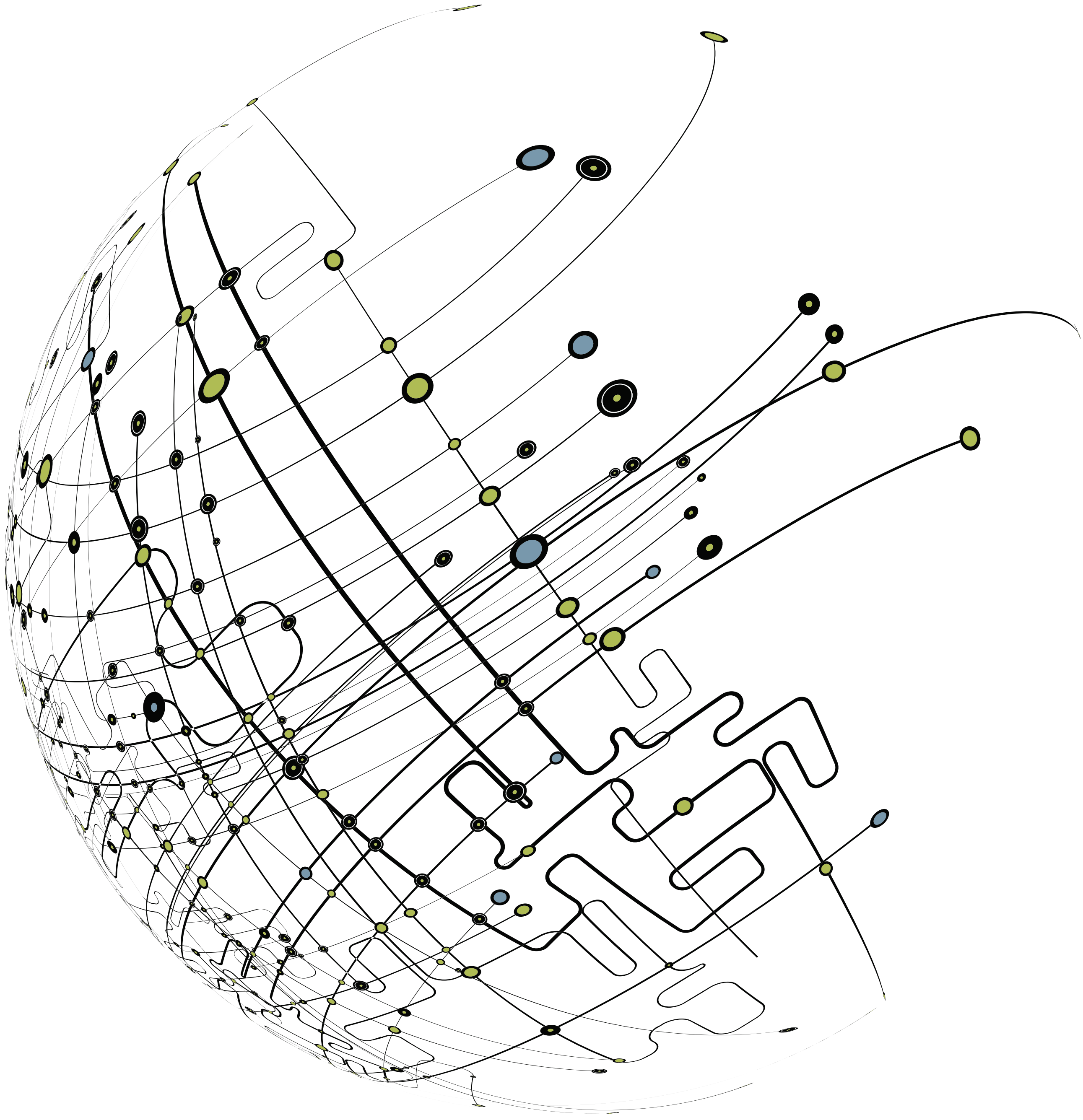
McKinsey&Company

Global Media Report
2016



Global Industry Overview

Global Industry Overview

In today's rapidly changing media landscape, a comprehensive view of the industry – of current trends across sectors and geographies around the world – has become essential. Even as broadband and the Internet become ubiquitous and the shift from traditional to digital media gains a foothold in even the least developed regions, new technologies, business models, and social media developments are introducing further shifts in both mature and developing markets.

Our fourth annual Global Media Report offers both high level data and a granular look at the media industry around the world – across 45 countries and 12 major media categories. The report covers data spanning 10 years: historical consumer media and advertising spend data from 2010 through 2015, with forecasts from 2016 through 2020. It includes an analysis of the underlying trends as well as economic, demographic, behavioral, and technological factors driving the forecasts.

McKinsey's Global Media & Entertainment Practice helps leading media companies address the industry's challenges – including approaches for achieving sustainable growth, creating value from digital opportunities, enhancing consumer spend and advertising revenues, and transforming media processes. Our Global Media Report 2016 is just one of the tools we have developed to help our clients better navigate this landscape.

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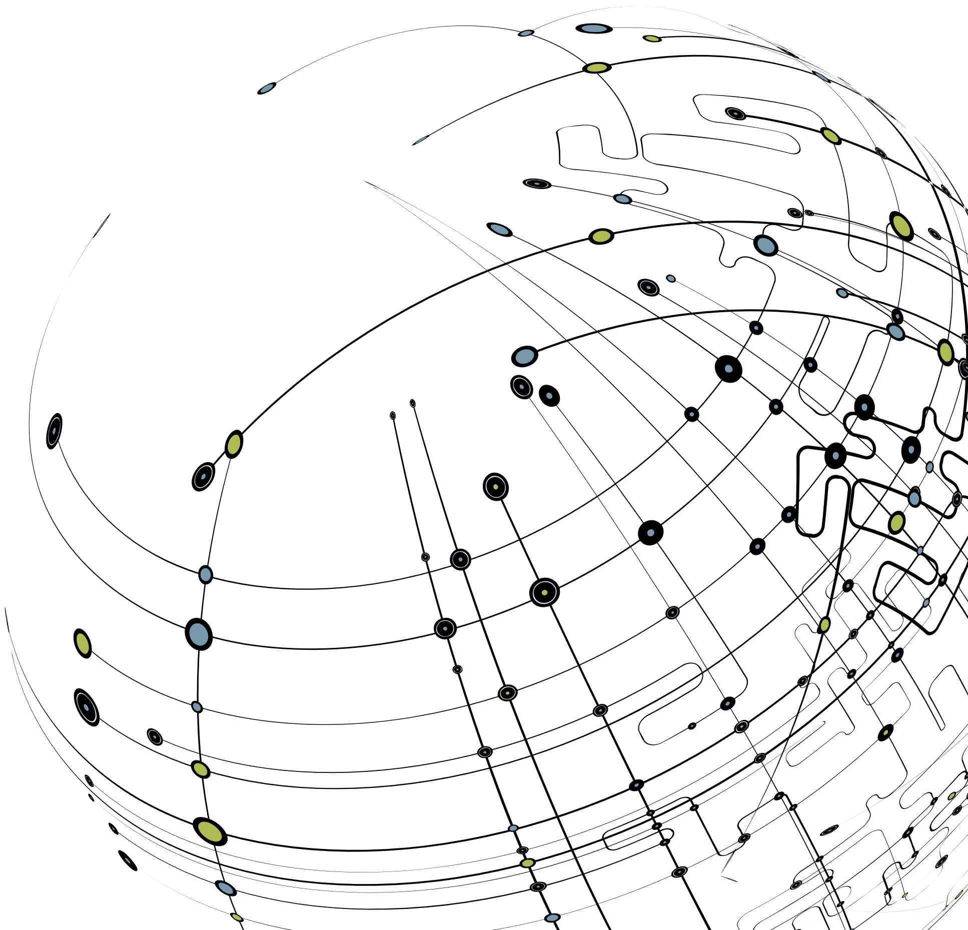


Global Media Report 2016

We are pleased to present McKinsey & Company's Global Media Report 2016. This report provides annual historical data from 2010 through 2015 and forecasted data from 2016 through 2020. Data are provided on a country-by-country basis for 12 major media categories and numerous sub-categories.

North America
United States
Canada

EMEA				
Western Europe			*Central and Eastern Europe*	*Middle East/Africa*
Austria	Greece	Spain	Czech Republic	Israel
Belgium	Ireland	Sweden	Hungary	Middle East/North Africa[1]
Denmark	Italy	Switzerland	Poland	South Africa
Finland	Netherlands	United Kingdom	Romania	
France	Norway		Russia	
Germany	Portugal		Turkey	

Asia Pacific			
Australia	Indonesia	Pakistan	Taiwan
China	Japan	Philippines	Thailand
Hong Kong	Malaysia	Singapore	Vietnam
India	New Zealand	South Korea	

Latin America	
Argentina	Colombia
Brazil	Mexico
Chile	Venezuela

[1]Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria and the United Arab Emirates.

Data provided

Digital Advertising	In-Home Video Entertainment
Search	Cable TV Households
Non-Video Display	Cable TV Household Penetration
Video Display	Average Monthly Spending Per Cable Household
Classified Internet Advertising	Cable TV Subscription Spending
Mobile Advertising	Subscription Satellite Households
	Subscription Satellite TV Household Penetration
Broadband	Average Monthly Spending Per Satellite Household
Fixed Broadband Spending	Subscription Satellite Spending
Fixed Broadband Households	IPTV Households
Fixed Broadband Household Penetration	IPTV Household Penetration
Average Monthly Spending Per Fixed Broadband Household	Average Monthly Spending per IPTV Household
Mobile Internet Subscribers	IPTV Subscription Spending
Mobile Internet Penetration	Subscription DTT Households
Average Monthly Spending Per Mobile Internet Subscriber	Subscription DTT Household Penetration
Mobile Internet Access Spending	Average Monthly Spending per Subscription DTT Household
Total Households	DTT Subscription Spending
Population	Video on Demand Through TV Subscription Providers
	Physical Home Video Sell-Through
Television Advertising	Physical Home Video Rentals
Free to Air Television Advertising	Over-the-Top (OTT) Transactional Digital Video
Multichannel Television Advertising	OTT Subscription Video-on-Demand
Online Television Advertising	Public Service TV Broadcasting
Mobile Television Advertising	
Mobile Television Users	

Audio Entertainment	Consumer Magazines	Consumer Books
Physical Recorded Music Unit Sales	Consumer Magazine Print Advertising	Print Consumer Books
Physical Recorded Music Average Price	Consumer Magazine Digital Advertising	Electronic Consumer Books
Physical Recorded Music Spending	Consumer Magazine Per Issue Print Unit Circulation	
Digital Recorded Music Download Unit Sales	Print Unit Circulation Per Household	**Educational Publishing**
Digital Recorded Music Download Average Price	Consumer Magazine Print Circulation Spending	Print Educational Books
Digital Recorded Music Download Sales	Consumer Magazine Per Issue Digital Unit Circulation	Digital Learning Materials
Digital Streaming Subscription Spending	Consumer Magazine Digital Circulation Spending	
Ad-supported Digital Streaming		**Video Games**
Total Recorded Music Sales	**Newspapers**	Boxed Console/Handheld Games
Concerts/Music Festivals	Daily Newspaper Print Advertising	Online Games
Radio Advertising	Daily Newspaper Digital Advertising	Mobile Games
Satellite Radio Subscriptions	Daily Newspaper Print Unit Circulation	Boxed PC Games
Satellite Radio Subscription Spending	Daily Newspaper Print Circulation Spending	Video Game Advertising
Satellite Radio Advertising	Daily Newspaper Paid Digital Unit Circulation	
Public Service Radio Broadcasting	Daily Newspaper Digital Circulation Spending	
Cinema		
Box Office Admissions		
Box Office Average Admission Price		
Box Office Spending		
Cinema Advertising		
Out-of-Home Advertising		
Non-Digital OOH Advertising		
Digital OOH Advertising		

Introduction

Consumers around the world are downloading and streaming digital content of all kinds at an ever-more-rapid pace and consumer technology and media companies are responding with new services to meet that demand. Even as they do so, traditional TV continues to have the broadest reach and advertisers across industries and sectors are reinforcing their traditional TV spending. Out of these somewhat conflicting forces, four sectors in particular are benefiting—digital advertising, TV advertising, in-home video, and video games.

Spending on consumer technology and media has grown 29 percent above GDP over the past five years as a result, and, despite some industry maturation, will grow only 2 percent below GDP for the next five.

Digital media are the driving forces behind industry expansion today, both in consumer spending and, to an even greater extent, in advertising spend. This growth is fueled by the current explosion of mobile broadband—particularly in emerging markets—and the ongoing development of over-the-top (OTT) audio and video as well as other digital services. We believe digital will continue to be the driving force for industry growth in the foreseeable future. In fact, we project digital media spending to overtake traditional media spending by 2018.

Digital consumer spending alone has more than tripled over the past five years, and will nearly double over the next five. We project the largest growth category here will be video games, which are now almost completely digital—and increasingly popular on smartphones. Mobile gaming penetration in the United States is currently around 55 percent. In-home video will also be an increasing force for growth as OTT video expands, overtaking the declining physical home-video market. The appeal of OTT is evidenced by the multiple business-to-consumer services such as Netflix, Amazon Video, and HBO Now. A surprising additional category to watch will be recorded music. Having suffered from declining sales of physical music formats for some time, the category has begun to show positive growth for the first time since 2010, as spending on digital formats—particularly through subscription services—offsets the physical decline.

Digital advertising has become a critical element of any advertising portfolio and is growing rapidly. Advertisers are taking advantage of increased availability of consumer data and improving software and data algorithms to create increasingly tailored ads. We project digital advertising to outpace TV as the single largest global advertising category by 2017 and grow to be a third larger than TV advertising by 2020.

As expanding mobile broadband becomes an important catalyst for further digital growth, consumers will continue to access more content on their mobile devices. Mobile broadband is already becoming ubiquitous, particularly for younger generations of consumers. The mobile portion of digital advertising is growing quickly as a result, benefiting from more sophisticated targeting. This has led us to increase our projections for the mobile share of digital spending, both by consumers and advertisers. We now project the mobile share of digital spending to reach 52 percent in 2019, an increase of 6 percentage points from our projection last year.

Our projections for OTT content access are also higher than they were just a year ago, with mobile broadband playing an increasingly important role. We note there is a growing consumer preference for accessing content rather than owning it. As a result, we project consumers will spend more for digital access than ownership by 2017.

Even as OTT video expands, linear TV remains the last “mass medium” allowing marketers to reach large numbers of consumers at once, and the single largest non-digital media segment. Pay TV, in turn, is still growing three times faster than OTT video in absolute terms—and from a profitable position. Although linear and pay TV viewing time is decreasing among younger audiences who prefer the flexibility of OTT viewing, the audience base will keep these traditional TV options valuable for the foreseeable future.

The video space as a whole offers some of the most dynamic opportunities in the media industry, with a tremendous pool of revenues at stake for companies across the TMT value chain. Telecom players, for example, are finding new opportunities in the video and digital advertising arena, purchasing online service providers or investing in ad-sponsored videos, sports rights, or small online-content producers. At the same time, global technology companies are investing in original content, large-scale content distribution ecosystems or exploring direct-to-consumer distribution models.

While digital media and traditional TV spending continue to propel the industry forward, we note the beginning of maturation for the online broadband market and for the digitization of media segments. Overall digital revenue growth is beginning to moderate as a result. However, profit margins in digital media are improving. While some digital players already have high margins due to the nature of their operations, others are being forced to focus on efficiency as they mature.

In the future, all consumer technology and media companies will need to reinforce this focus on efficiency, even as they continue to expand, riding each new wave of opportunity. Significant investment will also be needed to assemble the right talent and to put appropriate strategies in place to develop content, monetize new ventures through advertising or consumer pay models and to maximize consumer engagement—attracting and retaining larger audiences—if they are to compete in this very “noisy” consumer world.

A final word

The rate of change in the media industry has been rapid, as is clear from the data we have compiled over the last four years of producing our Global Media Report. While our forecasts calls for continued growth, based on our observation of current trends, future growth could be challenged by the rapid evolution in high growth industries. This is especially true in the case of video and digital advertising.

The overall video industry has seen both rapid growth and intensified competition due to increased direct access to a wide range of content, the elimination of traditional distribution barriers and changing consumer preferences. Global scale is becoming the key to success and old gatekeepers of content are being replaced by new ones like Apple, Facebook, and Amazon, whose core businesses reside elsewhere. Their pricing strategies and the extent to which they are able to subsidize video consumption across business lines will have a massive impact on how consumer video is valued and how rapidly it grows.

Similarly, in the case of digital advertising, the rise of click bait, fake news, inflated audience counts, ad-blocking and other practices is degrading the attractiveness of the medium, causing more publishers to struggle. There is also an increased focus on regulatory and privacy issues, which continues to make targeted advertising, particularly video and mobile targeting, harder. An acceleration of any of these trends could induce a “snap back” of digital advertising spend to TV and other media.

We hope that our Global Media Report 2016 provides more clarity on the evolution of the industry, even as we acknowledge some of the “gathering clouds,” the effect of which is still unclear.

Global Industry Overview

Global media spending rose 6.4 percent in 2015, down from the 7.4 percent increase in 2014, but higher than the gains recorded over the 2010-2013 period, when spending increased at a 6.0 percent compound annual rate (CAGR). We project spending over the next five years to expand at a 5.2 percent CAGR as digital markets—and broadband in particular—begin to mature.

Current state of the sectors

The market continued to be fueled by the transition from traditional to digital media in 2015, and segments dominated by digital spending streams flourished. Digital advertising was the fastest-growing category in 2015, with a 19.4 percent increase. Video games, at 12.6 percent, and broadband, at 10.7 percent, were next in line. In the case of video games, the digital components—online and mobile games and video game advertising—accounted for 82 percent of total spending. In fact, double-digit increases in those components offset declines in traditional video games.

That pattern, in which the digital components expanded rapidly while the traditional components grew slowly or declined, characterized virtually every segment of global media. In general, the larger the share of digital spending—consumer or advertising—in the segment's total, the faster the growth. The one exception in 2015 was cinema, which benefited from a strong slate of movie releases and posted a 15.1 percent increase.

Print-dominated segments continued to struggle, with consumer magazines, newspapers, and educational publishing each declining in 2015. Consumer books was the strongest print-dominated segment, with a 2.4 percent increase, as print book sales grew in 2015, although electronic books remained the faster-growing component. TV advertising rose 2.5 percent despite the absence of advertising associated with the Olympics, the World Cup, and the elections in the United States that fueled spending in 2014. The remaining segments posted low-to-mid single-digit gains.

Outlook for sector spending

We expect digital advertising, video games, and broadband to be the fastest-growing segments over the next five years, with projected compound annual increases to 2020 of 13.0 percent, 9.2 percent, and 7.0 percent, respectively. We project a 5.2 percent CAGR for cinema, as we do not expect box office growth to maintain the impressive pace achieved in 2015. TV advertising, at 4.9 percent, and out-of-home, at 4.2 percent, will be the next fastest-growing segments, followed by in-home video entertainment, at 3.1 percent compounded annually. Audio entertainment, educational publishing, and consumer books will grow at compound annual rates of 2.0 percent or less, while consumer magazines and newspaper publishing will each continue to decline over the next five years.

The four fastest-growing segments in 2015 will each grow more slowly over the next five years, collectively expanding at an 8.5 percent CAGR—down from the combined 12.8 percent increase in 2015. The remaining segments collectively rose 1.5 percent in 2015. We look for a modest improvement in these remaining segments over the next five years, with a projected 1.9 percent CAGR gain. On balance, overall growth will moderate compared with 2015. Total global media spending will rise from US $1.6 trillion in 2015 to a projected US $2.1 trillion in 2020, a 5.2 percent compounded annual increase—one that matches the projected global growth in nominal GDP. (As noted in the table below and in subsequent tables, digital advertising is included in television, audio, newspaper, consumer magazines, and video games segment totals as well as in the digital advertising segment, but only once in the overall total.)

Total global spending by category[1] (US $ millions)

Category	2010	2011	2012	2013	2014	2015p	2010-2015p CAGR	2016	2017	2018	2019	2020	2015-2020 CAGR
Audio Entertainment	81,935	83,063	83,985	87,093	87,106	90,811	2.1	93,611	93,782	96,014	98,310	100,395	2.0
Broadband	242,309	284,167	323,438	362,932	420,080	465,168	13.9	502,671	539,552	577,324	615,103	653,872	7.0
Cinema	29,784	30,272	32,512	33,802	34,965	40,239	6.2	41,155	44,092	46,252	48,859	51,732	5.2
Consumer books	63,801	63,556	63,864	64,702	65,744	67,326	1.1	68,386	69,754	71,136	72,715	74,393	2
Consumer Magazines	58,931	59,470	58,164	55,990	53,698	51,660	-2.6	50,075	48,735	47,566	46,509	45,429	-2.5
Digital advertising	66,125	76,732	89,179	104,882	123,741	147,791	17.5	173,043	198,048	224,110	248,590	272,798	13
Educational publishing	35,717	36,292	35,675	36,197	37,300	37,275	0.9	37,657	38,199	38,807	39,405	39,950	1.4
In-home video entertainment	249,246	260,412	273,661	285,056	297,379	308,864	4.4	318,731	328,971	339,470	350,114	359,760	3.1
Newspapers	134,970	132,590	129,833	125,502	123,300	119,553	-2.4	116,647	113,761	111,276	109,246	107,508	-2.1
Out-of-home	25,543	26,156	27,541	29,028	30,233	30,943	3.9	32,111	33,321	34,799	36,349	38,059	4.2
TV advertising	147,478	153,298	161,862	167,105	176,057	180,446	4.1	191,084	195,642	207,605	214,563	228,750	4.9
Video games	53,178	56,254	59,618	66,571	75,627	85,154	9.9	94,835	104,531	114,214	123,464	132,425	9.2
Total	1,176,874	1,248,005	1,322,815	1,400,056	1,503,856	1,600,552	**6.3**	**1,691,469**	**1,775,550**	**1,871,204**	**1,961,486**	**2,058,795**	**5.2**

[1]At average 2015 exchange rates.
Note: Television, audio, newspaper, and consumer magazine digital advertising as well as video games advertising are included in their respective segments and also in the digital advertising segment, but only once in the overall total.
Sources: McKinsey & Company, Wilkofsky Gruen Associates

Current state of the regions

Latin America was the fastest-growing region in 2015, with a 12.8 percent advance, propelled in large part by high inflation that overstated underlying real growth. Asia Pacific was next, at 7.9 percent.

EMEA posted a 5.3 percent increase that was bolstered by double-digit growth in MENA. Western Europe increased 4.8 percent, its strongest gain during the past five years. Central and Eastern Europe increased only 3.2 percent, their smallest increase of the past five years, principally due to a decline in Russia, where a weak economy led to a drop in spending.

North America grew 4.4 percent, down from the 5.0 percent increase in 2014, but above the gains recorded in 2011 and 2012.

Outlook for regional spending

We expect Latin America and Asia Pacific to continue to be the fastest-growing regions over the next five years, with compound annual increases of 9.0 percent and 6.2 percent, respectively--although in both cases this growth is more moderate than it was in 2015, as the digital markets are beginning to mature. These two regions will generate 55 percent of the total increase in global spending over the next five years.

We project total media spending in North America to increase at a 3.8 percent CAGR, down from the 4.3 percent CAGR generated between 2010 and 2015.

EMEA will grow at a projected 4.2 percent CAGR, matching the CAGR increase of the past five years, but lower than the 5.3 percent rise in 2015. Western Europe will be the slowest-growing area within EMEA, with a projected 3.0 percent compound annual gain, as a maturing digital market and ongoing economic weakness limit growth. Nevertheless, the projected increase would be an improvement compared with the increases in 2012 and 2013. Note that forecasts for the United Kingdom (UK) and Western Europe do not take into account the possible impact of Brexit—the decision by the UK to leave the European Union. That development could affect the economy and media spending; however, as of this writing, it is too early to discern what effect, if any, it may have. If Brexit proves to have an adverse effect on the economy in the UK, then growth rates, particularly for advertising, would be lower than we currently project.

In Central and Eastern Europe, we look for a pickup in growth as Russia's economy turns around, and project a 5.7 percent compound annual gain. We expect Middle East/Africa to continue to be the fastest-growing area in EMEA, with a 10.2 percent compound annual gain.

Total global spending by region[1] (US $ millions)

Region	2010	2011	2012	2013	2014	2015p	2010–2015p CAGR	2016	2017	2018	2019	2020	2015–2020 CAGR
North America	402,745	416,920	433,614	453,084	475,923	497,059	4.3	**522,121**	**538,169**	**562,038**	**579,094**	**600,337**	**3.8**
EMEA													
Western Europe	308,855	318,054	320,312	324,059	333,544	349,443	2.5	360,636	370,486	381,556	392,844	404,338	3.0
Central and Eastern Europe	31,701	36,246	39,043	42,687	44,740	46,170	7.8	48,333	50,907	53,914	57,284	60,840	5.7
Middle East/ Africa	23,657	29,504	33,580	38,134	45,986	51,291	16.7	56,862	62,716	69,154	75,990	83,449	10.2
EMEA Total	364,213	383,804	392,935	404,880	424,270	446,904	**4.2**	**465,831**	**484,109**	**504,624**	**526,118**	**548,627**	**4.2**
Asia Pacific	354,618	381,106	418,653	453,459	494,774	533,719	**8.5**	**569,303**	**606,670**	**644,368**	**682,475**	**720,778**	**6.2**
Latin America	55,298	66,175	77,613	88,633	108,889	122,870	**17.3**	**134,214**	**146,602**	**160,174**	**173,799**	**189,053**	**9.0**
Total	1,176,874	1,248,005	1,322,815	1,400,056	1,503,856	1,600,552	**6.3**	**1,691,469**	**1,775,550**	**1,871,204**	**1,961,486**	**2,058,795**	**5.2**

[1]At average 2015 exchange rates.
Sources: McKinsey & Company, Wilkofsky Gruen Associates

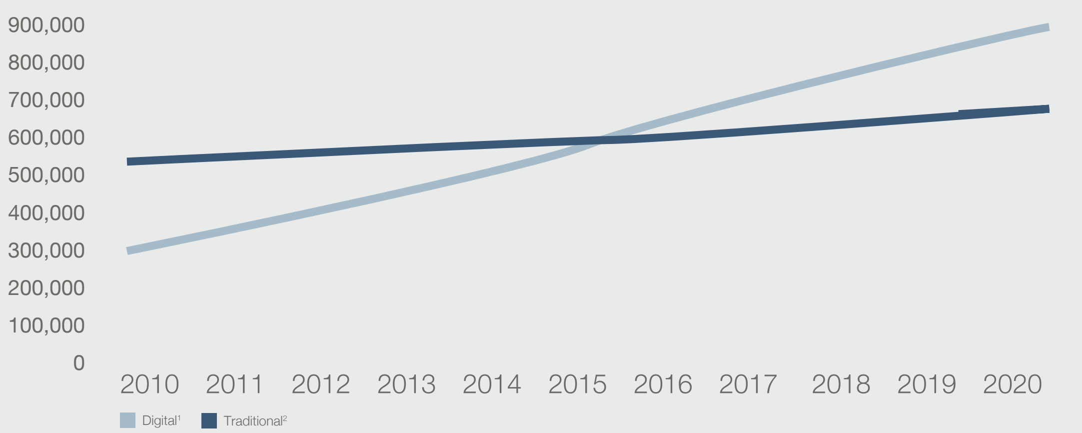
Consumer spending

Consumer spending rose 6.9 percent in 2015, down from the 8.1 percent increase seen in 2014, principally reflecting a slowdown in the broadband segment. Broadband was the fastest-growing segment in 2014, with a 15.7 percent increase, and generated 71 percent of the total increase in consumer spending. In 2015, broadband growth dropped to 10.7 percent and its contribution to total growth fell to 60 percent. Cinema and video games were the fastest-growing categories in 2015, with respective increases of 15.5 percent and 12.5 percent.

For consumer spending as a whole, the digital components[1] rose 12.1 percent in 2015 and accounted for 49.5 percent of total spending. Digital consumer spending will overtake traditional consumer spending in 2016, a year earlier than we had projected in last year's GMR, and will account for an estimated 57.4 percent of total consumer spending by 2020.

With the broadband market now maturing, however, we project digital consumer spending to drop to single-digit gains beginning in 2016 and to grow at only an 8.0 percent CAGR through 2020. The traditional component[2] of the market increased 2.3 percent in 2015 and we project growth for that component to moderate as well, reaching only a projected 1.3 percent compounded annually over the next five years.

Consumer spending: traditional vs. digital (US $ millions)



Sources: McKinsey & Company, Wilkofsky Gruen Associates

[1]Digital consists of spending on broadband, OTT transactional digital video, OTT subscription digital video, digital recorded music downloads, digital recorded music-streaming subscriptions, consumer magazine digital circulation, daily newspaper digital circulation, electronic consumer books, digital learning materials, online video games, mobile video games, and satellite radio subscription spending.

[2]Traditional consists of spending on pay TV subscriptions, transactional video on demand through TV subscription providers, physical home video sales and rentals, public-service TV and radio broadcasting, physical recorded music, concerts and music festivals, box office, consumer magazine print circulation, daily newspaper print circulation, print consumer books, print educational books, and boxed console and PC video games.

We expect video games to be the fastest-growing consumer segment during the next five years, with a 9.1 percent CAGR, led by its rapidly expanding mobile component. Broadband will also continue to be among the fastest-growing categories, fueled principally by mobile expansion, although we expect growth to drop to 7.0 percent compounded annually as fixed broadband penetration growth slows. Cinema, at 5.2 percent, and in-home video, at 3.1 percent, will be the only other categories to expand at compound annual rates in excess of 3 percent. In the cinema box-office market, China alone will account for 55 percent of the projected increase, as ongoing screen growth enlarges that market. Excluding China, we project box office spending to grow at a 3.0 percent CAGR. In the in-home video market, over-the-top (OTT) digital video services will finally overtake a declining physical home-video market. Meanwhile, pay TV subscription growth in Asia Pacific and Latin America will offset slowdowns in that component in North America and EMEA.

The audio market will to some degree mirror the in-home video market, as growth in digital streaming services will offset declines in physical spending. Overall audio entertainment spending will rise at a 2.7 percent CAGR to 2020. In the print market, we project declines in consumer magazines and newspapers, along with low single-digit increases in consumer books and educational publishing. Combined spending on the four print-dominated segments will edge up at a 0.3 percent CAGR.

Consumer spending as a whole will increase at a 4.8 percent CAGR over the next five years, down from the 7.0 percent compound annual increase during the past five years.

Latin America and Asia Pacific will be the fastest-growing regions in consumer spending, with compound annual increases of 7.6 percent and 6.1 percent, respectively. EMEA will expand at a 4.2 percent CAGR, and Western Europe at 2.7 percent. Middle East/Africa, at 10.9 percent compounded annually, will be the fastest-growing region in the world, while we project Central and Eastern Europe to grow at a 5.9 percent CAGR. We project North America, in turn, to experience a 2.9 percent CAGR.

Global consumer spending by category[1] (US $ millions)

Category	2010	2011	2012	2013	2014	2015p	2010–2015p CAGR	2016	2017	2018	2019	2020	2015–2020 CAGR
Audio	53,502	54,154	54,478	57,181	56,761	60,169	2.4	62,666	62,618	64,678	66,823	68,750	2.7
Broadband	242,309	284,167	323,438	362,932	420,080	465,168	13.9	502,671	539,552	577,324	615,103	653,872	7.0
Cinema	27,601	28,016	30,213	31,459	32,542	37,571	6.4	38,461	41,235	43,274	45,711	48,392	5.2
Consumer books	63,801	63,556	63,864	64,702	65,744	67,326	1.1	68,386	69,754	71,136	72,715	74,393	2.0
Consumer magazines	35,464	35,420	34,791	33,609	32,280	31,157	-2.6	30,151	29,295	28,504	27,751	26,967	-2.8
Educational publishing	35,717	36,292	35,675	36,197	37,300	37,275	0.9	37,657	38,199	38,807	39,405	39,950	1.4
In-home video	249,246	260,412	273,661	285,056	297,379	308,864	4.4	318,731	328,971	339,470	350,114	359,760	3.1
Newspapers	58,328	57,806	58,121	58,363	59,375	59,407	0.4	59,365	58,844	58,257	57,617	56,952	-0.8
Video games	51,780	54,652	57,803	64,498	73,254	82,401	9.7	91,666	100,897	110,090	118,871	127,375	9.1
Total	817,748	874,475	932,044	993,997	1,074,715	1,149,338	**7.0**	**1,209,754**	**1,269,365**	**1,331,540**	**1,394,110**	**1,456,411**	**4.8**

[1]At average 2015 exchange rates.
Sources: McKinsey & Company, Wilkofsky Gruen Associates

Global consumer spending by region[1] (US $ millions)

Region	2010	2011	2012	2013	2014	2015p	2010–2015p CAGR	2016	2017	2018	2019	2020	2015–2020 CAGR
North America	256,441	265,628	273,506	289,149	303,391	316,666	4.3	**327,308**	**336,571**	**346,754**	**356,665**	**365,893**	**2.9**
EMEA													
Western Europe	225,525	232,671	236,665	240,238	245,897	257,367	2.1	264,747	271,217	278,589	286,324	294,219	2.7
Central and Eastern Europe	23,409	26,943	29,163	32,157	33,605	35,229	8.5	36,951	38,947	41,298	44,010	46,813	5.9
Middle East/ Africa	15,947	21,947	25,635	29,284	36,824	42,212	21.5	47,497	52,848	58,568	64,572	70,887	10.9
EMEA Total	264,881	281,561	291,463	301,679	316,326	334,808	**4.0**	**349,195**	**363,012**	**378,455**	**394,906**	**411,919**	**4.2**
Asia Pacific	257,082	279,181	309,732	337,286	371,411	403,293	**9.4**	**430,776**	**458,722**	**486,601**	**514,377**	**542,030**	**6.1**
Latin America	39,344	48,105	57,343	65,883	83,587	94,571	**19.2**	**102,475**	**111,060**	**119,730**	**128,162**	**136,569**	**7.6**
Total	817,748	874,475	932,044	993,997	1,074,715	1,149,338	**7.0**	**1,209,754**	**1,269,365**	**1,331,540**	**1,394,110**	**1,456,411**	**4.8**

[1]At average 2015 exchange rates.
Sources: McKinsey & Company, Wilkofsky Gruen Associates

The advertising market

Advertising rose 5.1 percent in 2015, down only six-tenths of a percentage point from the 5.7 percent increase in 2014—despite losing advertising associated with the Olympics, the World Cup, and political advertising in the United States. In 2011, the previous post-Olympic post-World Cup year, global advertising rose 4.0 percent.

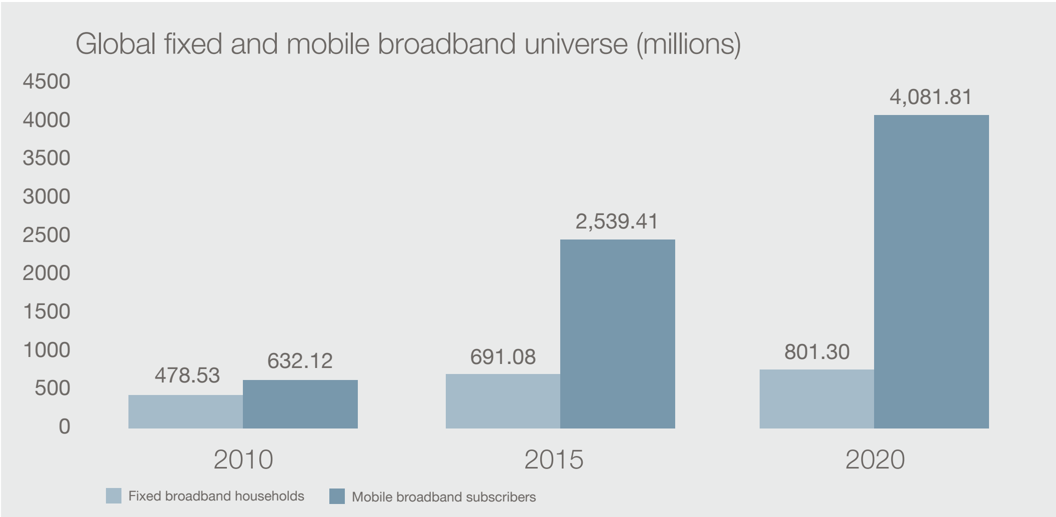
The strong showing of the advertising market in 2015 principally reflects the growing share of digital advertising in the overall total. Digital advertising accounted for nearly a third of total ad spending in 2015, compared with 18 percent in 2010. It rose 19.4 percent in 2015 and has risen at a 17.5 percent CAGR since 2010. By contrast, non-digital advertising declined 0.6 percent in 2015 and has increased at only a 0.7 percent CAGR over the past five years.

Global advertising by category[1] (US $ millions)

Category	2010	2011	2012	2013	2014	2015p	2010–2015p CAGR	2016	2017	2018	2019	2020	2015–2020 CAGR
Audio	28,433	28,909	29,507	29,912	30,345	30,642	1.5	30,945	31,164	31,336	31,487	31,645	0.6
Cinema	2,183	2,256	2,299	2,343	2,423	2,668	4.1	2,694	2,857	2,978	3,148	3,340	4.6
Consumer magazines	23,467	24,050	23,373	22,381	21,418	20,503	-2.7	19,924	19,440	19,062	18,758	18,462	-2.1
Digital	66,125	76,732	89,179	104,882	123,741	147,791	17.5	173,043	198,048	224,110	248,590	272,798	13.0
Newspapers	76,642	74,784	71,712	67,139	63,925	60,146	-4.7	57,282	54,917	53,019	51,629	50,556	-3.4
Out-of-home	25,543	26,156	27,541	29,028	30,233	30,943	3.9	32,111	33,321	34,799	36,349	38,059	4.2
Television	147,478	153,298	161,862	167,105	176,057	180,446	4.1	191,084	195,642	207,605	214,563	228,750	4.9
Video games	1,398	1,602	1,815	2,073	2,373	2,753	14.5	3,169	3,634	4,124	4,593	5,050	12.9
Total	359,126	373,530	390,771	406,059	429,141	451,214	**4.7**	**481,715**	**506,185**	**539,664**	**567,376**	**602,384**	**5.9**

[1]At average 2015 exchange rates.
Note: Television, audio, newspaper, consumer magazine and digital advertising as well as video games advertising are included.
Sources: McKinsey & Company, Wilkofsky Gruen Associates

Reach and engagement are the key drivers of advertising, and the growing reach and engagement of digital media are driving digital advertising. Looking first at reach, between 2010 and 2015, the number of households with a fixed broadband connection rose 44 percent and the number of mobile broadband subscribers quadrupled. Over the coming five years, we project the fixed broadband household reach to increase by 16 percent and the number of mobile broadband subscribers to grow by 61 percent.



Sources: McKinsey & Company, Wilkofsky Gruen Associates

Looking next at consumer engagement, digital media provide interactive opportunities for consumers that enhance engagement and make digital ads more effective. Improved measurement systems are beginning to capture this engagement, showing that engagement in digital media is increasing.

As engagement and reach continue to grow, advertisers will allocate more money to digital media. We expect that digital advertising will account for 45.3 percent of total global advertising by 2020, up from 32.8 percent in 2015.

Global advertising shares by category (percent)

Category	2010	2011	2012	2013	2014	2015p	2016	2017	2018	2019	2020
Audio[1]	7.9	7.6	7.4	7.2	6.9	6.6	6.2	5.9	5.5	5.2	4.9
Cinema	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Consumer magazines[2]	6.1	6.0	5.4	4.9	4.4	3.9	3.5	3.1	2.8	2.5	2.3
Digital	18.4	20.5	22.8	25.8	28.8	32.8	35.9	39.1	41.5	43.8	45.3
Newspapers[2]	19.7	18.3	16.6	14.9	13.3	11.7	10.2	9.2	8.2	7.5	6.8
Out-of-home	7.1	7.0	7.0	7.1	7.0	6.9	6.7	6.6	6.4	6.4	6.3
Television[1]	40.2	39.9	40.0	39.5	39.1	37.7	37.0	35.5	35.0	34.0	33.8

[1]Does not include online or mobile advertising.
[2]Print only.
Sources: McKinsey & Company, Wilkofsky Gruen Associates

As digital advertising takes a rising share of the advertising market, the ongoing growth in that segment will contribute a greater share of overall spending than it did in the past. Consequently, we project overall advertising to grow more quickly over the next five years than it did over the past five years. Global advertising will rise at a projected 5.9 percent CAGR between 2015 and 2020, compared with growth of 4.7 percent compounded annually between 2010 and 2015. Even excluding the impact of an Olympic-year advertising boost in 2020, advertising growth will be higher over the five-year period than in previous years. Digital advertising will lead the way, with a projected 13.0 percent CAGR, generating 83 percent of the total projected increase in global advertising, compared with a 1.7 percent CAGR increase in non-digital advertising.

Asia Pacific will grow at a projected 6.5 percent compound annual rate, with China and India together generating 57 percent of the total projected gain. We expect Latin America to be the fastest-growing advertising region, with a projected 13.1 percent compound annual increase, in large part reflecting high inflation rates in Venezuela and Argentina. Excluding those two countries, projected advertising growth in Latin America drops to a 6.0 percent CAGR.

We project advertising in North America to increase at a 5.4 percent CAGR, benefiting from the shift to an even-numbered year in 2020, when an influx of Olympic and political advertising will boost spending. In addition, television advertising, even in odd-numbered years, is showing more strength in North America than in the past, as advertisers are finding that combining television and digital campaigns provides an impact proportionally greater than when they are used separately.

EMEA has had the slowest-growing economy of any region, up just 2.1 percent compounded annually over the past five years, as well as the slowest-growing advertising market, up 2.4 percent for EMEA as a whole and 2.0 percent for Western Europe, both compounded annually over the same period. The International Monetary Fund (IMF) projects economic growth to improve over the next five years, with nominal GDP in Western Europe expanding at a 3.1 percent CAGR, up from 2.1 percent compounded annually over the past five years. For EMEA as a whole, nominal GDP will expand at a 4.4 percent CAGR, from the 3.7 percent CAGR increase over the past five years. Faster GDP growth will translate into improved advertising growth, and we project advertising in EMEA to increase at a 4.0 percent CAGR, along with 3.6 percent compound annual growth for Western Europe.

Global advertising by region[1] (US $ millions)

Region	2010	2011	2012	2013	2014	2015p	2010–2015p CAGR	2016	2017	2018	2019	2020	2015–2020 CAGR
North America	146,304	151,292	160,108	163,935	172,532	180,393	4.3	**194,813**	**201,598**	**215,284**	**222,429**	**234,444**	**5.4**
EMEA													
Western Europ	83,330	85,383	83,647	83,821	87,647	92,076	2.0	95,889	99,269	102,967	106,520	110,119	3.6
Central and Eastern Europe	8,292	9,303	9,880	10,530	11,135	10,941	5.7	11,382	11,960	12,616	13,274	14,027	5.1
Middle East/ Africa	7,710	7,557	7,945	8,850	9,162	9,079	3.3	9,365	9,868	10,586	11,418	12,562	6.7
EMEA Total	99,332	102,243	101,472	103,201	107,944	112,096	**2.4**	**116,636**	**121,097**	**126,169**	**131,212**	**136,708**	**4.0**
Asia Pacific	97,536	101,925	108,921	116,173	123,363	130,426	**6.0**	**138,527**	**147,948**	**157,767**	**168,098**	**178,748**	**6.5**
Latin America	15,954	18,070	20,270	22,750	25,302	28,299	**12.1**	**31,739**	**35,542**	**40,444**	**45,637**	**52,484**	**13.1**
Total	359,126	373,530	390,771	406,059	429,141	451,214	**4.7**	**481,715**	**506,185**	**539,664**	**567,376**	**602,384**	**5.9**

[1]At average 2015 exchange rates.

Sources: McKinsey & Company, Wilkofsky Gruen Associates

Key global drivers

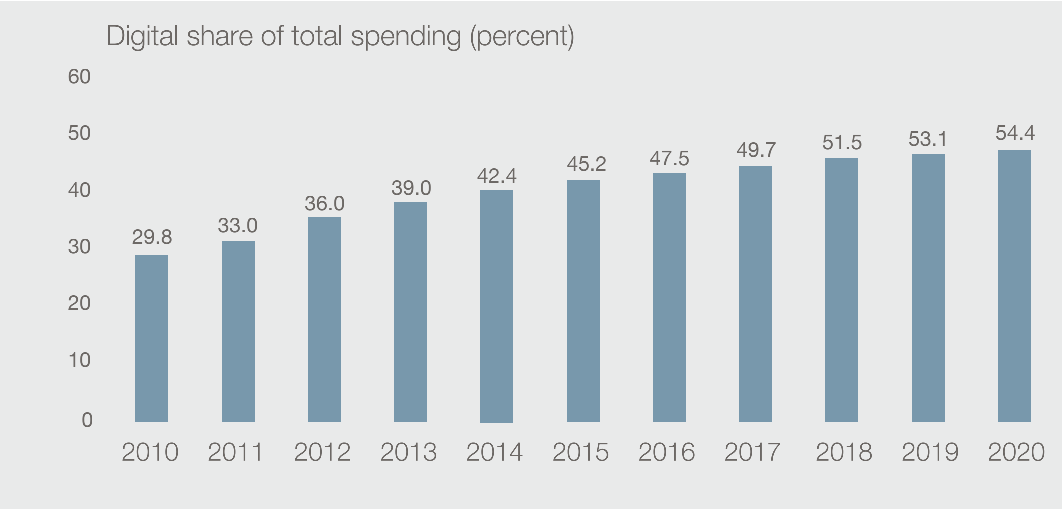
1. Accelerating transition to digital. In last year's GMR, we identified several global trends that we expected would propel the market over the next few years. As it turned out, three of the key global drivers—the migration from traditional to digital, the shift from online to mobile, and the transition from ownership to access—are progressing even faster than we had anticipated. With respect to the long-term evolution of the market from traditional to digital media, we had projected that digital spending would grow 10.7 percent in 2015, raising its share of total spending to 43.4 percent. In fact, digital spending rose 13.5 percent in 2015, led by large increases in OTT subscriptions, audio streaming, mobile video games, mobile broadband, mobile advertising, and digital out-of-home advertising. As a result, the digital share of total spending reached 45.2 percent.

Last year, we also projected that digital media would account for half (50.3 percent) of total spending by 2019. Although overall digital growth is moderating, as the broadband market matures, the transition to digital is actually accelerating. We now expect digital spending to overtake traditional media spending in 2018, a year earlier than projected, rising to 54.4 percent of total spending by 2020. We also expect digital media to generate 87 percent of the total increase in media spending over the next five years. Digital spending will increase at a 9.1 percent CAGR, compared with 1.4 percent compound annual growth for non-digital spending.

Global spending by digital/non-digital status[1] (US $ millions)

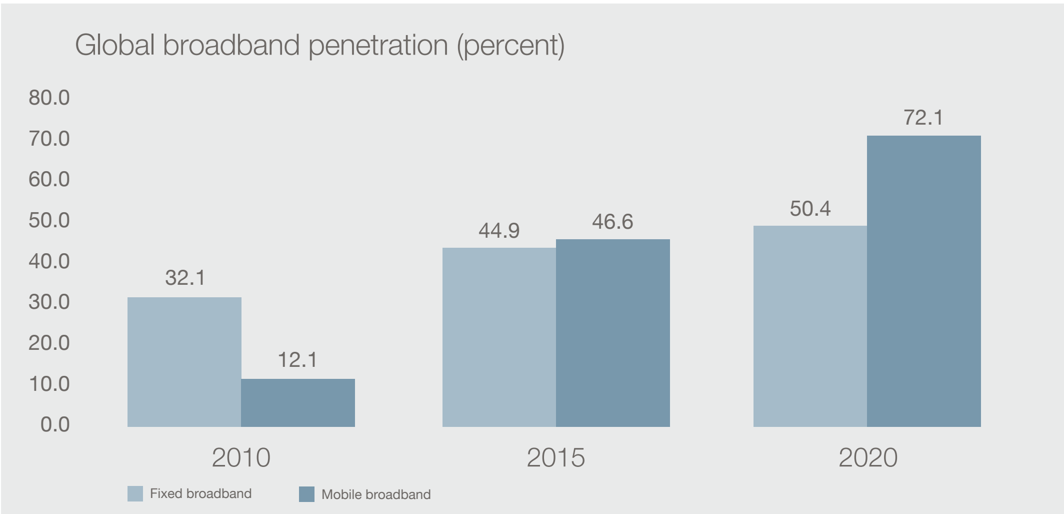
Status	2010	2011	2012	2013	2014	2015p	2010–2015p CAGR	2016	2017	2018	2019	2020	2015–2020 CAGR
Digital[2]	350,699	412,274	476,612	545,463	637,409	723,558	15.6	803,173	882,087	963,053	1,041,793	1,120,783	9.1
Non-digital	826,175	835,731	846,203	854,593	866,447	876,994	1.2	888,296	893,463	908,151	919,693	938,012	1.4
Total	1,176,874	1,248,005	1,322,815	1,400,056	1,503,856	1,600,552	**6.3**	**1,691,469**	**1,775,550**	**1,871,204**	**1,961,486**	**2,058,795**	**5.2**

[1]At average 2015 exchange rates.
[2]Consists of digital advertising, broadband, OTT transactional and subscription digital video, satellite radio subscription spending, digital recorded music downloads, digital recorded music streaming subscriptions, digital out-of-home advertising, consumer magazine digital circulation spending, daily newspaper digital circulation spending, electronic consumer books, digital learning materials, online video games, mobile video games.
Sources: McKinsey & Company, Wilkofsky Gruen Associates



Sources: McKinsey & Company, Wilkofsky Gruen Associates

2. Ascendancy of mobile. Last year, we identified mobile telephony as the principal force behind digital spending, and projected spending on media that is accessed entirely or principally through mobile devices, such as smartphones and tablets, to increase by 14.9 percent in 2015. In actuality, mobile spending rose 22.4 percent in 2015. Simultaneously, mobile captured 44.6 percent of total digital spending in 2015, well above the 37.4 percent share we predicted. The growth in mobile spending was fueled by a surge in mobile broadband penetration as the mobile broadband market took off in 2014. Over the past two years, in fact, global mobile broadband penetration has risen 66 percent.



Sources: McKinsey & Company, Wilkofsky Gruen Associates

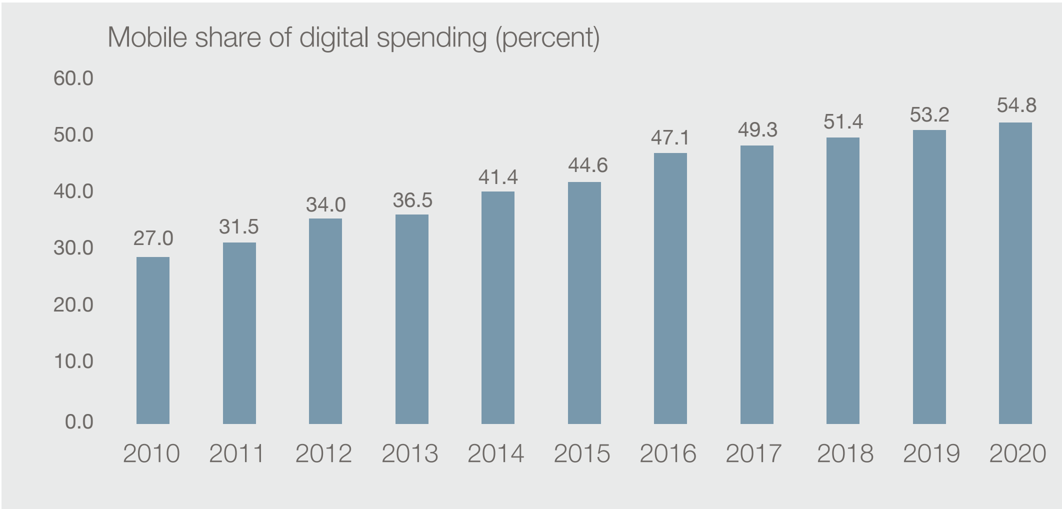
Low-cost smartphones, LTE rollouts, and the proliferation of Wi-Fi availability, which enhances the effectiveness of mobile access, have made mobile broadband an appealing option to more people. In 2015, mobile became the principal platform for Internet access, with 46.6 percent of the population subscribing to a mobile broadband service, compared with 44.9 percent of households subscribing to a fixed broadband service. Last year, we predicted that mobile broadband penetration would increase to 58.3 percent by 2019. We now expect that figure to rise to 67.3 percent in 2019 and to reach 72.1 percent in 2020, compared with only 50.4 percent for fixed broadband penetration.

Growth in mobile broadband penetration has naturally expanded the market for mobile broadband subscription spending and mobile advertising. It has also created enhanced opportunities for mobile applications, such as mobile video games, digital streaming, and newspaper and magazine digital-circulation spending. Over the next five years, we project total mobile digital spending to increase at a 13.7 percent CAGR, nearly three times higher than the 4.8 percent CAGR projected for non-mobile digital spending. While we did anticipate in last year's GMR that mobile would eventually overtake non-mobile digital spending, we did not expect it to occur until well into the 2020s. We now project mobile digital spending to overtake non-mobile digital spending in 2018 and to account for 54.8 percent of total digital spending by 2020.

Global digital spending by mobile/non-mobile status[1] (US $ millions)

Status	2010	2011	2012	2013	2014	2015p	2010–2015p CAGR	2016	2017	2018	2019	2020	2015–2020 CAGR
Mobile[2]	94,852	129,744	162,016	199,024	263,922	322,987	27.8	378,502	435,241	495,372	553,985	614,046	13.7
Non-mobile	255,847	282,530	314,596	346,439	373,487	400,571	9.4	424,671	446,846	467,681	487,808	506,737	4.8
Total	350,699	412,274	476,612	545,463	637,409	723,558	**15.6**	**803,173**	**882,087**	**963,053**	**1,041,793**	**1,120,783**	**9.1**

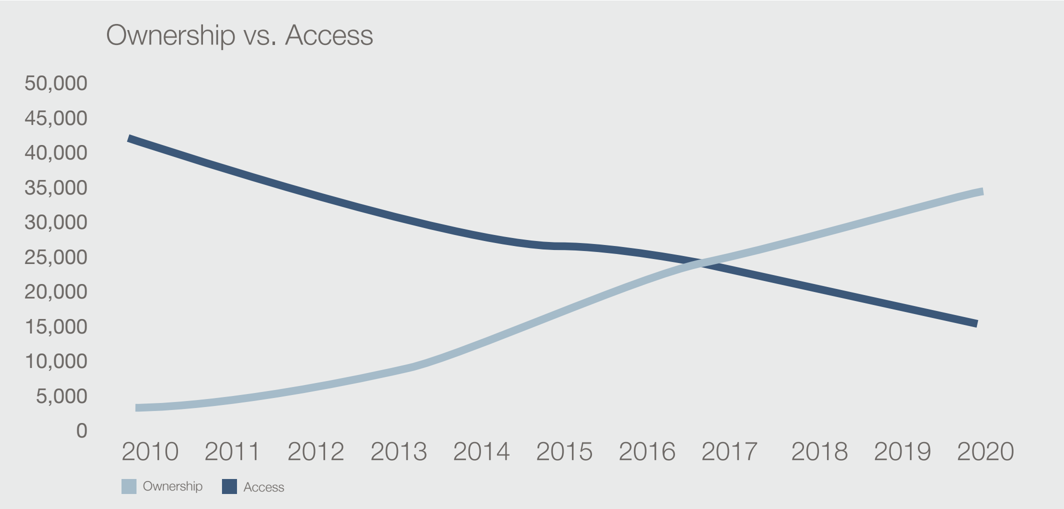
[1]At average 2015 exchange rates.
[2]Consists of mobile broadband, mobile advertising, mobile video games, audio digital streaming, consumer magazine digital circulation spending, daily newspaper digital circulation spending and electronic consumer books.
Sources: McKinsey & Company, Wilkofsky Gruen Associates



Sources: McKinsey & Company, Wilkofsky Gruen Associates

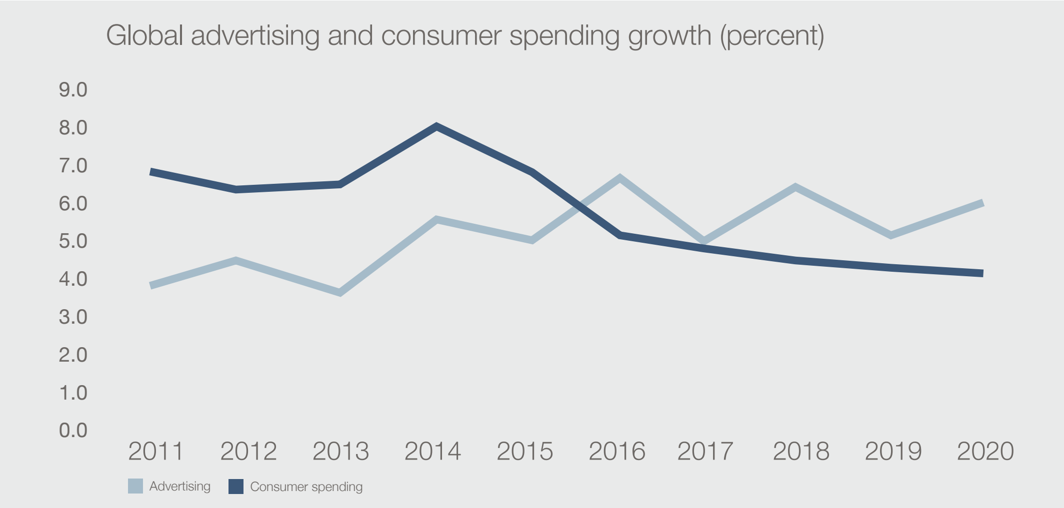
3. **Access to overtake ownership.** In the past two GMRs, we noted the emerging trend of consumers spending less to buy and own content, while spending more to access content without owning it. That trend, too, is moving faster than we anticipated. In the 2015 GMR, we projected spending to access content—digital video and audio streaming—to grow by a robust 27.0 percent in 2015. We actually underestimated that increase, as spending on those categories rose by 34.6 percent in 2015. Our forecast of spending to buy content—physical home video, physical recorded music, and digital downloads—was on target, falling by the predicted 8.1 percent.

As with the transition to digital and the ascendency of mobile, we have adjusted our expectations about future growth in access spending relative to ownership spending to account for the rapid change in consumer behavior. It appears that, given the proliferation of digital options, consumers are shifting their patterns of media consumption more quickly than in the past. The millennial generation has grown up with digital media and has less affinity with either traditional media or traditional patterns of media usage. Growth in the size of this cohort is contributing to the transition in media consumption. We now project spending on content purchases over the next five years to fall at a 10.1 percent CAGR, while spending on content access will increase at a 17.3 percent CAGR. Access spending will overtake ownership spending in 2017, a year earlier than we projected last year, and will account for 68 percent of the total in 2020.



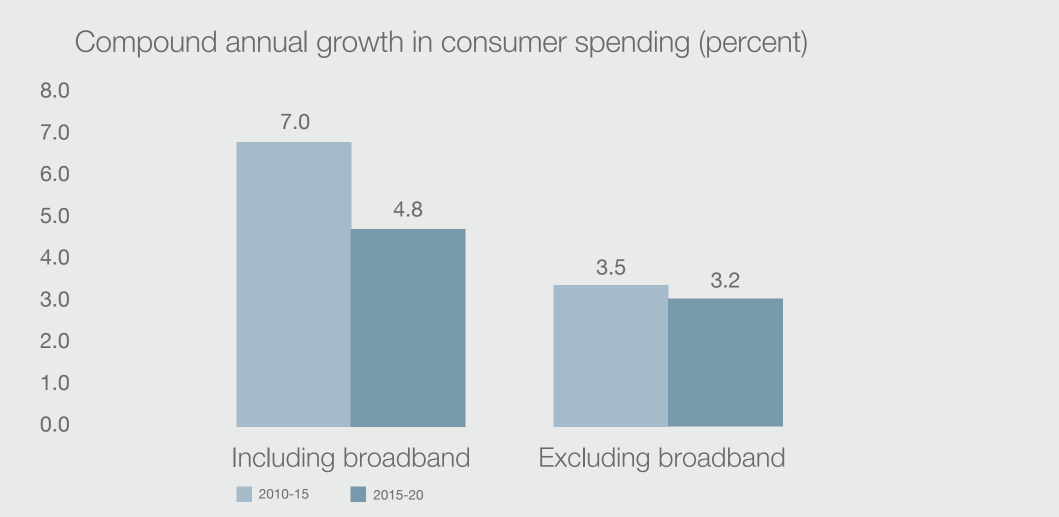
Note: Ownership consists of home video physical sales, physical recorded music sales, and recorded music digital downloads. Access consists of OTT digital video, recorded music digital subscriptions, and recorded music ad–supported digital streaming.
Sources: McKinsey & Company, Wilkofsky Gruen Associates

4. **Advertising picking up, while consumer spending slows.** Consumer spending has grown more quickly than ad spending over the past five years, with a 7.0 percent CAGR, compared with the 4.7 percent compound annual increase for advertising. Broadband was the principal force behind this consumer spending growth, generating two-thirds of the total increase between 2010 and 2015. With the broadband market now maturing, the projected absolute increase in global broadband spending will be 15 percent lower over the next five years than during the past five years. With a smaller contribution from broadband, overall consumer spending growth will drop to 4.8 percent compounded annually, with broadband accounting for 61 percent of that increase. Meanwhile, advertising growth is picking up as digital advertising gains share, and ad spending will advance at a projected 5.9 percent CAGR over the next five years.



Sources: McKinsey & Company, Wilkofsky Gruen Associates

Over the past five years, consumer spending has accounted for 78 percent of the total increase in global media spending. Over the next five years, however, the contribution of consumer spending to overall growth will drop to 67 percent. The overall decrease in consumer spending growth will be a powerful force behind our projected decline in overall global media spending growth, driven by the maturation of the broadband market. Excluding broadband, consumer spending will grow at a 3.2 percent CAGR over the next five years, down only slightly from the 3.5 percent CAGR experienced over the past five years.



Sources: McKinsey & Company, Wilkofsky Gruen Associates

5. **Resiliency of television.** Traditional television—comprising broadcast and multichannel advertising and pay TV subscriptions—is still the largest component of the traditional media market, generating 47.0 percent of total non-digital media spending in 2015. As with non-digital media in general, however, traditional television is being threatened by digital competition. On the advertising side, digital advertising is attracting increasing resources and will continue to do so, with a projected 13.0 percent compound annual increase over the next five years. On the consumer side, emerging over-the-top digital alternatives are competing with traditional pay TV options. Nevertheless, traditional television continued to expand between 2010 and 2015, growing at a 4.8 percent CAGR. By contrast, the rest of the non-digital market declined at a 1.5 percent CAGR over the same period. Although competition from OTT and digital advertising is heating up, we expect traditional television will continue to expand, rising at a 3.6 percent CAGR over the next five years. We expect the rest of the non-digital market to continue to decline, although at a more moderate 0.8 percent CAGR.

Traditional television and other non-digital spending[1] (US $ millions)

Status	2010	2011	2012	2013	2014	2015p	2010–2015p CAGR	2016	2017	2018	2019	2020	2015–2020 CAGR
Traditional television[2]	326,214	343,933	364,342	379,530	399,320	412,269	4.8	429,223	440,159	458,461	472,088	491,926	3.6
Other non-digital media	499,961	491,798	481,861	475,063	467,127	464,725	-1.5	459,073	453,304	449,690	447,605	446,086	-0.8
Total	826,175	835,731	846,203	854,593	866,447	876,994	**1.2**	**888,296**	**893,463**	**908,151**	**919,693**	**938,012**	**1.4**

[1]At average 2015 exchange rates.
[2]Consists of mobile broadband, mobile advertising, mobile video games, audio digital streaming, consumer magazine digital circulation spending, daily newspaper digital circulation spending and electronic consumer books.
Sources: McKinsey & Company, Wilkofsky Gruen Associates

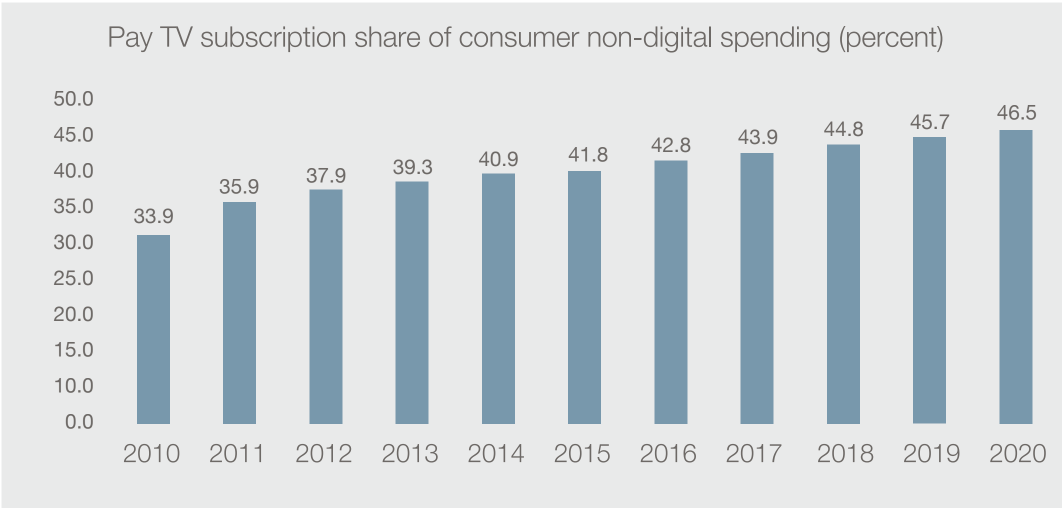
Traditional television has done relatively well because it still has the largest reach of any medium. Its audience has shown very little erosion compared with other non-digital media. In the case of television advertising, digital media have served as more of a complement to traditional television than as a substitute. Advertisers are combining television with digital in integrated campaigns, with traditional television providing rapid reach and digital media offering sophisticated targeting. The emergence of addressable television advertising, in which ads can be tailored to individual neighborhoods or even individual households, will enhance targeting and help keep television an attractive option for advertisers. Looking solely at non-Internet advertising, television accounted for 56.0 percent of the total in 2015, up from 49.2 percent in 2010. We project that traditional television advertising will account for 61.9 percent of total non-Internet advertising by 2020.

Global non-Internet advertising shares by category (percent)

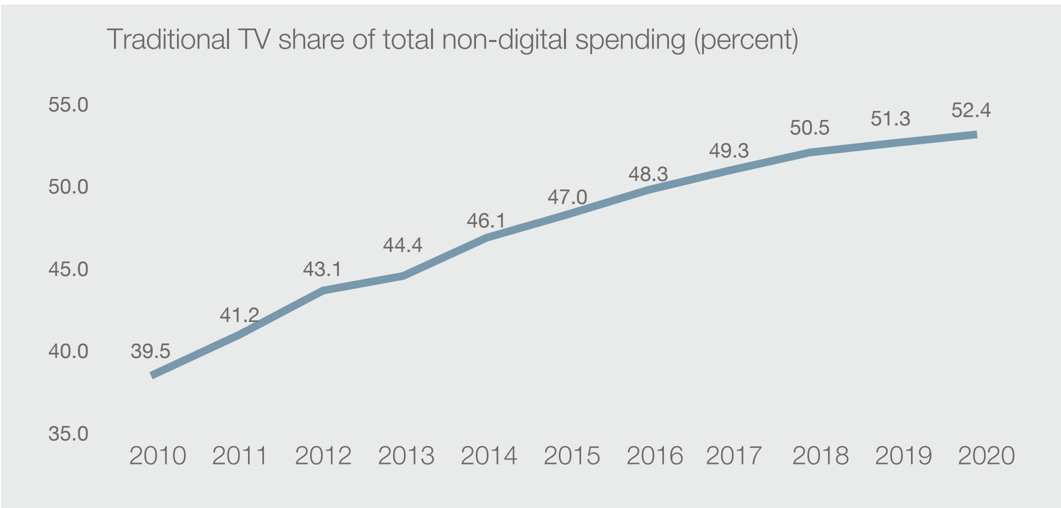
Category	2010	2011	2012	2013	2014	2015p	2016	2017	2018	2019	2020
Audio[1]	9.6	9.6	9.6	9.7	9.7	9.8	9.6	9.7	9.4	9.3	9
Cinema	0.7	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	1.0	1.0
Consumer magazines[3]	7.5	7.5	7.0	6.6	6.2	5.8	5.4	5.2	4.8	4.5	4.2
Newspapers[3]	24.2	23.1	21.6	20.0	18.6	17.3	16.0	15.1	14.0	13.3	12.4
Out-of-home[2]	8.7	8.8	9.1	9.6	9.9	10.2	10.4	10.8	11.0	11.4	11.5
Television[1]	49.2	50.2	51.9	53.2	54.9	56.0	57.7	58.3	59.8	60.5	61.9

[1]Does not include online or mobile advertising.
[2]Includes digital out-of-home advertising.
[3]Print only.
Sources: McKinsey & Company, Wilkofsky Gruen Associates

With respect to consumers, OTT has been adopted mostly as an add-on to the traditional pay TV subscription, rather than a replacement. Consequently, pay TV subscription spending has continued to grow. Its share of total consumer non-digital spending rose to 41.8 percent in 2015, up from 33.9 percent in 2010. As OTT becomes more of a presence, we do expect it will affect pay TV growth. Nevertheless, we still expect the pay TV subscription share of total consumer non-digital spending to continue to increase, rising to an estimated 46.5 percent by 2020. The traditional television share of total non-digital spending will therefore increase to an estimated 52.4 percent in 2020, from 47.0 percent in 2015.



Sources: McKinsey & Company, Wilkofsky Gruen Associates



Sources: McKinsey & Company, Wilkofsky Gruen Associates

Methodology for Global Industry Overview

- Recent trends in industry performance are analyzed and the factors underlying those trends are identified.
- The factors considered include economic, demographic, technological, institutional, behavioral, and competitive factors, as well as other factors that may affect each of the entertainment and media markets.
- Models are developed to quantify the impact of each factor on industry spending. A forecast scenario for each causative factor is then created and the contribution of each factor on a prospective basis is identified.
- Spending is counted at the consumer or end-user level, not at the wholesale level, and includes retail markups when applicable. Advertising spending is measured net of agency commissions.
- In addition to annual spending figures, we also present data that are measured at a single point in time, such as TV subscriptions, Internet subscriptions, mobile subscriptions, and newspaper unit circulation. In those instances, we show annual averages rather than year-end totals, as annual averages more accurately represent the impact of these figures on annual spending.
- Figures are reported in nominal terms, reflecting actual spending transactions, and therefore include the effects of inflation. Because all figures are shown as actual spending, with the effects of inflation included, nominal GDP growth has an important influence on media spending.
- Figures are estimated in local currencies for each country and then converted to US dollars using the average 2015 exchange rate, which is held constant for each historical year and forecast year. This means that the figures reflect industry trends, rather than being distorted by fluctuations in international exchange rates.

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