

Move over content and distribution, user experience is king

PwC's 'Entertainment and media outlook: 2017 - 2021: An African perspective' foresees content and distribution moving aside as user experience takes centre stage. The report was launched yesterday at Urban Brew Studios in Johannesburg.



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Amid shifting consumer preferences, rapid advances in technology and ongoing disruption to business models, the new strategic imperative for entertainment and media (E&M) companies is to turn customers into fans, by innovating to create the most compelling, engaging and intuitive user experiences.

Significant shifts are underway in how Africa's E&M companies compete and generate value, as the quality of the experience they deliver to consumers becomes their primary basis for strategic differentiation and revenue growth. To thrive in a marketplace that is increasingly competitive and crowded, companies are focusing on implementing strategies and building capabilities to engage with consumers, according to the [report](#).

By 2021 total E&M revenue in South Africa is expected to reach R177.9 billion, up from R132.7 billion in 2016. Internet access remains the key growth driver and will account for R27 billion of this increase. The fastest growing sectors will be virtual reality (VR) and e-sports compounded annually at 72.6% and 39.6%, although these segments are still new revenue lines and remain the smallest in terms of absolute revenue numbers. Although overall growth in revenue will hold up, it is expected to slow down by the end of 2021.

The Outlook is a comprehensive source of analyses and five-year forecasts of consumer and advertising spending across five countries (South Africa, Nigeria, Kenya, Ghana and Tanzania) and 14 segments: Internet, data consumption, television, cinema, video games, e-sports, virtual reality, newspaper publishing, magazine publishing, book publishing, business-to-business publishing, music, out-of-home, and radio.

“Companies that wish to capture value amid shifting consumer preferences and business model disruptions must focus on an increasingly prominent source of competitive advantage: the user experience. They must harness technology and data to attract, retain and engage users—and convert them into devoted fans,” says Vicki Myburgh, Entertainment and Media Industry Leader for PwC Southern Africa. These imperatives assume a larger importance because, as we document in the Outlook, the entertainment and media industry is confronting several challenges to continued top-line growth.

Digital spend will continue to drive the overall growth. Nearly 40% of total spend will be derived from Internet access in revenue. South Africa’s mobile Internet penetration is forecast to rise to 77.8% by the end of 2021 from 52.3% in 2016. This increased Internet penetration will drive mobile Internet access revenues, which are projected to grow by a CAGR of 10.7% to nearly R62 billion.

South Africa can expect a CAGR of 7.2% for consumer revenue over the forecast period, rising from R87.4 billion in 2016 to R123.7 billion in 2021. The largest contributor will be Internet access, with a 48% share in 2016 rising to 56% in 2021.

South Africa continues to remain the largest TV market on the African continent, with total revenues of R40.9 billion in 2016. The total TV market is estimated to be worth R51.2 billion by 2021. At this time, end-user spending (Pay-TV subscriptions, physical and Internet home video and license fees) will account for 56.7% of the total TV market.

The video game market is also performing well and revenue is forecast to grow at a CAGR of 15.4% to reach R5.4 billion in 2021, up from R2.6 billion in 2016. The primary growth driver in the video games market is social/casual gaming revenue, which will be worth R3.7 billion by 2021. Furthermore, the console and PC markets are experiencing a significant shift towards digital and online/micro transaction revenue, which will exceed physical sales for the first time in 2020.

The growing interest in gaming is helping to fuel the rapid growth in the related segment of VR and e-sports. As a segment that only reached consumers in 2016, almost the entire VR market is new. According to the Outlook, the consumer VR content market will be worth R455 million by 2021. Of this, R282 million will be spending on VR video.

Alongside video, the B2B market is showing continued growth. In 2016 revenues grew by 3.8% to R9.7 billion and by 2021 this is forecast to rise to R11 billion, a CAGR of 2.6%. The slowdown in growth is largely attributable to ongoing macroeconomic challenges which are likely to weigh on B2B revenues.

The South African cinema sector currently presents a mixed picture. Overall revenue, including box office and cinema advertising, is expected to reach R2.2 billion in 2021, up from R1.9 billion in 2016. South Africa continues to be an attractive destination for international filmmakers. Although some short-term economic and political issues are impacting the film sector, it is expected in the long term to continue to expand.

South Africa’s music industry is on a growth curve with live music being a key driver. Live music revenue is expected to rise from R1.2 billion in 2016 to R1.7 billion in 2021, a CAGR of 7.4% over the forecast period.

It is notable that only one digital subcomponent is seeing a significant decline in the entire Outlook – digital music downloading revenue, which is forecast to see a -15.7% CAGR, as consumers shift from ownership to access. Digital music streaming revenue is forecast to rise at a CAGR of 34.5% to 2021, reaching R518 million in that year. This growth rate is only beaten by new revenue lines from VR and e-sports.

Among the largely non-digital segments, magazines and newspaper revenue are set to continue their decline. Total newspaper revenue in the South African newspaper market has been unpredictable. The market showed growth in 2013, declined in 2014 and bounced back marginally in 2015, contracting at a slower rate. In 2016, total newspaper revenue was

worth R8.9 billion, but this figure is forecast to drop to R7.4 billion in 2021. Marginal growth is expected for the book publishing industry over the next five years. The educational book market will contract by a -0.1% CAGR. On the contrary, professional titles and consumer books will exhibit some growth as e-book revenues continue to grow.

The report shows that South Africa's total entertainment and media advertising revenue is expected to rise to R54.2 billion by 2021 from R45.3 billion in 2016, representing a 3.7% CAGR. TV advertising remains dominant, but in terms of absolute growth it is Internet advertising that is almost an equal contributor, helped by a sizeable 12.9% CAGR.

Myburgh says: "It is clear that something fundamental has changed in the entertainment and media industry. E&M companies that have become accustomed to competing and creating differentiation, based primarily on content and distribution, need to focus more intensely on the user experience. The marketplace has increasingly become more competitive, slower-growing and dependent on personal recommendations.

"Thriving in this new world of intense competition and continual disruption will be challenging. The opportunities are, however, immense. Across the industry, the resulting quest to create the most compelling, engaging and intuitive user experiences is now the primary objective for growth and investment strategies, with technology and data at the centre.

"Accordingly, companies will need to develop strategies to engage, grow and monetise their most valuable customers: their fans."

Nigeria

In terms of total E&M revenue, Nigeria is one of the fastest-growing countries in our Outlook, but this figure must be treated with caution, as a huge proportion of that growth comes from Internet access revenue alone—specifically mobile Internet access revenue. Of the US\$2.8 billion that the Nigerian market will add between 2016 and 2021, all but US\$452 million will come from Internet access revenue. The combined elements of TV and video will add nearly US\$200 million in revenue growth to 2021.

Kenya

The E&M industry was worth US\$2.1 billion in 2016, up 13.6% on 2015. Revenue is forecast to grow at an 8.5% CAGR over the next five years, hitting the US\$3 billion mark in 2020, and totaling US\$3.2 billion in 2021. Internet access is the most established industry within the Kenyan market, boasting the largest revenues and one of the highest growth rates to 2021.

Ghana

Ghana's E&M industry is beginning to gear up. In 2012, total revenue was just at US\$214 million, but four consecutive years of year-on-year growth above 25% have led it to revenues of US\$685 million in 2016. This is forecast to more than double over the next five years, with revenues of US\$1 billion being surpassed in 2019 and a total of US\$1.5 billion forecast for 2021, thanks to a 16.5% CAGR.

Tanzania

Tanzania's total E&M revenue stood at US\$504 million in 2016, but is set to more than double to US\$1.1 billion in 2021, a 17.2% CAGR over the coming five years. The symbolic crossing of the US\$1 billion mark is set to occur in 2021. This is significant growth from 2012 where the industry stood at just US\$175 million.