international standards and suggests a loyalty to print which may be more resistant to declines than elsewhere[1].

"70 per cent of newspaper circulation for dailies in the Group is pre-paid home delivery. This is very high by international standard and suggests a loyalty to print in New Zealand which may be more resistant to declines than elsewhere."

– Allen Williams,
CEO, Fairfax New Zealand.

Circulation declines have been slower in New Zealand than in other countries, and, in particular, circulation of regional titles has remained relatively strong.



1 Interview with Allen Williams, CEO, Fairfax New Zealand, May 2012.

Embracing the shift to digital print

In the midst of this change the local industry has not been standing still. It has been working hard to respond to the challenges of digital in a variety of innovative ways and remains upbeat about the result and its future. We predict it will continue to meet the needs of readers who want to hold a printed publication and the younger, mobile generations armed with their smartphones.

APN and Fairfax put considerable resource into their news websites (nzherald.co.nz and stuff.co.nz), with newsrooms under instructions to 'post' breaking news online before they do anything else. This has become the new battleground and has thrust the print media into a new race against radio and television (which have their own news websites) to be the first to publish. Exclusive stories and more in-depth discussions around news items are included in the print editions in order to maintain their value proposition for consumers, and may even play a part in continuing to keep New Zealand's newspaper subscriptions high.

News apps for devices like tablets and smartphones also present another potential digital revenue source. The major newspaper publishers in New Zealand currently do not charge for these.

Newspaper publishers continue to wrestle with the issue of how to replace falling revenues from declining circulations (and the resulting lower advertising volumes) while giving away news for free online, and this is unlikely to be resolved in the medium term. News sites have so far fallen short of replacing the lost revenue, either by way of advertising or online pay walls to news content. A number of overseas publications have introduced pay walls, where subscribers get access to selected or 'freemium' content (for example, The Australian, The Telegraph, and The Herald-Sun in Australia, and the Wall Street Journal, among others, in the United States) with mixed results. In New Zealand, the National Business Review has been offering a similar service for more than a year. Mainstream media organisations in New Zealand continue to work on the issue of pay walls for content and, as in other countries, this remains largely unresolved[2] with some commentators arguing that simply applying a traditional subscription model by using a pay wall isn't the answer. Newspaper publishers overseas have also taken the lead from other sectors like e-commerce. For example, the Dallas Morning News was able to create a new paid-content revenue stream by packaging high school sports content as a standalone product using research on the interests and behaviour of its online readers[3].

But, while New Zealand has adjusted to the relatively gentle switch of readers and advertisers moving online in an orderly fashion, the same cannot be said for Australia where the shift has been quite dramatic. Fairfax Australia announced in June that it is restructuring jobs (some 20 per cent of its workforce), closing presses, switching two of its biggest titles to a more reader-friendly 'compact' format and moving some content behind a paywall[4].

The major newspapers now have a significant and increasingly sophisticated digital and online presence. Efficiencies are also being sought by switching from evening to morning delivery where this is economically viable, by centralising or outsourcing operations and transforming broadsheet titles to a tabloid format: none more significant than the New Zealand Herald, as announced in July.

The gradual switch of afternoon newspapers to mornings is seen as a direct response by publishers to keep in touch with readers.

2 Interview with Martin Simons, Group Publishing Chief Executive, APN News & Media.
3 'The pay wall debate: monetizing news in the digital era', Paul Sweeting, gigaom.com, 9 September 2011.
4 'Fairfax: No paywall for NZ sites now', stuff.co.nz, 18 June 2012.

The gradual switch of afternoon newspapers to mornings is seen as a direct response by publishers to keep in touch with readers. However, newspapers will find it difficult to force consumer behaviour and it could also be argued that it is as much about rationalisation in print and distribution.

The morning paper then forms the first of multiple touch points[5] with readers throughout their day. By offering a different and longer read in the mornings newspaper publishers will retain their readership by offering a format they still identify with, complemented with instant news fixes coming through the day via websites, social media and smartphone apps. In an increasingly mobile world, consumers are more than happy to interchange between different media formats. Irrespective of this, Fairfax New Zealand CEO Allen Williams insists that content holds the key to retaining readers and that it needs to be encouraged internally across all platforms[6].

In May, major market player APN announced a strategic review of its New Zealand media assets. Continuing difficult market conditions led the company to engage Deutsche Bank to advise on 'options to maximise profitability and value for shareholders'.

We are forecasting digital paid circulation spending to reach $1 million for the first time in 2012, and grow to $7.6 million by 2016. That spending will not necessarily all go to New Zealand publishers as New Zealanders also subscribe to offshore sites such as the Australian Financial Review. Total circulation spending will rise to $286 million in 2016, a 2.2 per cent compound annual increase from 2011.

"Content comes first. Across all platforms, content is key. It can be a differentiator. Therefore it needs to be encouraged internally across all platforms not just, say, print, and also protected from use by other competitors."

*Allen Williams,
CEO, Fairfax New Zealand.*

"We are working on audience touch-points throughout the day, working with advertisers to deliver an approach across the suite of mediums – newspaper, iPhone, tablet, magazines, website, TV."

– Allen Williams, CEO, Fairfax New Zealand.

5 Interview with Allen Williams, CEO, Fairfax New Zealand, May 2012.
6 Interview with Allen Williams, CEO, Fairfax New Zealand, May 2012.

Digitisation in advertising

Newspaper print advertising revenue declined by two per cent in 2011, impacted by the Canterbury earthquakes, on top of the on-going economic/recessionary pressures which continued to hit companies' advertising budgets hard.

Delays in the Christchurch rebuild further held back real estate, recruitment and general advertising in New Zealand's second-largest city, while a stall in the number of second-hand cars imported from Japan following the tsunami led to a temporary slump in that segment's advertising spend. Both the real estate and car sales markets are expected to recover over time. Likewise, the recessionary pressures which have affected advertising budgets in real estate, retail and recruitment are expected to ease in 2012/13.

However, total newspaper advertising is forecast to decline at a 4.3 per cent compound annual rate between 2011 and 2016 – from $603 million to $483 million – on the back of a five per cent decline in print advertising, from $578 million to $446 million. The decline in print advertising revenues will be offset to a certain extent by a 7.7 per cent increase in digital, from $25 million to $37 million. APN News & Media Group Publishing Chief Executive Martin Simons points out that people aren't spending less on marketing, they're trying to make it more targeted[7].

New Zealand's demand for newspapers appears to be more inelastic than other developed economies, with declines of recent years less severe than in, for example, Australia. A tradition of 'local' titles in New Zealand's regional centres (with limited competition) has led to loyal community readership. With online and digital platforms now being embraced by the industry, strong masthead titles with relevant and quality content can continue to attract readers and remain attractive to advertisers.

Consumer magazines not immune

Magazine publishers have also experienced challenging market conditions in recent times. With the wider economy experiencing a downturn followed by a very slow return to growth, consumers have tightened their purse strings and cut back on discretionary or 'luxury' purchases such as magazines. A recent advertisement for the savings website sorted.org.nz even shows a woman going to buy several magazines before being reminded she is trying to save money and putting most of them back[8]. Some of this lost spend will be recovered as the economy improves.

ACP Media CEO Paul Dykzeul says readers develop a close connection and loyalty to magazines, based around quality of content and credibility of the brand. He accepts that, for some titles, circulation units may remain lower but that the proposition magazines present to advertisers is still incredibly strong, especially in terms of providing a specialised, highly engaged audience or community with a shared passion[9]. APN News & Media Group Publishing Chief Executive Martin Simons notes, with titles, such as the NZ Women's Weekly, still maintaining a strong readership throughout the economic downturn[10].

A rise in tablet ownership is expected to drive a corresponding increase in demand for digital magazine publications.

The launch of Amazon's Kindle in New Zealand was relatively late.

"Readers develop a close connection and loyalty to magazines, based around quality of content and credibility. Circulation units may remain lower but the proposition magazines present to advertisers is still very strong, especially in terms of providing a specialised, highly engaged audience."

– Paul Dykzeul, CEO, ACP Media.

7 Interview with Martin Simons, Group Publishing Chief Executive, APN News & Media, 30 April 2012.
8 'The fridge is watching you', advertisement from sorted.org.nz (The Retirement Commission), sorted.org.nz/think.
9 Interview with Paul Dykzeul, CEO, ACP Media, May 2012.
10 Interview with Martin Simons, Group Publishing Chief Executive, APN News & Media, 30 April 2012.

Part of this is due to the fact that magazines attract attention for an extended period: in an increasingly fleeting and fragmented world that means longevity of advertising. For example, a magazine will often sit on a coffee table with the reader or readers dipping back into it on numerous occasions over a period of time[11].

The shift of readers to the internet is also starting to have an impact on this segment, with a number of New Zealand magazines now have a quality digital presence including websites and social media. However, as with newspapers, there has also been some loss of circulation (and accompanying advertising revenue) due to free and immediate online alternatives[11].

A rise in tablet ownership is expected to drive a corresponding increase in demand for digital magazine publications. We are forecasting an increase from $1 million in revenue for digital magazine circulation in 2012 to $16 million in 2016. The challenge for New Zealand publishers will be to ensure they get a slice of this spend as they compete with global publications such as The Economist who already have a sophisticated digital offering.

We predict overall spending on magazines in 2012/13 will continue on a gradual downward trend, before recovering from 2014 with modest annual increases. Declines in circulations are expected to lead to decreases in print circulation spending, from $207 million in 2011 to $183 million in 2016, falling at a 2.5 per cent compound annual growth rate.

Print consumer magazine advertising is expected to decline at around 2.5 per cent due to the shift to digital markets in terms of both circulation figures and advertising spend. Digital magazine advertising will grow to an estimated $23 million in 2016 from $4 million in 2011, a 43 per cent increase compounded annually. This reflects the rising traffic seen on publishers' websites as well as opportunities for advertising through mobile apps and tablets. Total advertising will remain broadly around its 2010 and 2011 levels, with no sign of the levels seen before the global financial crisis.

Tablets, e-readers hit print books

The launch of Amazon's Kindle in New Zealand was relatively late, and other e-reader devices have been similarly slow to reach the local market. But, they are here now and, along with smartphones and tablets, they are starting to have an effect on the book market. We see New Zealand following international trends, with a shift from higher-priced print books to lower-priced e-books expected to dampen overall spending growth in the sector.

The growth of e-books relies on the availability and affordability of reading devices. In the past, New Zealand has lagged behind other countries in e-reader ownership, but we expect continued growth in the use of e-readers and tablets.

Conclusion

Mobile devices and the internet are changing the way the publishing world does business. This change has coincided with a downturn in the wider economy and has resulted in significant pressure being put on revenues across the industry.

The loss of revenues from print format material is being offset to some extent by growth in both digital sales and advertising revenues. But the challenge for the industry remains how to make serious money out of the digital space, where consumers are used to getting so much for free.

Though the move into the digital world brings pitfalls, including navigating new revenue models and countering internet piracy, this is not expected to slow the rate of the switch, although there will clearly be a continuing place for physical books, with some commentators even predicting an "increased love of the book as an object"[12].

In New Zealand, estimated sales will decline 0.4 per cent compounded annually out to 2016.

"People aren't spending any less on marketing, but they're trying to make it more targeted. That's where the challenge is for media companies."

– Martin Simons, Group Publishing Chief Executive, APN News & Media.

11 Interview with Paul Dykzeul, CEO, ACP Media, May 2012.
12 'Novel approach', Dominion Post, 14 January 2012.

Filmed entertainment

Author:

Andrew Holmes, PwC New Zealand

Market definition

The filmed entertainment segment consists of consumer spending at the motion-picture box office, plus spending on rentals at video stores and other retail outlets (the in-store rental market), and the purchase of home video products in retail outlets and through online stores (the sell-through market). It includes electronic distribution, which consists of online film rental subscription services such as those in which DVDs are delivered via mail, and download or streaming services where films are accessed via the internet for viewing on a PC, television, tablet, or other device. The figures do not include content licensed to subscription or other television content providers. Sales of beverages and refreshments in theatres are not included.

Filmed entertainment TOTAL

Cinema	Cinema advertising	
	Box office	
Home video	Physical home video	Physical sell through
		Physical rental
	Electronic home video	
	Over the top/streaming	

Filmed entertainment

Snapshot

- The conversion of cinemas to digital is increasing after a slow start, stimulating the box-office where it is continuing moderate growth. Advertising will increase accordingly.
- 3D technology is expected to be further enhanced and become more prevalent.
- Home video will build on its moderate revenue growth, although emerging over-the-top/streaming services and growth in digital cable and telephone company TV subscription services that promote video-on-demand will boost electronic distribution. The availability of content on tablets and other devices as well as internet-connected TVs will further foster electronic distribution.
- A shortening home video window and experiments in modifying the current windowing structure – eg premium video-on-demand and day-and-date digital releases – will benefit electronic video spending.
- Piracy will continue to present challenges to the sector.

The filmed entertainment segment was in good shape towards the end of 2011 despite the intense competition for the public's entertainment dollar.

The film entertainment market

	Historical data					Forecast data					
Millions	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-2016 CAGR
Admissions	15	15	15	15	14	15	15	15	15	16	*2.0%*
NZ$ millions											
Box office	161	166	171	176	162	190	200	209	217	226	*6.9%*
Cinema (advertising)	10	9	6	6	6	6	6	6	8	8	*3.7%*
Total Out-of-Home	**171**	**175**	**177**	**182**	**168**	**196**	**206**	**215**	**225**	**234**	***6.8%***
Physical sell-through	112	116	117	119	120	121	120	119	119	117	*(0.5)%*
Physical rental	188	190	195	205	210	212	211	209	205	200	*(1.0)%*
Total physical home video	**300**	**306**	**312**	**324**	**330**	**333**	**331**	**328**	**324**	**317**	***(0.8)%***
Electronic market through TV subscription providers	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	*n/a*
Over-the-top/streaming	††	††	4	4	5	6	10	15	21	30	*43.1%*
Total electronic home video	**††**	**††**	**4**	**4**	**5**	**6**	**10**	**15**	**21**	**30**	***43.1%***
Total home video (physical and electronic)	**300**	**306**	**316**	**328**	**335**	**339**	**341**	**343**	**345**	**347**	***0.7%***
Total filmed entertainment	**471**	**481**	**493**	**510**	**503**	**535**	**547**	**558**	**570**	**581**	***2.9%***

††Less than NZ$1million

Sources: PwC New Zealand, Wilkofsky Gruen Associates

"The conversion of cinemas to digital is likely to increase after a slow start, principally on the back of the probable introduction of digital conversion deals, known as virtual print fee deals, which provide exhibitors with a sound financial model to move forward in terms of covering the cost of conversion." [1]

– Peter Garner, President, Motion Picture Distributors Association of New Zealand.

New Zealand cinemas have been slow to convert to digital.

1 Interview with Peter Garner, President, Motion Picture Distributors Association of New Zealand, 18 April 2012.

Box office

The February 2011 Christchurch earthquake and the Rugby World Cup in the last quarter of 2011 had negative effects on the box office, with revenue down 10 per cent that year. The earthquake resulted in 47 cinema screens, or more than 10 per cent of New Zealand's 420 screens, not being available for an extended period of time, while cinema attendance was expected to be down at the time the rugby matches were on. The industry has since rebounded, due largely to quality films releasing in the Christmas 2011/2012 period and poor summer weather. Additionally, Christchurch cinemas re-opening has had a positive impact in 2012. Key developments going forward, consistent with previous years, will continue to be digitisation and 3D.

New Zealand cinemas have been slow to convert to digital, with just 160 (38 per cent) showing digital movies. By contrast, about 65 per cent of Australia's screens are digital. Although cost is seen to be the major factor for the slow uptake, help is available from the movie studios in the form of the global virtual print fee, where the studios help fund a cinema's first purchase of digital equipment to replace film projectors by passing on savings from distributing digital instead of film prints. In addition, the cost of converting has now reduced.

"Small exhibitors and provincial exhibitors are also expected to convert to digital as the production of the traditional 35mm format slowly diminishes with the closure of print labs internationally." [2]

– Peter Garner, President, Motion Picture Distributors Association of New Zealand.

New Zealand exhibitors continue to enhance their offerings, and in so doing are attracting additional advertising spend. During 2011, Hoyts Cinemas Te Awa became the first in Australasia to offer the immersive motion technology, which transforms the movie experience with theatre seats that pitch, roll and heave in sync with onscreen action. D-BOX Motion Code uses motion codes specifically programmed for each film, which are sent to a motion-generating system integrated into either a platform or a seat, creating a realistic, immersive experience. Some Hollywood studios are embedding the technology into selected releases.

In another global first, Peter Jackson's The Hobbit will be shot and projected at 48 frames per second as opposed to the usual 24. The film appears at normal speed but the image is far clearer and smoother – similar to high definition TV.

Box-office spending is forecast to continue to see moderate growth on the back of such developments, with a premium event still attracting out-of-home spending even with price growth. 3D technology has been highly successful, and this is likely to continue, although such success has not translated to home entertainment. The biggest challenge to the advancement of 3D cinema is the current lack of screens. Cinema advertising will benefit from box-office growth and favourable demographics, with the medium continuing to allow advertisers to reach hard-to-engage young people and providing an environment where viewers are watching the screen and advertisements.

2 Interview with Peter Garner, President, Motion Picture Distributors Association of New Zealand, 18 April 2012.

Home video

Consistent with the broader filmed entertainment industry, home video is predicted to continue to achieve moderate growth in revenue.

But competition from electronic delivery will cut into the physical home video market as streaming, video-on-demand, and pay-per-view gain in popularity. Sony Pictures New Zealand General Manager Andrew Cornwell predicts that electronic consumption will increase significantly as New Zealand's infrastructure improves and release windows continue to close[3]. Video-on-demand and pay-per-view are expected to grow significantly as a result. Approximately 50 per cent of New Zealand households have SKY, making it easy for video-on-demand to be consumed, and the rollout of ultra-fast broadband will form the basis for this shift as new services propel electronic distribution. Ultra-fast broadband and fibre-to-the-home are expected to stimulate growth in electronic rentals that will support a steady growth in the home rental market.

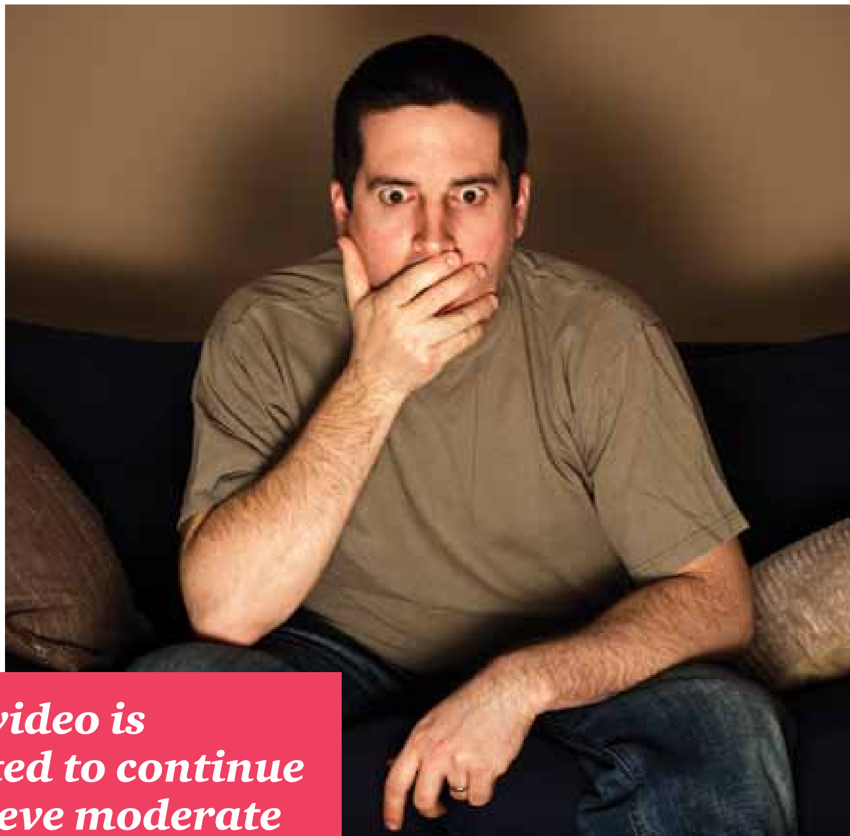
"As New Zealand's infrastructure improves, and release windows continue to close, the electronic consumption of films will increase significantly."

– Andrew Cornwell, General Manager, Sony Pictures New Zealand[4].

Distributors have been criticised for not moving quickly enough to electronic/digital movies, but rather than being a reluctance to move away from DVD, this is due to a lack of viable digital retailers. This has changed in the United States and there is now significant growth in this area. It is predicted New Zealand will follow this trend.

DVD rental kiosks and semi-permanent renting stations have taken some business from traditional DVD stores, although not as much as expected, with Sony's Andrew Cornwell saying kiosks "have largely missed their window of opportunity"[5].

Though mobility is not expected to have a significant impact on home video in the near term, and watching movies on mobile devices is in its infancy, the same cannot be said for free-to-air TV, which is shorter and more easily consumed via mobile devices. Such downloads are also predicted to eat into the DVD market.



Home video is predicted to continue to achieve moderate growth in revenue.

3 A 'release window' regulates a movie's release routine to ensure different instances don't compete with each other and allowing it to take advantage of different markets (cinema, home video, television) at different times. Wikipedia.

4 Interview with Andrew Cornwell, General Manager, Sony Pictures New Zealand, 3 May 2012.

5 Interview with Andrew Cornwell, General Manager, Sony Pictures New Zealand, 3 May 2012.

Piracy poses a significant risk for the filmed entertainment industry, and this will continue as ultra-fast broadband makes it easier to illegally download movies. But New Zealand has now followed many countries in taking legislative steps to combat piracy, and early indications are this is putting a brake on the problem. The Copyright (Infringement File Sharing) Amendment Bill, which was passed into law in 2011, allows copyright holders to issue up to three warnings to users downloading material illegally, and if it continues past that, the copyright holder can take the internet account holder to the Copyright Tribunal which can impose a fine of up to $15,000. If, after two years, illegal downloading is still prevalent, the law allows the Commerce Minister to introduce a tougher regime which could lead to a six-month suspension of accounts by the courts. Since the law came into force, internet service providers have recorded a decline in peer-to-peer file-sharing traffic, with Orcon reporting a 10 per cent drop in such traffic immediately afterwards[6]. A number of warning letters have been issued, and the initial third-strike notice was issued in April 2012[7].

However, the $25 the ISPs can charge the rights holders for creating a notification is still an issue, and is seen by many in the industry as excessive.

Conclusion

The conversion of cinemas to digital is expected to speed up after a slow start, and box office spending will continue to see moderate growth, with the advertising spend increasing on the back of that. The spread of 3D technology is expected to continue throughout New Zealand, but this is not expected to be reflected in homes. Cinema advertising will benefit from box office growth and favourable demographics, and will continue to allow advertisers to reach young people and provide an environment where viewers are watching the screen and engaged in the advertisements. Home video is predicted to continue its moderate revenue growth, although as video streaming, video-on-demand, and pay-per-view gains more of a hold, this growth will switch from physical to electronic delivery.

6 'NZ feels the throttling effects of new maximist copyright laws', The Globe , 8 November 2011.
7 'Third-strike notice issued to accused music pirate', New Zealand Herald, 19 April 2012

Interactive games

Authors:

Michael Julian, PwC New Zealand

Matthew Rama, PwC New Zealand

Market definition

The interactive games segment consists of consumer spending on console games (including handheld games), personal computer games, online games, and wireless games, as well as video game advertising. The category excludes spending on the hardware used for playing the games. Retail purchases of games are included in either the PC games or console games category. The online game category includes 'micro transactions', which are players' purchases of accessories and additional game content which enhance the gaming experience. Often, online games are first purchased at retail then played online. When these games are played online for a subscription fee, the subscription fee is counted in the online game category.

TOTAL Interactive games market

Console/handheld

Online games

Wireless games

PC

Interactive games

Snapshot

- The interactive games segment is experiencing strong growth in the online and wireless game categories, as broadband internet penetration increases, speeds improve, and mobile devices become more powerful.
- The shift to online and wireless will impact the console market in the near term, but new games being marketed for the current generation of consoles – the Wii, the Xbox 360, and the PlayStation 3 (PS3), with improved motion-sensory technology, which changes the game-play experience and brings in a wider range of players – will limit declines.
- The rising take-up of smartphones and tablets, such as the iPad, with improved graphic capabilities, is enabling developers to produce more-advanced wireless games and will drive demand for those games. Smartphones and tablets, aided by an intuitive-touch interface, are fast becoming the devices of choice for casual game players.
- The Wii U is the only next-generation console that has been officially announced, but next-generation consoles from the other manufacturers are likely to be introduced over the forecast period and will spur sales of games that take advantage of the new technologies.
- The growth of microtransactions is providing a boom for the industry. Casual games and social network games are important components of the online market, helping expand the demographic base and stimulate spending.
- New application stores that make the purchase of games more user-friendly will increase the number of gamers willing to purchase games. The growth of advanced wireless networks, with their faster speeds, will enable wireless games to approach the quality of console games.

The interactive game market (NZ$ millions)

NZ$	Historical data 2007	2008	2009	2010	2011	Forecast data 2012	2013	2014	2015	2016	2012-2016 CAGR
Console/handheld	54	57	61	58	56	54	53	54	56	59	*1.3%*
Online game	4	6	8	8	8	8	10	11	13	14	*12.9%*
Wireless game	33	43	51	59	64	75	85	92	99	107	*10.8%*
PC	13	14	14	13	11	10	10	8	8	8	*(7.8)%*
Advertising	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	*n/a*
Total	**104**	**120**	**134**	**138**	**139**	**147**	**158**	**165**	**176**	**188**	***6.3%***

Sources: PwC New Zealand, Wilkofsky Gruen Associates

Gaming is the fastest-growing entertainment sector in the world, with a global forecast compound annual growth rate of 7.1 per cent over the five years to 2016[1]. In New Zealand, consumer spend on video games is expected to increase by 6.3 per cent over the same period, and the local game development industry will continue to grow.

With approximately 93 per cent of New Zealand households owning a device capable of playing video games (including PCs, consoles, mobile phones and tablet computers), gaming is considered to be a mainstream activity. The average age of the New Zealand gamer is 33, and 47 per cent of them are female. Approximately 58 per cent of all gamers play either daily or every other day[2].

The New Zealand game development industry is also booming, growing 46 per cent in the year ended September 2011[3]. Approximately 99 per cent of games developed in New Zealand are exported, and increasingly the intellectual property is being retained in New Zealand[4]. New Zealand Game Developers Association Chair Stephen Knightly says game development is an ideal industry because it creates high-tech, digital, weightless exports, and he anticipates export earnings will continue to increase[5].

Technology driving change

Wireless and online games are experiencing significant growth, driven by factors including rising ownership of smartphones and tablets, increasing use of mobile internet, increasing broadband penetration and faster broadband speeds. The technological capabilities of mobile devices continue to improve, leading to more advanced mobile games, which in turn should further fuel demand[6].

Game developers and publishers are continuing their push towards digital distribution. A prime example of a successful digital distribution platform is Apple's App Store. Each of the three major console manufacturers also operate online stores where gamers can purchase and download games directly to their consoles. Similar online stores exist for the PC and Mac, such as 'Steam'. From a consumer perspective, digital distribution can mean quick and easy access to new games and lower prices. For game developers, digital distribution presents an opportunity for them to publish their own games, cutting out a lot of the costs associated with publishers and middlemen. Stephen Knightly says, "The ability to self-publish means margins are automatically 30 per cent greater and distribution is simplified"[7].

As a result, the consumer spend in New Zealand on wireless games is forecast to show a compound annual growth rate of 10.8 per cent[8] to 2016, higher than the expected global growth rate of 10.1 per cent. In addition, online games are expected to grow by 12.9 per cent over the period.

This shift is expected to hurt the console market in the near term, although the three major console manufacturers are expected to fight back, with Nintendo due to release its next generation 'Wii U' console by the end of 2012, and Sony and Microsoft expected to follow sometime early in the forecast period[9]. These moves are expected to spur sales of games that take advantage of the new technologies, although a dip in sales is to be expected during the generational transition period for static consoles. Accordingly, console/handheld games are expected to grow by just 1.3 per cent, down from a 2011 forecast of 4.4 per cent. The reduced revenue growth is a result of the assault from the mobile/ online markets and the shrinking of the middle market.

> *"New Zealand is good at producing quality, fun, and innovative downloadable smartphone or online games. This has allowed them to grow a fan base, creating a sustainable audience who keep coming back to play all their games."*
>
> *– Stephen Knightly, Chair, New Zealand Game Developers Association.*

1 PwC Global entertainment & media outlook 2012-2016, PwC, 2012.
2 'Digital New Zealand 2012' , Interactive Games & Entertainment Association, April 2012.
3 'New Zealand-made video games industry grew 46% this year', New Zealand Game Developers Association, 16 November 2011.
4 New Zealand-made video games industry grew 46% this year', New Zealand Game Developers Association, 16 November 2011.
5 Interview with Stephen Knightly, Chair, New Zealand Game Developers Association, 4 April 2012.
6 PwC, Global entertainment & media outlook 2012, 2012.
7 Interview with Stephen Knightly, Chair, New Zealand Game Developers Association, 4 April 2012.
8 PwC Global entertainment & media outlook 2012-2016, PwC, 2012.
9 PwC Global entertainment & media outlook 2012-2016, PwC, 2012.

Revenue from PC games is also expected to continue to decline as consumers turn their attention to newer technologies and as piracy hampers the growth of the sector. The forecast compound annual growth rate is expected to decrease by 7.8 per cent.

Looking back on the global financial crisis

Sidhe Managing Director and Co-founder Mario Wynands says the global financial crisis hit the gaming industry late. When every other industry was being hit, consumer gaming was stronger than ever, and December 2008 recorded the highest game retail sales in history. The problem came when the crisis affected the share prices of the big publically listed publishers, which fund most gaming content, and costs had to be cut, and "all of a sudden they are cancelling projects", with a significant impact on the industry. But he says the New Zealand industry was fairly insulated from that because it had not forged the type of relationships or got the kind of contracts that were threatened by funding cuts. So while developers around the world faced the challenge of funding and distributing their own content, the New Zealand industry was already relatively self-sufficient and had a reasonable portfolio of content to grow from [10].

New Zealand game development industry booming

The New Zealand game development industry is booming, growing by 46 per cent in the year ended September 2011. The industry employs about 360 fulltime equivalent people, and an additional 99 jobs are expected to be created in the coming year [11].

Developers have benefited from the rise of wireless games and digital distribution. New Zealand Game Developers Association Chair Stephen Knightly says New Zealand studios have maximised a window of opportunity over the past two to three years to self-publish on digital platforms because they are good at producing quality, fun, and innovative downloadable smartphone or online games, creating an audience who keep coming back[12]. During the year, 73 per cent of New Zealand studios produced an iPhone game, 42 per cent an online browser-based game, and 35 per cent an Android game [13].

"Games are going to continue to rise, both in acceptance and particularly in export earnings for New Zealand. The games studios create high-tech, digital, weightless exports, and unlike other parts of the screen sector, they are significantly more likely to be creating original IP."

– Stephen Knightly, Chair, New Zealand Game Developers Association.

Games continue to defy downturn.

Game developers and publishers are continuing their push towards digital distribution.

10 Interview with Mario Wynands, Managing Director, Sidhe, 26 April 2012.
11 'New Zealand-made video games industry grew 46% this year', New Zealand Game Developers Association, 16 November 2011.
12 Interview with Stephen Knightly, Chair, New Zealand Game Developers Association, 4 April 2012.
13 'New Zealand-made video games industry grew 46% this year', New Zealand Game Developers Association, 16 November 2011.

"Our relatively young industry is taking advantage of a shifting global market and developing the core competencies to compete with more established offshore businesses."

– Chris White, CEO, Podscape Holdings.

New Zealand games have found success in the global market. Podscape Holdings CEO Chris White says, "Our relatively young industry is taking advantage of a shifting global market and developing the core competencies to compete with more established offshore businesses."[14] Podscape has leveraged the online platform for its browser-based game 'BigLittleBang', an online virtual world with more than 50,000 users worldwide. Chris White explains recent breakthroughs in browser-based technologies have enabled virtual worlds to exist in a regular web browser and so redefining the market to include anyone with an internet connection. The platform avoids the need for an administrator password that a downloadable game or iOS game may require, and the additional costs associated with packaged software[15].

Sidhe's game Shatter was rated the number one PlayStation downloadable game by IGN.com. Under its mobile brand PikPok, Sidhe has also seen five of its mobile games downloaded over one million times each[16]. Managing Director Mario Wynands says games coming out of New Zealand are high quality because the industry knows what works in different marketplaces[17]. New Zealand Game Developers Association Chair Stephen Knightly believes the window of opportunity for small independent content creators has largely closed and studios should capitalise on their existing customer base and portfolio through 'cross promotion', where, in order to play a game, players have to sign up to a site. Alternatively, advertisements can be embedded in games to promote a studio's entire portfolio. Such measures reduce the cost of customer acquisition, one of the major challenges facing local studios competing in the global market. It also allows developers to take greater ownership of the customer relationship and move up the value chain to publisher/distributor[18].

"Recent breakthroughs in browser-based technologies have enabled these virtual worlds to exist in a regular web browser, redefining the market to include anyone with an internet connection. The platform avoids the need for an administrator password that a downloadable game or iOS game requires – important for the under-13 market."

– Chris White, CEO, Podscape Holdings.

"It's a really challenging space and I think we are well positioned, in the sense that we are self-sufficient, scrappy, we do things on the smell of an oily rag, and we are creating great content. The stuff that is coming out of New Zealand is high quality because we have highly educated people who know what works in different market places."

– Mario Wynands, Managing Director, Sidhe.

Business models for a digital world

The games industry sees itself as setting the standard for digital business models. New Zealand Game Developers Association Chair Stephen Knightly says it has figured out how to get direct relationships with its customers and how to give something away for free but still make value out of the fans its develops, "That is something other sectors talk about but strive to achieve."

The 'freemium' business model allows users to play games at no cost, but gives the option to purchase virtual goods in exchange for real money (these transactions are known as 'microtransactions'). The freemium model allows developers to substantially increase a game's user base, attracting players who would not otherwise be prepared to buy the game. Developers derive revenue from players' microtransactions and from in-game advertising[19].

New Zealand game development industry is booming.

14 Interview with Chris White, CEO, Podscape Holdings Ltd, 3 May 2012.
15 Interview with Chris White, CEO, Podscape Holdings Ltd, 3 May 2012.
16 'New Zealand-made video games industry grew 46% this year', New Zealand Developers Association, 16 November 2011.
17 Interview with Mario Wynands, Managing Director, Sidhe, 26 April 2012.
18 Interview with Stephen Knightly, Chair of the New Zealand Game Developers Association, 4 April 2012.
19 'Kiwi game makers target the world', Hamish Fletcher, New Zealand Herald, 10 September 2011.

New Zealand Game Developers Association Chair Stephen Knightly notes the freemium model and microtransactions have proven to be very successful for mobile gaming, and that businesses across a wide variety of industries are looking to apply these models to their own sector[20].

"We have figured out how to get direct relationships with our customers, how to give something away for free but still make value out of the fans that we develop. That is something other sectors talk about but strive to achieve."

– Stephen Knightly, Chair, New Zealand Game Developers Association.

Going forward

Looking forward, one of the key challenges facing the New Zealand game development industry is securing funding in order to compete with gaming companies offshore[21]. Sidhe Managing Director Mario Wynands estimates that around 90 per cent of developers are cash strapped and are forced to make practical decisions rather than being able to forge ahead with a strong strategic approach[22]. Mario Wynands says this is partly due to the local investment community not having the taste and risk profile for development studies. He notes it may also be a result of start-up studios lacking financial acumen and not being investment savvy[23].

The Government has supported game developers via the Ministry of Science and Innovation's business investment programme. Yet, unlike film, television and music, there is no government funding for gaming content creation. If there was, Game Developers Association Chair Stephen Knightly believes it should be oriented to the creation of New Zealand-owned IP for the global market as well as domestic audiences. Stephen Knightly says New Zealand developers must create content that competes and appeals internationally[24], Sidhe Managing Director Mario Wynands also believes investment should have been more in New Zealanders telling interesting stories relevant to the world with a commercial focus, rather than a cultural heritage focus[25].

In addition to funding, Sidhe Managing Director Mario Wynands believes the New Zealand industry needs to continue to build its business, marketing and public relations skills, saying there is a relative naivety in the local industry brought about by our isolation at the bottom of the world.

Conclusion

Gaming is the fastest-growing entertainment segment in the world, and this is expected to continue in the forecast period. The sector is experiencing a shift towards online and wireless games as the internet and mobile devices become faster and more powerful. The New Zealand game development industry, which has boomed in recent years, is expected to continue to grow. The challenge will be to secure funding, foster the development of strong business skills, and create and market content that competes and appeals internationally.

"As we export our games to the world, we must create content that competes and appeals internationally"

– Stephen Knightly, Chair, New Zealand Game Developers Association.

"It's like we are bringing up our plate of macaroni cheese to the world's buffet - setting it down and stepping back, and waiting for people to come up and try it, hoping that the dish will just sell itself. When you go up against the likes of Americans who are super aggressive, and are always overselling, it's hard[26]."

– Mario Wynands, Managing Director, Sidhe.

"People don't have an appreciation for the sense of scale – we are small, and we are limited. You can launch a new product in New Zealand and you can totally be successful on the basis of word of mouth alone … However, when you actually go and launch something on the world stage, and you're a little app in amongst the 600,000 apps on the App store … you need to bring your 'A game' to promote yourself. New Zealanders tend to be fairly humble, we undersell ourselves, we don't like shouting about our work."

– Mario Wynands, Managing Director, Sidhe.

20 Interview with Stephen Knightly, Chair, New Zealand Game Developers Association, 4 April 2012.
21 Discussions with Chris White, CEO, Podscape Holdings, 3 May 2012.
22 Interview with Mario Wynands, Managing Director, Sidhe, 26 April 2012.
23 Interview with Mario Wynands, Managing Director, Sidhe, 26 April 2012.
24 Interview with Stephen Knightly, Chair, New Zealand Game Developers Association, 4 April 2012.
25 Interview with Mario Wynands, Managing Director, Sidhe, 26 April 2012.
26 Interview with Mario Wynands, Managing Director, Sidhe, 26 April 2012.

Recorded and live music

Author:

Ben Stevens, PwC New Zealand

Market definition

The recorded and live music segment consists of recorded music and live music. Recorded music comprises spending on physical formats – albums, single sound recordings, and music videos – as well as digital distribution. Digital distribution consists of music distributed to fixed line or mobile devices and music purchased or accessed through subscription (streaming services) from the internet through licensed services or app stores. Revenue from subscription and advertiser-supported streaming services is also included. Live music consists of concerts and music festivals, which comprise end-user spending on tickets as well as sponsorships. The recorded music segment does not include subscription fees paid to satellite radio providers, advertising generated by internet radio services, or revenues from music publishing.

TOTAL Recorded and live music market

Recorded music	Physical sales
	Digital sales
Concert/music festival market	

Recorded and live music

Snapshot

- The recorded and live music market, which has been in the doldrums for years, is almost back to growth, with the rise in digital sales now reportedly outstripping the decline in physical sales. Both trends are expected to continue over the forecast period.
- New streaming services and the 'cloud' are fuelling growth in digital distribution and revolutionising the way music is stored and consumed, helped by broadband, smartphone, and tablet penetration growth.
- Legislation aimed at combating piracy will have a positive effect on sales overall. Overseas, 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 effective in limiting peer-to-peer file sharing.
- The digital market also will benefit from social media activity which stimulates interest in musical acts, contributing to the growth in downloads.
- Physical distribution will continue to decline, but at moderating rates during the latter part of the forecast period, since the remaining physical market increasingly consists of people who prefer music in physical formats.
- The world touring market rebounded in 2011, and a healthy festival market is expected to drive growth during the next five years.
- The prevalence of 360 degree deals, where record labels enter into more collaborative revenue sharing arrangements with artists will increase as revenue from other sectors, such as live music, increase.

The recorded and live music entertainment market (NZ$ millions)

	Historical data					Forecast data					
NZ$	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-2016 CAGR
Digital	6	7	9	14	20	27	35	42	50	57	*23.3%*
Physical	82	74	70	51	39	34	27	20	17	14	*(18.5)%*
Total recorded music (wholesale)	**88**	**81**	**79**	**65**	**59**	**61**	**62**	**62**	**67**	**71**	***3.8%***
Total live (including festivals)	55	78	61	82	114	110	115	120	125	130	*2.7%*
Total live and recorded music	**143**	**159**	**140**	**147**	**173**	**171**	**177**	**182**	**192**	**201**	***3.0%***

Sources: RIANZ (Recorded Music), APRA/AMCOS – live music (historic 2007-2011), PwC New Zealand, Wilkofsky Gruen Associates

A difficult decade

The past 10 years have been extremely difficult for the recorded music industry. Sales of physical recorded music have continued to plummet as the industry-wide value chain continues to feel the effects of disruptive technology and piracy.

Technology has always played a crucial role in recorded music. To date, many of the recent technological leaps have often translated to mixed benefits for the recorded music industry. The digitisation of music and the internet spawned the launch of file-sharing services that continue to plague the industry, with the International Federation of the Phonographic Industry (IFPI)[1] estimating that more than a quarter of internet users globally access unlicensed sites that contain copyrighted music[2]. These technological changes, more specifically digitisation and the internet, have until recently put extreme pressure on the economics of the historically physical model.

Globally, sales of recorded music fell sharply shortly after Napster[3] launched, and again shortly after iTunes was launched and the album was 'unbundled'. The decline in physical album sales has also been closely associated with a gradual decline in the retail price of music as huge discount stores continue to see CDs as a 'loss leader'. This price decline led to the closure and reorganisation of traditional recorded music retail stores to the point that where 20 years ago there were about 300 speciality stores there are now about 30[4].

More recently, New Zealand's leading music specialist, Marbecks, have diversified its offering considerably, selling merchandise, books, posters, and even coffee. It is, however, difficult to compete with large chains where CDs often sell at near-zero margins. It is impossible to compete with piracy.

The past 10 years have been extremely difficult for the recorded music industry.

1 The IFPI is the organisation that represents the interests of the recording industry worldwide. Its stated mission is to promote the value of recorded music, safeguard the rights of record producers and expand the commercial uses of recorded music. Its services to members include legal policy advice (lobbying), anti-piracy enforcement, litigation and regulatory affairs, market research, and communications support.

2 Digital Music Report, IFPI, 2012.

3 Napster was the first of the peer-to-peer sharing internet services that emphasised sharing audio files, typically music, encoded in MP3 format.

4 Interview with Chris Caddick, Managing Director, Recording Industry Association of New Zealand Inc, 16 June 2012.

Digital on the move

Sales of digital music are growing fast. What is particularly exciting about this is that it shows no sign of abating[5]. Behind it is an increasingly mobile and tech-savvy marketplace taking advantage of a faster and more accessible array of computers, iPods, smartphones and tablets. The entry of subscription-based services such as RaRa.com, Spotify, and Rdio into the New Zealand market, offering 'all you can eat' online music streaming, is expected to only increase this growth. One music industry expert has predicted music streaming will change the way music is consumed in New Zealand[6].

Most of these services offer both computer-based subscriptions and a premium mobile subscription which allows a certain volume of tracks to be downloaded (allowing offline access). Spotify offers a so-called 'freemium' subscription in exchange for advertising. This freemium model is attracting those who would otherwise be illegally downloading music. It's for that reason Recording Industry Association New Zealand Managing Director Chris Caddick sees streaming services as a positive development and believes they will be as positive for the New Zealand music industry as it has been overseas[7]. Most of these subscription-based services are linked to Facebook and Twitter, allowing users to create profiles and share music with their friends. The IFPI says there were approximately 13 million music subscribers worldwide in 2011 (up 65 per cent on the previous year)[8]. Many in the industry in New Zealand are optimistic that people will continue to purchase music (either CDs or tracks on iTunes) while subscribing – an experience replicated in other markets.

The launch of iTunes Match now also makes it possible to stream using 'cloud-based' technology. The internet, the 'cloud', and subscription services such as Spotify are revolutionising not just the way we store and consume music but also the relationship the artist has with the fan. Bands are increasingly more connected with their fans through social media websites and the internet in general.

Sales of digital music are growing fast.

A significant amount of value in the industry-wide value chain is also shifting hardware to where it historically resided. EMI and Capitol Records once sold gramophones, and it was the gramophone that helped drive sales of vinyl records. The iPod, a device barely the size of a matchbox, can now hold the inventory of a whole record store. Clearly, sales of iPods, iPhones, smartphones and tablets will continue to play an important role in the industry-wide value chain driving digital sales.

Piracy continues to pose a significant risk. New Zealand has now followed many countries in taking legislative steps to combat piracy and early indications are this is putting a brake on the problem. The Copyright (Infringing File Sharing) Amendment Act, which was passed into law in 2011, allows copyright holders to issue up to three warnings to users downloading material illegally, and if it continues past that, the copyright holder can take the internet account holder to the Copyright Tribunal, which can impose a fine of up to $15,000. If, after two years, a large number of people are still illegally downloading, the Commerce Minister can introduce a tougher regime which could lead to a six-month suspension of accounts by the courts. Since the law came into force, internet service providers have recorded a decline in peer-to-peer file-sharing traffic, with Orcon reporting a 10 per cent drop in such traffic immediately afterwards[9]. A number of warning letters have been issued, and the first third-strike notice was issued in April 2012[10]. However, the $25 the ISPs can charge the rights holders for creating a notification is the biggest issue, and is seen by many in the industry as excessive.

5 'Mini-boom for music', Susan Edmunds, nzherald.co.nz, March 11 2012.
6 'Spotify set to stream into NZ', nzherald.co.nz, March 15 2012.
7 Interview with Chris Caddick, Managing Director, Recording Industry Association of New Zealand Inc, 16 June 2012.
8 'The business models of digital music', Digital music report 2012, IFPI.
9 'Third-strike notice issued to accused music pirate', New Zealand Herald, 19 April 2012.
10 'Third-strike notice issued to accused music pirate', New Zealand Herald, 19 April 2012.

Other products such as merchandise and sponsorship are becoming increasingly important revenue streams for both artists and major labels.

"It feels like we have great new legal options for music consumption in front of us now and if these can be backed up with some anti-piracy legislation around the world, I have a feeling we have a really bright future."

– Chris Caddick,
Managing Director, Recording Industry Association New Zealand.

A new model emerges

Allied to the shift to digital, a new model is emerging which, in many respects, is something of a return to the future. Further than just the rise in popularity of the single, the internet is significantly shifting where value is created and changing the relationships artists have with record labels. Revenues from concert sales have soared in recent years. Where once the price of a CD was not too dissimilar to the price of a concert ticket, and the concert used as the promotional element for the CD, a reversal is taking place. Now the CD (or MP3 file) is becoming the promotional element for the concert, with the price of a concert ticket for an established artist in some cases representing their complete back catalogue (up to 20 CDs or more). The economics of this model are starting to stack up and many in the music industry are optimistic about its future.

Other products, such as merchandise and sponsorship, are becoming increasingly important revenue streams for both artists and labels. It therefore follows that the labels and artists are entering into agreements that are more collaborative and involve revenue-sharing (or royalties), not just from recorded music but also from concert revenue, merchandise and sponsorship.

New Zealand music hits the American charts and the live sector flourishes

New Zealand music registered some impressive international achievements this year. Hamilton-born Kimbra's album debuted at number 15 on the American charts, and the song on which she featured as a guest vocalist – Gotye's 'Somebody That I Used To Know'– hit number one. Wellingtonian Bret McKenzie won an Oscar for Best Original Song and The Naked and Famous scored a gold record in the USA for their hit 'Young Blood'.

The live sector in New Zealand continues to flourish. Home grown festivals continued to go from strength to strength with Coro Gold, Rhythm and Vines, Splore and Laneways all selling out. However, the organisers of The Big Day Out, an institution for the last 18 years, decided that it would not return to New Zealand in 2013 citing poor ticket sales.

The touring scene remained healthy with visits from international superstars Lady Gaga, Taylor Swift, Elton John and Radiohead, and successful local tours from a wide range of artists including Gin Wigmore, Shapeshifter, Shihad, Flight of the Conchords, The Black Seeds and Six60.

Auckland benefitted from the Rugby World Cup with new venues Shed 10, The Cloud and Silo Park. The six weeks of festivities saw 50 artists play 60 shows across New Zealand.

We also had another successful New Zealand Music month with hundreds of gigs, seminars and album launches.

Conclusion

The past 10 years has seen the major labels rationalise their costs considerably, and more recently consolidate (for example, Universal recently purchasing EMI) in response to declining sales. Many labels are now looking at the very real prospect of this decline bottoming out and sales increasing with the rise in digital sales now potentially outstripping the decline in physical sales. Live music continues to grow as more and more big acts put New Zealand on their list of places to tour. These trends are expected to continue apace over the forecast period. The internet, music streaming services and the 'cloud' are revolutionising the way music is stored and consumed, and the move in this direction will continue. Streaming services such as Spotify's entry into the New Zealand market have the potential to cause another paradigm shift that could be the digital icing on the cake for both the independent and major labels. If current trends continue, and the anti-piracy law continues to have a positive effect, the future could be very bright.

Radio

Author:

Ben Stevens, PwC New Zealand

Market definition

The radio segment consists of advertiser spending on radio stations and radio networks driven by the profile and number of listeners. The segment includes public radio licence fees.

Snapshot

- The way people are listening to radio is changing, with more people tending to use the internet and mobile devices as the internet become faster and more accessible.
- The industry rebounded in 2010 following the worst of the global financial crisis. Radio advertising was boosted by the Rugby World Cup in 2011 and is predicted to grow as we come out of a recession and online revenues grow. This growth will continue at a slower rate through to 2016.
- Radio companies are continuing to invest heavily in their internet presence, and this is likely to be the way of the future.
- The entry of subscription music streaming services into the New Zealand market is predicted to eat into listenership.
- Australia and the UK continue to drive digital radio but there seems very little appetite for it in New Zealand, and it seems possible digital audio broadcasting could be leap-frogged by internet radio.

The radio advertising market (NZ$ millions)

	Historical data					Forecast data					
NZ$	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-2016 CAGR
Radio advertising	274	268	236	240	245	258	266	270	276	283	*2.9%*

Sources: Advertising Standards Authority, PwC New Zealand, Radio Broadcasting Association,Wilkofsky Gruen Associates

As popular as ever

Traditional radio continues to play a key role for listeners, although New Zealanders are now accessing content from a broader range of devices. It is estimated that about eight out of 10 people listen to radio in some form every week, with just under half of those listening for more than seven hours a week[1].

Revenue in the sector remains mostly derived from selling air time to advertisers. Radio enjoys 11 per cent of national advertising revenue in New Zealand, one of the highest shares in the developed world[2]. Globally, advertisers are spending more and more online, and so the internet is becoming an increasingly important way for broadcasters to connect with its radio audience. The sector experienced a good year in 2011 as supported by the release of the Advertising Standards Authority's industry turnover figures.

Radio with pictures

Radio companies continue to invest heavily in gaining and maintaining a presence on the internet, mainly in the simulcast space. A presence on the web allows stations to have a more interactive relationship with their audience and allows each station to improve its broadcast reach, both nationally and internationally. As a result, the traditional radio medium is becoming much broader and lines becoming more blurred between different forms of media. The internet enables radio to have additional touch points via print and short video clips with the end 'listener'. But internet radio is peer to peer, meaning stations rely on the services of an ISP and there are associated streaming costs.

More and more radio stations have Apple and Android apps that support simulcasting and pod casting which, like the internet, allow stations to connect more with their audience. The industry also realises it is going to have to get smart about bundling advertising packages over the different mediums. Radio Broadcasters Association Chief Executive Bill Francis says the method of bundling is already developing, enabling advertisers to take out radio advertising also tied to the website and smartphone applications.

"Radio is being challenged to gain growth and revenue outside traditional radio advertising – so then you go to web based products and bundling. You could have your 30 second radio ad, a tile on the website, plus one or other added to an app. In terms of the overall deal for the advertiser they're benefitting with a variety of outlets".

– Bill Francis, Chief Executive, Radio Broadcasters Association.

The entry of 'all you can eat' online music-streaming, where subscribers can stream music from an online catalogue of songs directly to their computers, smartphones or tablets, is likely to reduce radio listenership but it is questionable by how much. One music industry expert has predicted music streaming will change the way music is consumed in New Zealand[3].

"The demise of radio as a medium has been predicted for 60 years or more (based on the invention of television) - but radio is still trucking along and in very good shape but recognising that new technologies mean that there's a whole range of add-ons in the radio world that we know will drive radio in totality."

– Bill Francis, Chief Executive, Radio Broadcasters Association.

1 Matters of Opinion: Expectations and Perceptions of Standards in Talkback Radio, Broadcasting Standards Authority, bsa.govt.nz/assets/Research/Matters-of-Opinion-Web-Version.pdf, June 2011.
2 New Zealand Radio Market, The Radio Bureau, trb.co.nz/NZRM_national.asp?id=119.
3 'Spotify set to stream into NZ', nzherald.co.nz/entertainment/news/article.cfm?c_id=1501119&objectid=10792027, 15 March 2012.

The digital audio broadcasting question

A big question mark still looms over whether New Zealand will adopt digital audio broadcasting. The analogue licences were renewed for a further 20 years in 2011 at a huge cost. Like digital TV, digital audio broadcasting boasts station choice, improved reception, better sound quality and provides national reach. In terms of functionality, digital audio broadcasting allows radio stations to provide additional advertising as well as broadcast information through the digital radio's visual display unit. It also allows listeners to search for a radio station by name, and some digital audio broadcasting radios allow recording, rewinding and pausing of audio, and even downloading content to a hard drive (similar to a digital TV).

The Government has been trialling a digital service since 2006, and although digital has a number of advantages, the question of if or when New Zealand will adopt it remains open. There are huge costs associated with setting up the infrastructure and huge costs for stations in terms of dual broadcasting. Given the recent renewal of analogue licences, it is unlikely digital audio broadcasting will be introduced in the near future.

There is an argument internet radio may eventually replace digital audio broadcasting radio in general, and so New Zealand may be able to 'leapfrog' digital audio broadcasting. Ultimately, the decision of which technology is adopted will weigh heavily on the hardware. For example, if digital audio broadcasting tuners are manufactured as a standard component of cars, that may tip the balance.

"We need to stop thinking about radio as being a tall mast with a wave coming out of it."

– Grant Lee, Group GM Sales, The Radio Network.

Conclusion

It is clear, though radio remains as popular as ever, it will come under pressure in the forecast period from the likes of music streaming services. Revenues should increase as we come out of the recession and online revenues grow. The question of whether New Zealand will adopt digital audio broadcasting remains open. However, one thing is for certain, radio is a medium that has always had an interactive nature about it, and talkback continues to play an extremely important role. This connection ironically serves radio well in a new era where video streaming and social networking sites further enable a connection with the listener. When MTV first launched in 1981, the first track to be played was the Buggles' 'Video Killed the Radio Star'. Ironically, we live in an era where video for radio will play an increasingly important role.

It is clear, though radio remains as popular as ever, it will come under pressure in the forecast period from the likes of music streaming services.

Traditional radio continues to play a key role for listeners, although New Zealanders are now accessing content from a broader range of devices.

"Some people back in 1980 didn't want FM – saying there was nothing wrong with AM, and that FM would never take off. Slowly car radios started coming in with FM buttons and FM took off… Once cars start coming in with DAB (digital audio broadcasting) as a standard option, as is already the case with some manufacturers, DAB will also take off."

– Aaron Olphert, Manager of Wholesale Products and Strategy, Kordia Group.

The industry experts say...

Internet

"A fibre network gives the ability to push more control over entertainment services into the hand of the end user."

Mark Ratcliffe
CEO, Chorus.

"You'll have consolidation at one end and innovation at the other."

Rod Snodgrass
Chief Products Officer, Telecom New Zealand.

"The biggest thing impacting local search and transactions will be mobile and we expect that to be the dominant platform for this within two years."

Blair Glubb
CEO, Localist.

Television

"Many customers are interested in watching content on multiple devices, but prefer to use the best and biggest screen available. The exception is information deemed urgent, such as the rugby score, where people are happy to use a small screen, eg a Smartphone or a Tablet."

"Ultra-fast broadband was built to increase New Zealand's business productivity, not necessarily just to deliver entertainment content to consumers."

John Fellet
CEO, SKY Network Television.

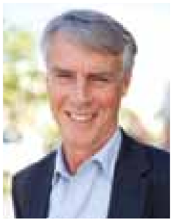
"I think clients are increasingly looking for ways they can align their messaging inside environments that are conducive to the core values of their brands. There has been a definite increase in the number of requests for campaigns that can deliver over and above 30 and 60 second commercials. Multi-platform campaigns are on the increase - as are clients wanting integrated solutions. Thankfully we're well placed to do so - owning radio, television and online assets."

Sussan Turner
Group Managing Director, MediaWorks NZ.

Publishing and Out-of-Home

"People aren't spending any less on marketing, but they're making it more targeted, building direct digital relationships with their customers using their own data. That's where the challenge is for media companies."

"The biggest issue is digitisation."



Martin Simons
Group Publishing Chief Executive, APN News & Media.

"Readers develop a close connection and loyalty to magazines, based around quality of content and credibility. Circulation units may remain lower but the proposition magazines present to advertisers is still very strong, especially in terms of providing a specialised, highly engaged audience."

Paul Dykzeul
CEO, ACP Media New Zealand.

"Content comes first. Across all platforms, content is key. It can be a differentiator. Therefore it needs to be encouraged internally across all platforms not just, say, print, and also protected from use by other competitors."

Allen Williams
CEO, Fairfax New Zealand.

Filmed entertainment

"The conversion of cinemas to digital is likely to increase after a slow start, principally on the back of the probable introduction of digital conversion deals, known as virtual print fee deals, which provide exhibitors with a sound financial model to move forward in terms of covering the cost of conversion."

Peter Garner
President, Motion Picture Distributors Association of New Zealand.

"As New Zealand's infrastructure improves, and release windows continue to close, the electronic consumption of films will increase significantly."

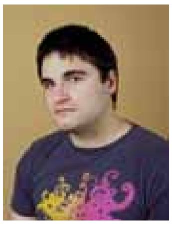
Andrew Cornwell
General Manager, Sony Pictures New Zealand.

Interactive games

"We have figured out how to get direct relationships with our customers, how to give something away for free but still make value out of the fans that we develop. That is something other sectors talk about but strive to achieve."

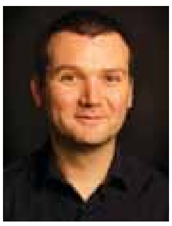
Stephen Knightly
Chair, New Zealand Game Developers Association.

"The good thing is that New Zealand was fairly insulated from that… as a region we had [typically] struggled to forge the types of relationships and get the kind of contracts that were now threatened."



Mario Wynands
Managing Director, Sidhe.

"Recent breakthroughs in browser-based technologies have enabled these virtual worlds to exist in a regular web browser, redefining the market to include anyone with an internet connection. The platform avoids the need for an administrator password that a downloadable game or iOS game requires – important for the under-13 market."



Chris White
CEO, Podscape Holdings.

Recorded music

"It feels like we have great new legal options for music consumption in front of us now and if these can be backed up with some anti-piracy legislation around the world, I have a feeling we have a really bright future."

Chris Caddick
Managing Director, Recording Industry Association of New Zealand.

Radio

"The demise of radio as a medium has been predicted for 60 years or more (based on the invention of television) - but radio is still trucking along and in very good shape but recognising that new technologies mean that there's a whole range of add-ons in the radio world that we know will drive radio in totality."

Bill Francis
Chief Executive, Radio Broadcasters Association.

New Zealand entertainment and media outlook: 2012–2016

Written and edited by:

PwC
a global professional services organisation serving the entertainment and media sector and other industries.

Quantitative research and analysis by:

Wilkofsky Gruen Associates Inc
a provider of global research and analysis of the media, entertainment and telecommunications industries.

David Wilkofsky, Partner

Arthur Gruen, Partner

PricewaterhouseCoopers LLP

Marcel Fenez, Global entertainment and media leader

External services and industry bodies:

Advertising Standards Authority
Audit Bureau of Circulations
Book Publishers Association
Interactive Games & Entertainment Association
Interactive Advertising Bureau New Zealand
New Zealand Game Developers Association
Magazine Publishers Association
Newspaper Publishers Association
Recording Industry Association New Zealand
Radio Broadcasters Association Inc
Statistics New Zealand
The Australasian Mechanical Copyright Owners Society
The Australasian Performing Right Association
ThinkTV – Responsible for promoting New Zealand's free-to-air television industry
Williams Lea Corporate Information Solutions

Acknowledgements:

PwC New Zealand would like to acknowledge the assistance provided by:

Aaron Olphert, Manager of Wholesale Products and Strategy, Kordia Group

Allen Williams, CEO, Fairfax New Zealand

Andrew Cornwell, General Manager, Sony Pictures New Zealand

Anthony Healey, Director, New Zealand Operations, The Australasian Mechanical Copyright Owners Society and The Australasian Performing Right Association

Bill Francis, CEO, Radio Broadcasters Association

Blair Glubb, CEO, Localist

Chris Caddick, Managing Director, Recording Industry Association of New Zealand

Chris White,CEO, Podscape Holdings

Grant Lee, Group GM Sales, The Radio Network

John McClintock, Executive Director of the Magazine Publishers Association New Zealand

John Fellet, CEO, SKY New Zealand

Mario Wynands, Co-founder of Sidhe Interactive

Mark Ratcliffe, CEO Chorus Limited

Martin Simons, Group Publishing Chief Executive APN News & Media

Michelle Kong, General Manager, Portfolio Strategy and Business Development, Telecom New Zealand

Paul Dykzeul, CEO, ACP Media New Zealand

Peter Garner, President: Motion Picture Distributors Association of New Zealand

Rod Snodgrass, Chief Product Officer, Telecom New Zealand

Stephen Knightly, Chairperson of New Zealand Game Developers Association

Susie Stone, General Manager, Strategic Development, Kordia Group

Sussan Turner, Group Managing Director, MediaWorks NZ

PwC New Zealand
Technology, information, communications and entertainment industry contacts

Assurance

Keren Blakey, Partner
T: +64 9 355 8182
E: keren.j.blakey@nz.pwc.com

Advisory

Grant Dennis, Partner
T: +64 4 462 7048
E: grant.a.dennis@nz.pwc.com

pwc.co.nz/entertainment-media-outlook