



2016 Top Markets Report **Media and Entertainment** Country Case Study

Germany

Germany's M&E industry will grow from \$113.2 billion in 2015 to \$121.9 billion by 2016 and is the third largest entertainment market in the world after the United States and China. It is a digitally-forward and media rich market place with a love of culture and books. Germany's real GDP is set to grow 1.5 percent between 2014 and 2019; the World Bank ranked Germany 14th in its ease of doing business survey for 2015. It has the second largest trade show market worldwide, including Gamescom and Frankfurt Book Fair, which are the largest globally in each sector. TV is the largest of the M&E sectors discussed in this report, followed by books, film, video games and music¹.

Overall Rank

7

Ranking of the German M&E Sectors 2016

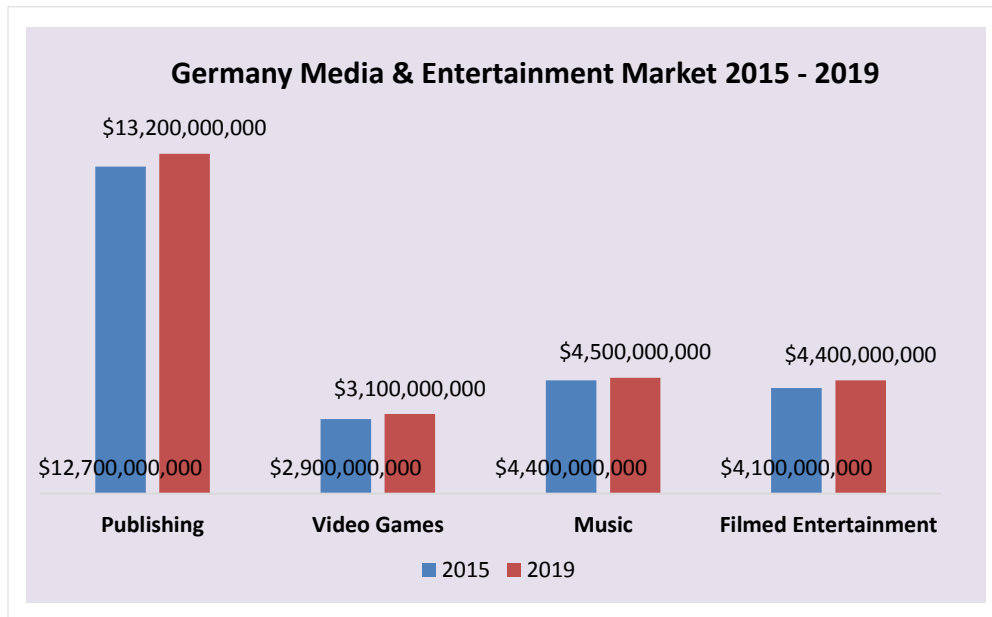
1. Video Games
2. Filmed Entertainment
3. Publishing
4. Music

Germany ranks seventh on the Top Markets list. Positive factors such as a strong economy and strong growth across the digital content sectors are offset by the relative slower growth trajectories projected for individual M&E sectors, including an almost universal decline in sales of physical entertainment and the high cost of doing business in general. Germany is supported in the top markets group due to its stronger economic forecast compared to other markets in this research. Germany is the largest B2B market in Europe and the second-largest worldwide after the United States.

Overview of M&E Market

Amongst the four broad M&E sectors researched, book publishing and TV subscriptions are the largest media market segments in Germany at \$12.7 and \$12.4 billion respectively. TV is growing more than twice as fast as publishing and is expected to be the strongest segment by 2019, but the real story is about the digital sectors and new platforms, such as video on demand and video games and eSports.

With electronic professional books growing at 11.5 percent, e-education at 14.2 percent and e-consumer at 19.5 percent, a whole new industry is emerging to support a highly digitally enabled society that has the resources and the education and knowledge to take full advantage of new technology developments and modes of accessing and viewing content. This does not mean Germans are turning away from hard copy books; the country boasts 3,500 book stores, more book stores per capita than in the United States.



* Data Sourced from PwC Global Media & Entertainment Outlook 2014-2018

The one digital sector which is not fully developed and holds huge potential for U.S. content and licensing providers for is video on demand and electronic home video. As Europe’s largest music market, physical sales still prevail and are expected to hover around \$1 billion by 2019 despite the worldwide move to digital and streaming music services, which has a 28 percent growth trajectory from 2015 to 2019. Digital PC games and microtransactional games online are leading the way as popular video games, and by 2019, microtransactional online console games will account for half of PC game revenues. However, five years from now, the physical console game sector, declining as it is, will still hold a much higher value at over \$1 billion, while microtransactional online consoles will nearly double to \$202 million.

Opportunities for U.S. Companies

Filmed Entertainment

The filmed entertainment sector, which includes movies and box office revenues, film production, video distribution, electronic home video and more, will grow at a sluggish pace between 2015 and 2019 to reach \$4.4 billion, up from \$4 billion in 2014. It is symbolic for Germans to have exceeded the €1 billion mark and remain there. Filmed entertainment took a double hit in 2014 as Germany’s iconic soccer

(i.e. football) fans tuned in to see Germany win the Cup and from a shortage of blockbusters on the market.

Both U.S. and German films are highly successful in theatres, demonstrating appetite for both Hollywood blockbusters and European indie flicks with arguably more Continental themes that tend towards a more serious script than some of the commercial blockbusters. Box office revenues will reach \$1.6 billion by 2019 (3 percent CAGR), but in a trend seen across mature, Western markets where the physical sectors are experiencing serious declines, this will still be less than the total physical home video market at \$1.8 billion in 2019.

Over the top streaming (OTT) is making serious inroads, including via TV subscriptions, growing at up to 20 percent during the years researched. Specifically, the market measured \$398 million in 2015 (from \$319 million in 2014) and will reach \$682 million by 2019.

Given the erstwhile digitally forward marketplace, electronic home video is lagging behind physical and will reach \$853 million in 2019, under half of the physical home video revenues that year. The majority of these revenues will come from OTT/streaming to reach \$682 million by 2019, significantly up from \$319 million in 2014. Of those

earnings, TV on demand will rise 20.6 percent from \$126 million in 2014 to \$321 million in 2019, and SVOD will reach \$360 million by 2019, up from \$193 million in 2014, a CAGR of 13.3 percent.

In 2013, only 25 percent of German homes had video on demand (VOD) – compared with 80 percent of U.S. homes – which explains the data and highlights excellent opportunities for U.S. licensors, producers and distributors to enter the German market. Netflix launched in 2014. With 29.4 million broadband homes and an under-developed pay-TV market, this could be a very lucrative market for subsidiary service providers and other content providers. German pay-TV platform Sky Deutschland is a direct competitor to Netflix, however, and is creating its own original content. So, the jury is out on exactly how successful other entrants will be. In addition, Sky Europe reaches 20 million viewers on the continent and is growing, presenting additional competition to U.S. entrants. Another pan-European distributor in the German market is French-owned Wild Bunch.

Germany is also a prolific film co-production market, and the German government subsidizes the industry. In addition, Germany has seven film funds investing in film production. The upside is the market is flush with professional workers and local talent to support international partners and projects.

Music

Germany's music market was valued at \$4.4 billion in 2014, with a relatively small increase expected at roughly half a percentage point to reach \$4.5 billion in 2019. This is Europe's largest music market, although the UK is considered among industry experts to be the most influential market in Europe for musicians – as is the U.S. market for new artist discovery. Germany has a resilient physical music retail sector, something that has largely disappeared in the United States. Physical recorded music accounted for about a third of the German market at \$1.4 billion in 2014, and this segment is declining and is expected to post at \$1 billion in 2019, thanks to the devoted consumers of CDs and vinyl.

Music Licensing in Germany

The way Germany handles music licensing and music publishing rights is sometimes seen as an obstacle

for further market growth and a hindrance to market entry. As a trustee accredited by the government, the "Gesellschaft für musikalische Aufführungs- und mechanische Vervielfältigungsrechte" (Association for musical performance and copyrights – GEMA; www.gema.de) claims that it attempts to ensure that anyone who composes music, writes music lyrics or publishes works of music receives reasonable payment whenever such works are performed in public, broadcast, reproduced or used in any other way. While GEMA recognizes that this right to receive adequate payment is regulated worldwide by national copyright laws and international agreements, it sees itself as a member-driven association ensuring the right for adequate payment for its members.

As of this date, the dispute between GEMA and YouTube, which centers around the question of whether YouTube is a streaming provider of music and as such would have to pay license fees to authors of music via GEMA, is still ongoing and will be decided in German courts.

Digital recorded music revenues reached \$511 million in 2014, compared with \$934 million in the UK. It is expected to rise to \$904 million by 2019 and is a very strong growth trajectory that will correspond to 47.3 percent of total recorded music revenue in Germany. Streaming revenues were at \$165 million in 2014, expected to reach \$573 million in 2019, when it will account for 63.3 percent of Germany's digital recorded music revenues. Streaming data from paid-subscription services were integrated into the Federal Music Industry Association (BVMI) official singles charts at the beginning of 2014. The live music market posted roughly \$2.5 billion in revenues and is growing exponentially. By 2019, this segment of the industry should reach \$2.65 billion. "Initiative Musik" is funded by the government to assist the German industry with domestic and overseas export projects.

Publishing

Germany is the second largest book market in the world after the United States and is the second largest market in Europe after the UK for English language books. Culturally, printed books are a deep-rooted part of German life. The German publishing sector offers a high degree of quality and diversity, and market performance is stable overall.

In fact, more books are published worldwide in the German language each year than in any other language with the exception of English and Chinese. According to the German Publishers and Booksellers Association (Börsenverein des Deutschen Buchhandels, www.boersenverein.de), Germany published 87,314 new titles and translations into more than 40 languages in 2014.

The book market in Germany is evolving. Publishers are grounded in the print sector while also developing digital publishing strategies, and physical bookstores are still performing consistently better than online trade. In Germany, 49.2 percent of books are sold through traditional book stores that do not have an e-commerce presence. Publishers selling directly are the second-largest distribution channel at 20.4 percent of the market, followed by online sales at 16.2 percent, other sales outlets at 9.9 percent, mail order at 1.7 percent, and department stores and book clubs at 1.3 percent each.

Market segments include fiction (32.4 percent), children's and young adult books (15.8 percent), advice/guide books (14.9 percent), science books (11.2 percent), non-fiction (10.1 percent), educational books (9.2 percent), and travel books (6.5 percent). German-language books imported from Germany also dominate book sales in Switzerland and Austria, where more than 80 percent of publications sold are imported. By 2019, total consumer book revenues are expected to grow to \$7.11 billion in Germany (compared to \$6.55 billion in 2014), and consumers are expected to read more books on smartphones, tablets and e-readers.

E-Books

The German e-book market is one of the most profitable in the world. In 2014, e-books accounted for 8 percent of all book sales and are expected to increase to 15.7 percent by 2019, according to PwC. A quarter of the German population reads e-books on a daily basis. Overall, the industry appears positive and confident, despite a 2.2 percent dip in sales in 2014. The decline is attributed to the lack of bestsellers. In 2014, the top 10 bestsellers on the book market generated 20.2 percent less than in 2013. Germans use more varieties of hardware than North Americans for reading e-books: statistically, 41 percent of Germans use laptops to read, followed by 38 percent smartphones usage, compared to typical e-readers usage such as the Kindle, Kobo or Tolino.

The private user market for e-books is dominated by fiction, which accounted for 84 percent of all e-book sales in 2014.

One deterrent to buying e-books in Germany is that they cost just a few euros less than the print version. In Germany, publishers decide the price of all books, including e-books. The book market is governed by the "Buchpreisbindung" (the fixed book price agreement), which means that every book has a fixed price and that there are no discounts for big chains or online sales.

Print books are predicted to remain the format of choice for German educators. E-books have gained little traction in the German educational book market with just 2.6 percent of total educational book revenues. Print books are likely to remain the format of choice for German educators. Some 87 percent of German students learn English as a second language in school, according to 2013 Eurostat data. Approximately eight million school children are enrolled in English language courses, and all primary schools in Germany are now required to provide foreign language courses as part of their main curriculum starting in third grade. English is the most widely spoken foreign language in Germany. According to a study by the European Commission, over half of Germans age 15 and older are able to converse in English. This puts Germany well ahead of the European average for this age group and creates a robust English-language book market place.

Publishing export and licensing guidance:
The number of rights and licenses sold remained stable in 2014 with 6,443 licenses sold worldwide, compared to 6,466 in 2013. China licensed the most German books with 983 licenses, followed far behind by English-language titles in second place with 450 licenses. Children's and young adult titles were the most popular with 2,362 licenses sold (36.7 percent), followed by fiction with 1,197 licenses (18.6 percent).

Sales of U.S. books in Germany fall behind those of UK books by a relatively wide margin. Several factors contribute to this: the UK is an English-speaking market in close proximity to Germany and partially as a result of the creation of the EU's single market in 1993 and the resulting trade advantages for the UK. British materials are used in German classrooms consistently at the elementary and intermediate level, and only at the advanced levels are teachers

and students free to choose their reading material. Another contributing factor may be the gradual and ongoing reduction of an American military presence in Germany.

Literary agents in Germany, as in the United States, are often the most successful way to source a buyer/distributor/licensor in the German market. There is a special section at the Frankfurt Book Fair just for agents, where licensing and translation rights are bought and sold (LitAg Center/Rights Center). The Fair is the largest for the publishing industry worldwide, and the Commercial Service of ITA offers international partner search, B2B matchmaking, and Gold and Platinum Key Services at the fair every October.

Video Games

Germany has a robust and dynamic video game sector with revenues expected to reach \$3.2 billion by 2019, up from \$2.85 billion in 2014. Unlike many other markets, German gamers seem willing to pay relatively high prices for their video game products, with price comparison sites suggesting that console games cost as much as 20 percent more in Germany than elsewhere in the region, while PC titles cost up to 33 percent more. Germany is active in game development and publishing with companies such as Crytek, Bigpoint Games, Travian Games, Gameforge, Ubisoft Blue Byte and Nintendo of Europe based in the country.

In addition to traditional platforms, Germany has a number of social and casual game developers. German game developer Innogames earned over \$100 million in 2014 after switching from developing browser-based games to app-based mobile games.

Germany's PC market is the second largest in Europe after the UK. PC games revenue will reach \$1.08 billion by 2019, up from \$968 million in 2014 as digital distribution and online/microtransaction games become more popular. With the rise of Steam and Origin and fewer PC games sold in stores, sell-through revenues have declined substantially. In addition, the free-to-play model is very attractive to consumers – such as World of Tanks and League of Legends. As a result of these developments, the digital PC games sector will jump from \$460 million in 2014 to \$603 million by 2019, when this revenue will account for 56 percent of total PC gaming revenues. This trend is not unique to Germany; it is

very similar in the United States and worldwide.

The free-to-play model is driving revenue increases in social/casual gaming. App-based social/casual gaming brings in the largest revenue share (\$84 million in 2014) in this category, and free-to-play is clearly very popular. These games are primarily enabled by high smartphone and tablet ownership rates and have attracted different demographics than gamers on traditional platforms. App developers have tapped in to monetization models, which will support growth at a rate of 8.4 percent up to \$126 million by 2019.

Browser-based gaming is on the decline in Germany as social gaming, in particular, transfers to app-based iterations and social networking increasingly takes place on mobile devices. Browser-based social/casual gaming revenue reached a peak in 2013, at \$28 million, and declined in 2014. By 2019, it will have decreased further to \$26 million as the migration to app-based gaming continues. Nonetheless, that number still translates into an impressive market.

Total social/casual gaming revenue will increase from \$112 million in 2014 to \$152 million in 2019, a CAGR of 6.3 percent over the forecast period. Revenue for these kinds of games largely depends on the size of the audience playing them since very few players will purchase items in-game. Despite developers becoming more sophisticated in their monetization models, conversion rates will remain low, and games will rely on reducing churn and recruiting new players to grow revenues. Across the entire market, revenue increases will be gained by drawing in players who have not tried social/casual gaming before, such as those buying their first smartphone or tablet, as well as convincing those existing paying players to spend more money on social/casual, either in one game or in smaller amounts across larger numbers of games.

Germany hosts one of the world's largest video game trade shows, Gamescom, which takes place every August in Cologne. In 2015, Gamescom organizer Koelnmesse reported that more than 345,000 visitors attended from 96 countries. Among the group were 35,200 trade visitors, while more than 700,800 exhibitors showcased their products.

Challenges Facing U.S. M&E Exporters

Challenges in this market lie within copyright law and rights management. Also, there is a high cost of doing business in Germany with its famously high standards and emphasis on brands and top quality.

Guidance and Resources for Exporters

The following information is intended to provide guidance and resources for U.S. exporters looking to sell their services in Germany.

- Typical buyers, licensors and distributors of M&E in Germany might include state and federal government, small and medium sized private companies, and large private companies.
- Preferred business strategies to enter/expand in the market might include agreeing on distribution and setting up an office in country with local data centers.
- Common trade barriers to enter/expand in the market might include that most multinational German vendors have set up their own regional or local office in country. It is a cost of doing business in the local market as many potential clients, especially federal government agencies, insist on their data remaining in Germany. Companies should expect some significant competition from local vendors.
- U.S. Department of Commerce Country Commercial Guide:
www.export.gov/ccg/germany090798.asp

Industry Associations

- American Chamber of Commerce in Germany
www.amcham.de
- FFA-Filmförderungsanstalt – German Federal Film Board
www.ffa.de/ffa-overview-1.html
- Organization for the Voluntary Self-regulation / Film Classification Board of the German Film Industry
www.spio-fsk.de/?seitid=1&tid=1
- Bundesverband Musikindustrie
www.musikindustrie.de/
- Industry Association Börsenverein des deutschen Buchhandels
www.boersenverein.de/de/394814
- Industry Association: GAME Bundesverband e.V.
<http://game-bundesverband.de/>
- Bundesverband Interaktive Unterhaltungssoftware
www.biu-online.de/en/start.html
- German Trade Association of Interactive Entertainment Software (BIU):

- The Federal Government Commissioner for Culture and the Media of the German Federal Government
www.bundesregierung.de/Content/DE/_Anlagen/BKM/2014-11-06-english-summary.pdf;jsessionid=9DA39E7B0E91F328185C66F6F8343299.s7t2?_blob=publicationFile&v=1

Trade Shows

Filmed Entertainment

- Berlinale, February 9-19, 2017
www.berlinale.de/en
- Cinec München, September 17-19, 2016
www.cinec.de/en/

Music

- Musikmesse Frankfurt, April 5-8 2017
<http://musik.messefrankfurt.com/frankfurt/en/besucher/willkommen.html>

Publishing

- Frankfurt Book Fair, October 19-23, 2016
www.bookfair.com
- Leipzig Book Fair, March 23-26, 2017
www.leipziger-buchmesse.com/?language=en

Video Games

- Gamescom Köln, August 17-21, 2016
www.gamescom.de/gamescom/index-8.php
- Dreamhack Leipzig, January 13-15, 2017
<http://dreamhack-leipzig.de>