



## 2016 Top Markets Report **Media and Entertainment**

### Overview and Key Findings



This is the second edition of the *Media and Entertainment Top Markets Report* that projects export and licensing opportunities through 2019 in seven countries – Brazil, Canada, China,

Germany, India, Mexico and the United Kingdom – and two additional trading regions. This edition includes an assessment of the impact of the Trans-Pacific Partnership (TPP) and opportunities in 10 of the 11 markets for U.S. exports. Lastly, a snapshot of four Nordic countries was included due to interesting developments in those digital markets. Twenty-seven markets were evaluated in order to develop this report. This report highlights opportunities for U.S. exporters and notes important developments in digital licensing in the Media & Entertainment (M&E) sector. The report also identifies trends in the rapidly evolving digital media and entertainment industry in the United States. It analyzes the continued growth of the industry in select global markets, the drivers of future export competitiveness, and the impact of intellectual property policies and piracy on growth. The report focuses on four sub-sectors in the field of media and entertainment: filmed entertainment (film, television and video); music; publishing and video games, with an emphasis on digital media and licensing; and to a lesser degree, the physical marketplace and product exports.

Demonstrating major contributions of uniquely American culture, the United States boasts the largest global share of M&E earnings for film, music, book publishing and video games. In 2016, China will become the second largest market, followed by

Japan, Germany and the United Kingdom. The U.S. M&E market represents a third of the global industry and will reach approximately \$771 billion by 2019, up from \$632 billion in 2015, according to the 2015 - 2019 Entertainment & Media Outlook by PriceWaterhouseCoopers (PwC).

This report discusses segments of the M&E sector of businesses that produce and distribute motion pictures, television programs and commercials along with streaming content, music and audio recordings, broadcast, radio, book publishing, and video games.

#### **U.S. Media & Entertainment Landscape**

As a marketplace, the United States is larger than Asia, Europe, Latin America or the Middle East-North Africa for media and entertainment.<sup>1</sup> The U.S. M&E industry is concentrated on the two coasts: in the greater Los Angeles community and in New York City, with regional hubs for each of the four sub-sectors in this report. Increasingly, there is convergence between the entertainment, media and communications, and high-tech industries, and therefore, existing hubs are expanding, and new hubs are evolving.

#### *Filmed Entertainment*

The U.S. filmed entertainment sector enjoyed a trade surplus of \$16.3 billion in 2014 (latest available data) and is the most lucrative filmed entertainment territory in both global production and consumption. As a global leader, U.S. industry hubs are concentrated in Hollywood and Los Angeles, California, and New York City, with a cluster of smaller hubs across several states that specialize in production facilities, filming incentives (for both domestic and foreign firms), and hubs for sub-sectors that produce film, TV or digital

streaming content. Many foreign industry representatives also maintain offices in these cities.

The U.S. film industry posted \$10.3 billion in revenues in 2015, with box office receipts growing at a steady rate of 7 percent over 2014 when the industry experienced a decline, while streaming grew 15 percent in 2015; by 2019 both sectors will be valued at \$12.6 billion, according to PwC. Streaming of electronic home video grew over 13 percent in 2015 to \$4.4 billion.

While Hollywood still produces impressive blockbusters, major funding is more difficult to come by, and the industry is simultaneously moving to many different formats as consumers no longer rush to the cinema to see a movie. Consumers can now watch films on multiple devices any time they wish to do so and practically anywhere in the world. Consumers want an experience, and they want to take that experience with them to share and discuss on social media.

Many of the leading motion picture studios are part of larger media conglomerates that often include television, video and streaming services, music services, newspaper, cable, and magazine segments, and many of these constitute online content. The industry offers attractive possibilities for foreign investors, both large and small, and provides film production and related tax incentives.

Across all creative content sectors, there are opportunities for investment and growth both in (1) partnerships, production and tax discounts in many U.S. states and (2) the creation of TV formats and content for streaming. With the shift toward digital production and distribution, foreign firms are seeking out U.S. digital and animation expertise in all new formats. Drawing on formidable strengths, the U.S. film industry has a proven ability to produce blockbuster movies that generate hundreds of millions of dollars, including revenues from distribution across strong domestic and international networks. Success in the industry is based on creativity and financing, and the industry is largely self-regulated. For example, the Motion Picture Association of America rates movies by age-appropriate content according to a voluntary system,<sup>1</sup> and the government does not generally interfere in the film production and distribution business in the United States.

## *Music*

The U.S. recording industry (including concerts and touring) will continue to experience slow growth after decline or tenuous growth in the preceding seven years - from \$15 billion in 2015 to \$15.8 billion by 2019. The story about the music industry is complicated. Live and digital streaming music are growing by 4.5 percent to \$8.7 billion and 11.2 percent to \$1.9 billion, respectively, during the research period. This is a reflection of consumer interest in major festivals like Coachella and other live performances where tickets are sold, as well as streaming music on demand, anywhere, anytime. The consumer continues to impact trends while artists and businesses seek to monetize consumer preference. Physical music sales will decline from \$2 billion to \$1.4 billion by 2019, and mobile music will decline from \$46 to \$16 million – a trend seen elsewhere in the world. There are interesting developments in the streaming market since (U.S.) Apple Music joined the streaming music services business last year and now has half the amount of subscribers as (Swedish) Spotify. Although Spotify is still the largest streaming service in the market, this is generally good for competition.

While the United States is still the largest global music market and it is essential for a company interested in global operations to establish a presence in the highly diverse U.S. music market, competition is strong from European and Asian markets. With the digital revolution in this sector, winners and losers have emerged. The latest conversation centers on the “value gap” created by digital platforms and multichannel networks that offer content for free while utilizing copyright exemptions; some see this as an infringement and loss of revenues for content creators who are unable to monetize their legitimate content, while others see it as free mass marketing online, which in turn should yield significant income over the long haul. It is a tension between tech giants and creative industries. Major music hubs are concentrated in Los Angeles, New York City, Nashville and Miami. While NYC and LA represent the industry broadly, Nashville’s music industry is centered on the country genre, while Miami’s industry is centered on Latin, electronic dance music and hip-hop.

## *Publishing*

Book publishing reached \$60 billion in 2015, including professional, educational and consumer segments. Consumer books cover the largest sector, and while education books have the highest growth in the United States, this varies by country.

The U.S. publishing sector is the largest in the world and three times as large as Germany's, for example. By 2019, digital publishing will account for 45 percent of all publishing. Print publishing is declining rapidly in the United States and in most parts of the world, as indicated by the demise of the major book store chains. Interestingly, Amazon has now opened physical book stores (for both physical and e-books) as the industry explores what consumers want most -- a digital or physical experience.

E-books and eReaders have not taken off at the speed expected. Consumers like devices that have multiple capabilities so that they can read, listen to music or the news, and maybe even stream a favorite show, while texting all at the same time.

## *Video Games*

The global video game industry has evolved to become a \$100 billion industry that is constantly innovating and bringing new applications to market. The traditional gaming sector includes video games on PCs and game consoles that can connect to TVs and have portable hardware. Today's consumer has access to multiple devices, whether mobile or tablets and more, to access and play video games. The sector also comprises the physical (disc-based), digital games, online games, various subscription services and downloaded games, mobile games, and virtual reality and augmented reality (VR/AR).

The industry has evolved quickly in the social and casual gaming sector, where live competitions have become massively popular and e-sports is a popular trend. Electronic sports, also known as esports or e-sports, includes competitive (video) gaming, professional (video) gaming, and pro-gaming, where the players play against each other like in a chess game, with a live audience, whether in huge stadiums or online. Esports has rapidly developed a cult following and is expected to post earnings at around \$621 million in 2016.

The U.S. games sector is witnessing a high growth period and constitutes a big industry on the West Coast of the United States, with California and Washington leading the way, followed by Texas and New York, with major game developer hubs in Massachusetts, Illinois, Florida, Oregon, Colorado and Pennsylvania.

The international marketplace offers opportunities to sell digital games across multiple platforms, including digital console, digital PC, mobile and online games, whereas physical PC games are in decline worldwide (but still earn good money even as demand shrinks from the heyday of physical gaming).

## **Key Insights for 2016**

- Consumer as Creator & Industry Driver
- Technology facilitates Development
- Industry is Surprisingly 'Analogue'
- Devices as Industry Drivers
- Streaming & Video: OTT/VOD
- Augmented & Virtual Reality
- Multichannel Networks
- Convergence of Industry
- Some Physical Markets Still Survive
- Piracy Persists

In 2016, a few trends are standouts. Consumers are increasingly creating content and concepts that become popular on YouTube or other multichannel networks, which have earned many a creative novice global (online) fame overnight. Consumers also keep an estimated five devices or media applications running at any given time. Included in those five are the following media sources, pages, apps and devices described in this list of what consumers visit either via desktops or on their mobile: <http://www.smartinsights.com/mobile-marketing/mobile-marketing-analytics/mobile-marketing-statistics/>.

In the chart below, you can see the hours and minutes U.S. consumers spend on various platforms per day, according to the following age groups: Millennials (18-34), Generation X (35-49) and Baby Boomers (50-67).<sup>ii</sup> For example, baby boomers still enjoy listening to AM/FM radio, while millennials spend much more time on game consoles than baby boomers do. Millennials are arguably more comfortable with multimedia devices than baby

boomers that grew up on traditional print and analogue TV media. It is one illustration of the digital era and how consumers in any age group are

adopting new technologies that enable them to contribute to and affect trends in the media and entertainment sectors.

Chart: “Hours and Minutes spent by Consumers on Media and Entertainment”  
Nielsen Insights 2016<sup>1</sup>

## MONTHLY TIME SPENT BY MEDIUM AMONG USERS, (HH:MM)

	MILLENNIALS		GENERATION X		BABY BOOMERS	
	Q4 2014	Q4 2015	Q4 2014	Q4 2015	Q4 2014	Q4 2015
Live+DVR/Time-shifted TV	103:53	95:39	136:32	132:49	182:14	184:01
DVR/Time-shifted TV	20:29	18:02	25:37	25:01	28:38	28:20
AM/FM Radio	52:32	51:01	63:22	61:55	69:08	68:51
DVD/Blu-Ray Device	12:10	13:00	9:43	9:25	9:21	9:23
Game Console	31:49	37:36	13:34	17:02	10:36	12:07
Multimedia Device	26:19	30:33	19:14	22:13	17:54	20:50
Internet on a PC	33:57	42:13	38:33	41:59	32:16	39:32
Video on a PC	15:24	17:49	12:14	13:42	8:30	9:44
App/Web on a Smartphone	54:03	57:51	51:52	53:08	38:17	39:34
Video on a Smartphone	2:30	3:09	1:36	1:54	1:01	1:22

Read as: In Q4 2015 Millennials spent 51 hours and 1 minute per month listening to AM/FM radio.  
Source: Nielsen

Copyright © 2016 The Nielsen Company

Consumers also want quick access to media and entertainment and the ability to share with ease. While the content matters, the technology platform matters equally, as does the software or networks that enable the transfer. Consumers seek meaningful content, so localization and keeping it locally relevant is as critical as ever.<sup>iii</sup> This is key for any exporter or licensor. It is not enough to translate your content in to a local language; the content has to be culturally relevant as well.

Technology and digital expansion facilitates the development and distribution of the various sectors, although the industry is surprisingly ‘analogue.’ To date, the media and entertainment sectors are not as nimble as the platforms they operate on and their

technology counterparts, whether it be small or large companies, like Google or Amazon.

The proliferation of devices to consume content on and get access to subscription or streaming services has caused a major disruption in the global M&E market place – and in some or demographic groups, consumers have completely cut the cord (i.e. no phone landlines, no cable subscriptions, no physical newspapers or books). This has had an impact on the entire business model, from production to distribution, to subscribership and viewership, especially on certain traditional media, and has boosted digital media channels and device sales.

Similarly, filmed entertainment and video content have affected the offerings of streaming services,

which have disrupted traditional TV and film sectors. Consumers can access and view content anytime and anywhere. This practice has disrupted older business models that rely on ticket sales at the box office or subscriptions to TV services and have been replaced by Internet TV streaming services, as is the case worldwide, or pirated content in many markets.

Augmented and virtual reality has become the latest trend not only within the videogame industry, but on television, in movies, online, and in other non-entertainment sectors, such as education and healthcare. The boundaries of reality are being tested. There is an unprecedented convergence of M&E sectors leading to new channels and challenges for business executives, creators and artists who

seek to monetize the use of M&E services and content.

Although the industry is strongly trending toward digital production, distribution and consumption, some countries still have a strong physical market. This translates into excellent export opportunities for the M&E sectors that still produce books, CDs, consoles and DVDs, but the trends vary. Certain markets have a short term demand for physical M&E products in certain sectors, and while other markets may see growth in physical, digital is growing much faster. Some of these countries have more traditional local market stalls where physical is traded, but increasingly consumers seek out smart phones and the content that comes with it. Piracy continues to plague the industry.

### **International Intellectual Property Alliance**

The IIPA is a private sector coalition, formed in 1984, of trade associations representing U.S. copyright-based industries working to improve international protection and enforcement of copyrighted materials and to open foreign markets closed by piracy and other market access barriers.

IIPA's five member associations appear below and represent over 3,200 U.S. companies producing and distributing materials protected by copyright laws throughout the world—computer and video games for video game consoles, personal computers, and the Internet; theatrical films, television programs, DVDs and home video and digital representations of audiovisual works; music, records, CDs, and audiocassettes; and fiction and non-fiction books, education instructional and assessment materials, and professional and scholarly journals, databases and software in all formats.

Members of the IIPA include Association of American Publishers, Entertainment Software Association, Independent Film & Television Alliance, Motion Picture Association of America, and the Recording Industry Association of America.

The IIPA offers detailed explanation of M&E industry concerns in their 2016 Special 301 Report, available to the public.

Visit: [www.iipa.com](http://www.iipa.com)

## A Glance at the Top Seven Media & Entertainment Export & Licensing Markets

### 1) *United Kingdom*

The United Kingdom landed in the top export spot in this report as it is one of the largest and more robust M&E marketplaces with steady, reliable growth; relatively fewer trade barriers; and as an English speaking country, easy for American exporters to navigate.

### 2) *China*

China came in second and may have come in first due to the sheer size of the market and market potential were it not for the fact there are serious market access barriers due to censorship rules on cultural content sectors, including Internet, TV, film, music, radio, text messaging, games, newspapers, books and print media; significant import restrictions; joint projects that have foreign direct investment (FDI) caps; and co-production requirements for Sino-foreign partnership, which renders the final product or service (i.e. film) more than 50 percent Chinese.

### 3) *Canada*

Canada ranked as the third top market given the size of the market, the long standing and significant trade relationship, and the close proximity to the United States, as well as a well-developed professional sector that makes trading easier and more efficient for U.S. exporters. However, there are also trade barriers for American businesses in Canada.

### 4) *India*

In the fourth slot, India offers a growing middle class of high-tech savvy consumers and a new president who has promised to grow innovation sectors. This is also a very challenging marketplace, with trade barriers and high piracy threats and uncertain implementation of laws that govern the M&E sectors.

### 5) *Brazil*

Ranked number five, Brazil is one of the most desirable markets presently for U.S. M&E firms. This is also a large and growing marketplace, with remarkably difficult business practices. It was chosen despite numerous trade barriers and very high taxation on foreign M&E providers, because Americans wish to trade in

this market and U.S. content and industry know-how are in very high demand.

### 6) *Mexico*

The sixth top market is Mexico, which has a booming M&E sector in addition to being America's immediate neighbor and the second largest media market in Latin America. As a developing economy, there are many challenges for U.S. businesses, but for early adopters and Spanish language content, there is a lot of opportunity, especially on TV and streaming sites.

### 7) *Germany*

As the last of the top seven markets in 2016, Germany was added due to its sophisticated, global market business place that is also highly digitally enabled. While the regulatory environment is onerous for U.S. businesses, it has the potential for reliable and solid business deals in a marketplace that values brands and quality, which U.S. firms are known to deliver.

## Introducing the Trans-Pacific Partnership (TPP) Media & Entertainment Export & Licensing Markets

Excluding the United States and Brunei (the latter is not discussed in this report due to insufficient data available), there are 10 TPP partner countries constituting a potential \$308 billion M&E market in 2016. As a result of the Agreement, increased intellectual property rights protections and more open distribution channels as well as increased access to smartphones and broadband will benefit M&E sectors in all 12 TPP markets, including the United States and Brunei.

## Snapshot of Four Nordic Media & Entertainment Export & Licensing Markets

The Nordic countries researched for this report are Denmark, Finland, Norway and Sweden. These are smaller but robust markets for certain segments of M&E export and licensing opportunities. These markets will be worth approximately \$11.7 billion by 2019, up from \$9.8 billion in 2014.<sup>iv v</sup> There is growth potential for multiple sectors within the entertainment industries in each of the Nordic countries, yet these markets can be expensive to do business in and are mature with high penetration rates in each subsector.

## The Four Sector Studies in the Top Markets Report

### Filmed Entertainment

For the purpose of this report, filmed entertainment refers broadly to film production, movie-going, video on demand and traditional television. The transition to digital production, distribution and consumption is radically changing filmed entertainment consumption behaviors, with varying results and opportunities for U.S. businesses in each market. Filmed entertainment is rapidly moving towards digital streaming and satellite models, and movies or movie-going as we knew it 10, 20 or 30 years ago will soon be a case for the history books. There are good growth trajectories in TV production and licensing, especially for streaming content in all of seven top markets.

Many of the top 25 markets offer film incentives, such as tax credits, in an effort to lure U.S. film production overseas. However, smaller studios are advised to consider language, local players, infrastructure, professional labor, and regulatory, cultural and other matters when filming in some emerging economies.

Movie-going is extremely popular in emerging markets such as Brazil, China and India, and in the more developed markets, there is a leveling off for box office receipts as consumers also opt to view movies on personal devices in addition to visiting movie theaters. Depending on the source consulted, all of the seven top markets are amongst the top 10 to 20 countries in spending on movies worldwide.

### Music

The music industry is always challenged to monetize and has good growth potential in several markets but is persistently challenged by losses due to piracy, which are difficult to quantify, and by consumers who wish to listen to music on multiple devices for free. The industry is asking itself how it can compete with free.

Music intersects with technology, creating a tug and pull in the industry between the Internet and social media giants that promote and market music for free and streaming services. Some criticize the tech giants for not remunerating artists sufficiently, as witnessed in the high profile case where Taylor Swift withdrew her music from Spotify entirely. Many of

the top markets have regulatory environments that protect local creative content in the name of protecting culture and language but at the expense of growth in the marketplace. There is a lot of volatility in the music sector, and innovators are seeking the next big trend that will once and for all settle the issue of monetization and paying for copyright content.

Mobile music has seen a spectacular fall in most markets and no longer promises strong sales, although ringtones and ring back tones are still popular in some markets. Mobile music is on the decline in every market studied for this report, with the exception of China, the Netherlands, South Korea and Turkey. It is hard to say if the mobile growth trends will sustain other than in China and the Netherlands, which reported very good growth trajectories despite major growth in streaming or downloading music. In the context of mobile production, mobile film and video production and the use of mobile in entertainment sectors are on the rise worldwide.

### Publishing

Between 2015 and 2019, publishing will grow at about 1.3 percent to reach \$128.3 billion and will be led by India, which is emerging as the 10<sup>th</sup> largest book market. Nigeria and Peru will see higher growth in education publishing as their governments invest in education, as will be the case for many markets. Sales of educational books will outpace consumer and professional books. Digital continues to grow with less contraction in the print sector. In any case, printed materials are still preferred for sharing in classrooms and are still sold as used books.

E-readers have not become as popular as analysts predicted because many consumers and students still prefer the physical book. Instead, tablets are driving digital publishing, as the portability of tablets has made them an instrumental tool in growing digital publishing across consumer, educational and scientific books, so consumers can access a large selection of content at any time.

The United States, the United Kingdom, Singapore and South Korea will see e-books soar to 40 percent of publishing revenues due to the high rates of tablet access and ownership in those markets. As has been

the case for several years, print and audio book revenues will continue to decline, but the physical industry still enjoys 70 percent of total publishing revenues.

Video Games

The game sector is growing dramatically in nearly every market, and unless regulators decide to put the brakes on, the industry is set to take a bite out of

global M&E revenues. Revenue growth for the video game industry is growing faster than the filmed entertainment and music sectors in North America, Asia Pacific, Latin America, Western Europe and the Middle East-North Africa, although there are some variations by country. Only in Central and Eastern Europe does filmed entertainment lead over games and only by a small margin. The games sector is expected to see very strong growth in the Eastern European markets as well.

<b>1. United Kingdom</b>	<b>6. Mexico</b>	11. Russia	16. Sweden	22. Israel
<b>2. China</b>	<b>7. Germany</b>	12. Italy	17. South Africa	23. Norway
<b>3. Canada</b>	8. France	13. Japan	18. Switzerland	24. South Korea
<b>4. India</b>	9. Australia	14. Spain	19. Argentina	25. Singapore
<b>5. Brazil</b>	10. Colombia	15. Turkey	20. Netherlands	25. Kenya

\*U.S. Department of Commerce, International Trade Administration



### **Top Ten Entertainment Trends for the 21st Century\***

New digital technologies will reshape the economics, production, distribution, and marketing of the entertainment industry.

Traditional media enterprises must learn to adapt new Internet and computer technologies to maintain competitiveness.

The convergence of the Internet with TVs, telephones, kiosks, autos, and wireless devices will create many new media channels.

On-demand interactive entertainment content that is personalized for our preferences will be a standard feature.

Advanced virtual reality bundled with digital agents and holographic entertainment worlds will transform our experience of entertainment.

Movie theaters will receive digital broadcasts and satellite downloads of movies, video conferencing, and other interactive programming.

Faster, smarter and more powerful multimedia communications devices will enhance our capacity for producing and distributing entertainment.

Digital TV will provide new programs where we will experience real-time participation with the media content, personalities, and shows.

Edutainment, the merger of entertainment and education, will offer a new genre of programming that will be greatly in demand.

Nontraditional entertainment producers, will change the industry, offering new products, channels, and innovations.

*\*Source: Institute of Global Futures*

<sup>i</sup> MPAA Film Ratings: <http://www.mpa.org/film-ratings/>

<sup>ii</sup> Their Generation: From Location to Listening Habits a Media Divide Exists According to Age: <http://www.nielsen.com/us/en/insights/news/2016/their-generation-from-location-to-listening-habits-a-media-divide-exists.html>

<sup>iii</sup> Pricewaterhouse Coopers, "Global media and entertainment outlook," [http://www.pwcmediaoutlook.com/global\\_data\\_insights.php](http://www.pwcmediaoutlook.com/global_data_insights.php)

<sup>iv</sup> Pricewaterhouse Coopers, "Global media and entertainment outlook," <http://www.pwcmediaoutlook.com/dataexplorer>, accessed 1/19/2016.

<sup>v</sup> Pricewaterhouse Coopers, "Global media and entertainment outlook," <http://www.pwcmediaoutlook.com/dataexplorer>, accessed 1/19/2016.