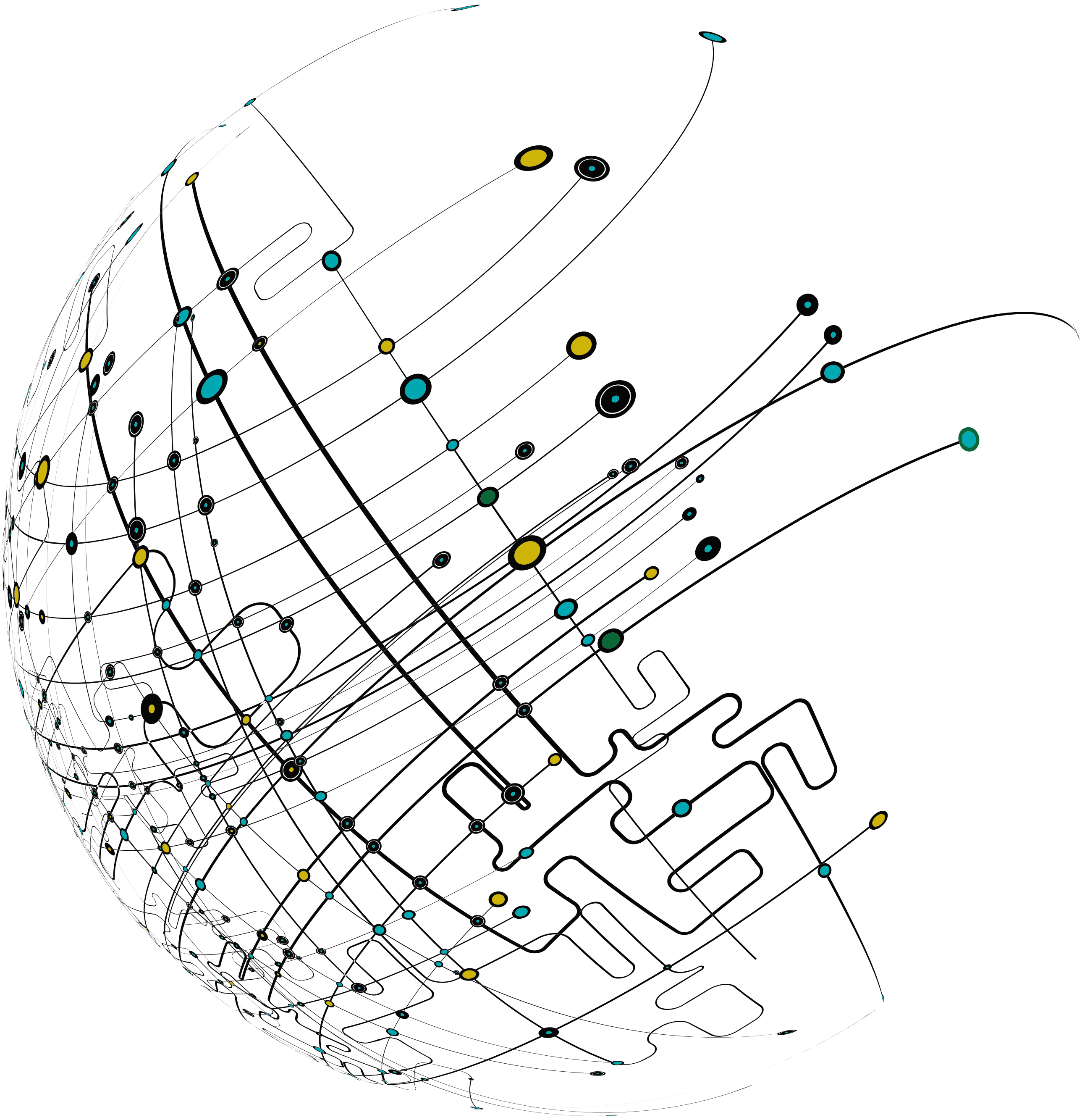
McKinsey&Company

Global Media Report 2014

Global Industry Overview



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 second 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 2008 through 2013, with forecasts from 2014 through 2018. 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 2014 is just one of the tools we have developed to help our clients better navigate this landscape.

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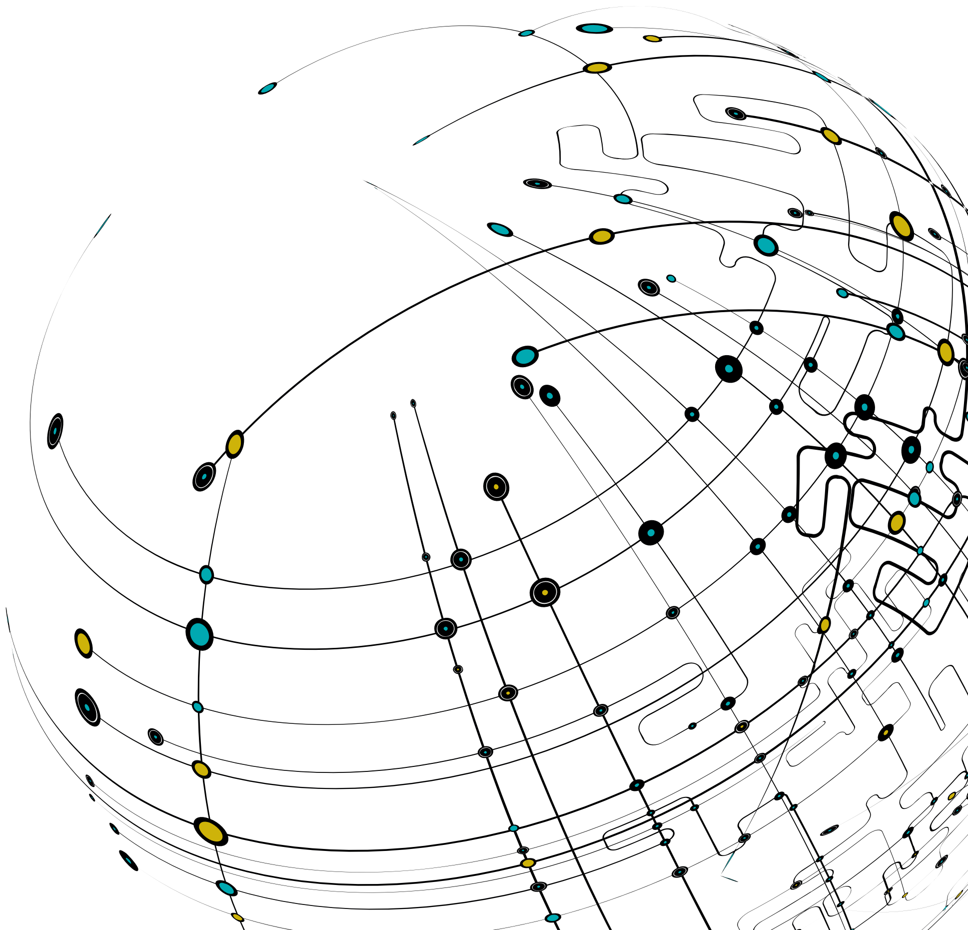


Global Media Report 2014

We are pleased to present McKinsey & Company's Global Media Report 2014. The report provides annual historical data from 2008 through 2013, forecasts from 2014 through 2018, and an analysis of the underlying trends driving the forecasts. Data is provided on a country-by-country basis for 12 major media categories and numerous subcategories.

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

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

Introduction

The media industry is undergoing rapid change along the entire value chain, propelled by continuously rising consumer demand, digital technology, ubiquitious connectivity and evolving devices. Even as one form of media's growth slows or loses relative share, another takes its place, gaining our attention with new modes of digital interaction, mobility, or social networking. And, while technology has always been a driver of change in this sector increasing digitization has escalated the speed of its transformation.

As a result, new trends are emerging at rapid speed around social media, mobile devices, wearables, cloud computing, real-time bidding, micro-transactions, and programmatic buying just to mention a few. These trends alter the way we access, consume, and pay for our media, creating endless consumer choices, from infinite device options to a choice of print vs. electronic, linear vs. on-demand, free vs. pay, own vs. rent, and transactional vs. subscription. Even when consumers choose to access their media for "free," they will increasingly "pay" with their digital footprint as their online behavior is monitored and more and more advertising messages are often targeted in real time.

The associated business model changes are profound, given that digital technology empowers companies to reduce the boundaries between the individual steps in the value chain: aggregators and content producers are pursuing direct-to-consumer opportunities, distributors are moving into content production, and hardware producers are offering integrated solutions—combining devices, operating systems, and content access on one platform. Digital developments are also propelling the advertising industry, both in the largest categories and in a myriad of niches, from digital out-of-home to cinema and in-game advertising—helped along by even the smallest economic improvement. In fact, digital advertising is soon projected to overtake TV advertising, a development perhaps unforeseen even ten years ago.

Not all these new trends, technologies, and business models will survive, but many are here to stay— and some will disrupt the media value chain. What does it mean for the industry? While there are plenty of challenges arising from digitization, some of the most pressing include:

Growing complexity along numerous dimensions. Audiences are fragmenting and media companies will need to expend more effort to attract and manage these audiences, along a plethora of platforms and content owners. Advertisers are increasingly valuing deep engagement and an audience niche over pure volume. Sophisticated editorial processes, content management, and cross-channel audience measurement will be essential to success.

Digital technology empowers consumers, giving them more control over their media consumption and their information sources. Depth of content and flexibility is driving engagement and loyalty as users often choose to spend more time exploring content from fewer providers. Yet, many media companies have not taken the opportunity to offer customized products and solutions to their audiences in this digital world. Thinking beyond the traditional content bundle or subscription and offering à la carte options may be a necessity to create sustainable business models of the future.

Building sustainable, truly vertically integrated value chains might become a reality. A number of media owners who control consumer access platforms have shown an appetite for moving into content provision, whether by acquiring rights, a pre-existing library or acquiring content production. These players potentially have the power to disrupt the more traditional author-producer relationship. In response, we believe that incumbents will likely need to defend their turf, continuing to invest in creative development and talent acquisition.

Managing "big data" and understanding the implications will become a critical advantage. There are many opportunities for media companies to capture data to use it for the benefit of both themselves and their audience. For example, a print media business can benefit from predictive churn analysis, cable operators can use data to optimize bundled offerings, and content producers may draw conclusions for the development of new commissions by analyzing viewer data. While media companies have a vast amount of consumer data at their disposal, understanding and analyzing the data efficiently and effectively will be pivotal to success for some.

Creating authentic experiences continue to matter, even in a digital world. Perhaps not surprisingly, we still have a positive outlook for those media companies that are involved in live or events-based businesses. There are many examples, from the steady growth of concerts and festivals to strong box office performance. In spite of the threat of OTT, live TV shows are extremely popular in many countries, not to mention sporting events, which tend to have powerful audience appeal and strong brand impact. Where possible, media companies should take advantage of the “live” phenomenon and provide consumers with unique and premium experiences connected to their propositions—experiences that are difficult to replicate in the digital world.

As change continues and choices proliferate, the need for accurate and comprehensive information only grows. We hope that our Global Media Report 2014, summarized here, will help companies better navigate the evolving media landscape and make the most appropriate choices for the future.

Global Industry Overview

While there are large disparities between sectors and equally large disparities between regions, the global media industry as a whole has been remarkably stable over the past five years. Global spending rose 6.2 percent in 2013, the fourth consecutive year of increases in the 5.9 to 6.5 percent range. We forecast that global growth to remain stable over the next five years, varying in the 6.1 to 6.8 percent range, with an overall compound annual increase of 6.4 percent to 2018.

Current state of the sectors

Looking across the global media industry, many of the disparities in sector growth are explained by the ongoing transition towards digital provisional spend. Digital advertising and broadband were the fastest-growing segments in 2013, increasing 18.5 percent and 12.8 percent, respectively, followed by video games at 9.9 percent. Both digital advertising and broadband are entirely digital and video games are largely digital, while out-of-home advertising—at 5.1 percent, the only other segment to grow by more than 5 percent in 2013—is benefiting from the expanding footprint of digital boards. By contrast, the print-oriented segments were the weakest performers. Consumer magazine publishing and newspaper publishing each declined in 2013, while educational publishing and consumer books rose by 1.5 percent or less. Taken together, the four print-oriented segments fell by 1.4 percent. The remaining segments expanded at modest rates in 2013. TV advertising, audio entertainment, and cinema each rose by 3 percent or more, while in-home video entertainment grew by 4.6 percent.

Outlook for sector spending

We expect digital advertising, broadband, and video games to continue to lead the way as the fastest-growing segments over the next five years, with projected compound annual increases to 2018 of 15.1 percent, 9.6 percent, and 9.3 percent, respectively. TV advertising, out-of-home advertising, and cinema will be the only other categories to grow by more than 5 percent on a compound annual basis.

The print-oriented segments will remain the weakest over the next five years. Consumer magazines will be lower in 2018 than in 2013, while educational publishing, consumer books, and newspaper publishing will grow at compound annual rates of 1.0 percent or less. Nonetheless, taken together, the four print-oriented segments will increase at a 0.3 percent CAGR over the next five years, an improvement compared with the past five years, when combined spending for the these four segments fell at a 2.2 percent CAGR.
Our expectation that these segments have bottomed out, reflect their expanding digital revenues as well as slower declines in the print market. In fact, consumer books and educational publishing posted small increases in 2013, and by 2016, we project newspapers and consumer magazines to return to growth.

Total global media spending will rise from US $1.6 trillion in 2013 to a projected US $2.1 trillion in 2018, a 6.4 percent increase compounded annually.

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

Category	2008	2009	2010	2011	2012	2013p	2008-2013 CAGR	2014	2015	2016	2017	2018	2013-2018 CAGR
Digital Advertising	59,619	61,870	73,447	88,035	103,806	123,041	15.6	144,259	167,755	193,310	220,363	248,661	15.1
Broadband	216,846	245,435	279,891	327,843	373,450	421,376	14.2	467,611	512,221	560,834	612,312	666,435	9.6
TV Advertising	153,350	142,137	158,924	166,564	175,770	181,117	3.4	195,229	202,321	220,741	230,429	250,011	6.7
In-Home Video Entertainment	229,988	237,282	247,389	258,880	270,590	283,084	4.2	296,490	311,168	325,943	340,694	355,112	4.6
Audio Entertainment	97,717	92,487	91,108	92,385	93,567	96,544	-0.2	96,376	98,009	100,337	102,965	106,049	1.9
Cinema	28,333	31,087	32,870	33,421	35,914	37,223	5.6	39,184	41,226	43,383	45,629	47,901	5.2
Out-of-Home	29,809	26,057	28,304	29,062	30,270	31,822	1.3	33,604	35,496	37,713	39,997	42,388	5.9
Consumer Magazine Publishing	77,197	68,638	68,689	68,088	66,225	64,045	-3.7	62,652	62,104	62,171	62,749	63,503	-0.2
Newspaper Publishing	178,597	159,632	160,971	160,366	156,710	152,792	-3.1	151,490	151,170	151,596	152,534	154,081	0.2
Consumer Books	71,417	70,898	71,024	70,674	70,574	71,454	0.0	71,958	72,532	73,130	73,635	74,084	0.7
Educational Publishing	40,174	39,371	40,357	40,877	40,072	40,664	0.2	41,414	42,290	42,623	42,778	42,820	1.0
Video Games	54,811	54,855	57,418	60,412	63,698	70,028	5.0	77,455	85,284	93,285	101,308	109,310	9.3
Total	1,228,742	1,220,463	1,299,110	1,383,177	1,465,057	1,555,351	**4.8**	1,657,096	1,757,935	1,877,723	1,994,064	2,124,455	6.4

[1]At average 2013 exchange rates.
Note: Television, audio, newspaper, and consumer magazine mobile 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

Among the different regions, the media industries in Latin America and Asia Pacific have been the fastest-growing for years and continued to be so in 2013, with Latin America increasing 9.7 percent and Asia Pacific rising 8.4 percent. High inflation in some countries and expanding economies have fueled growth in the region, although the gain in 2013 Latin America was actually the lowest of the past five years as the Brazilian economy weakened somewhat. In Asia Pacific, 53 percent of the increase in 2013 was generated by China; excluding China, growth for the region was 5.7 percent.

In contrast, EMEA has been the weakest region, growing 2.7 percent as a whole in 2013. Western Europe has fared the worst, continuing to lag behind the rest of the world in 2013, with a 1.2 percent gain that was well below the global average. This gain represented only a modest improvement from the area’s 0.5 percent advance in 2012. The rest of EMEA has fared much better, however, with Central and Eastern Europe rising by 8.7 percent in 2013, largely based on strong growth in Russia and Turkey, while the Middle East/Africa grew 10.9 percent.

The North American media market grew 6.8 percent in 2013, its largest gain in the past five years, driven by strong increases in digital advertising and broadband connectivity. Excluding those segments, spending in North America rose only 1 percent.

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 10.9 percent and 7.7 percent, respectively. As a result, Latin America and Asia Pacific together will account for 43 percent of total global spending by 2018, up from 40 percent in 2013.

EMEA as a whole will continue to be the slowest-growing region, rising at a projected 4.8 percent compound annual rate to 2018. Western Europe will increase just 3.4 percent compounded annually, although this growth will be an improvement over the past five years, as economies in the area are finally beginning to pick up. Stronger increases are expected in Central and Eastern Europe and the Middle East/Africa, with CEE rising 8.5 percent and MEA increasing 13.2 percent compounded annually.

We expect the North American media industry to grow at a slightly slower pace of 5.4 percent compounded annually from 2013 to 2018 as digital advertising and broadband markets continue to penetrate and growth begins to moderate, although helped to some degree by improving economic conditions.

These forecasts do not take into account political developments that could affect the economy and media spending. In Russia, for example, the prospect of sanctions could lead to a sudden slowdown in the economy, its strength and duration depending on how many countries participate and the length and severity of such sanctions.

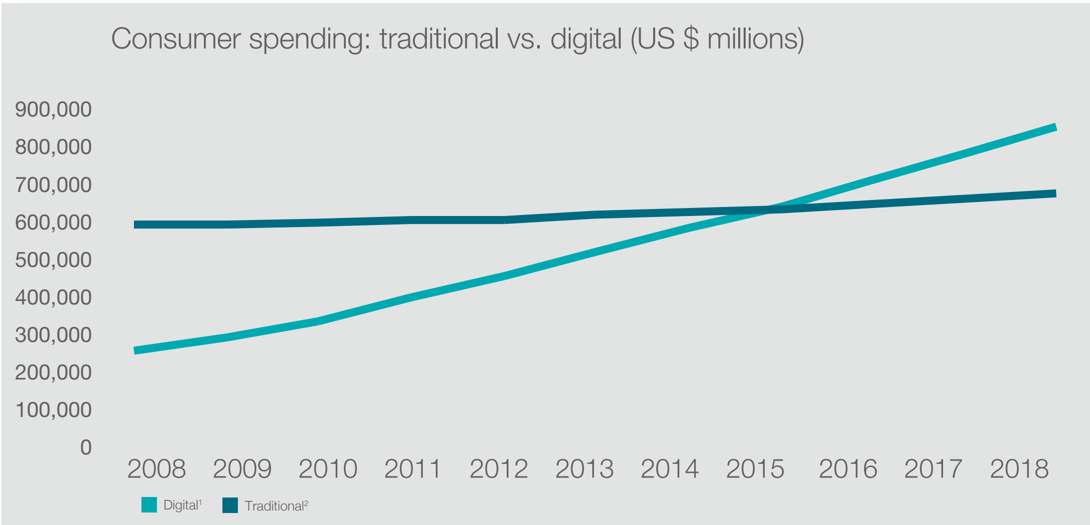
Total global spending by region[1] (US $ millions)

Region	2008	2009	2010	2011	2012	2013p	2008-2013 CAGR	2014	2015	2016	2017	2018	2013-2018 CAGR
North America	395,222	375,690	391,528	403,756	420,240	448,930	2.6	476,142	497,816	527,166	552,123	584,809	5.4
EMEA													
Western Europe	371,722	365,764	376,968	389,785	391,664	396,362	1.3	406,626	419,349	434,316	450,186	467,433	3.4
Central and Eastern Europe	39,399	38,571	42,612	48,268	52,191	56,715	7.6	61,425	66,936	72,735	78,935	85,462	8.5
Middle East/ Africa	19,430	20,095	22,756	28,320	31,582	35,012	12.5	39,871	44,727	50,977	57,722	65,203	13.2
EMEA Total	430,551	424,430	442,336	466,373	475,437	488,089	**2.5**	507,922	531,012	558,028	586,843	618,098	4.8
Asia Pacific	346,690	358,080	392,184	426,235	467,723	506,855	**7.9**	547,672	591,305	637,993	685,338	734,395	7.7
Latin America	56,279	62,263	73,062	86,813	101,657	111,477	**14.6**	125,360	137,802	154,536	169,760	187,153	10.9
Total	1,228,742	1,220,463	1,299,110	1,383,177	1,465,057	1,555,351	**4.8**	1,657,096	1,757,935	1,877,723	1,994,064	2,124,455	6.4

[1]At average 2013 exchange rates.
Sources: McKinsey & Company, Wilkofsky Gruen Associates

Consumer spending

Just as digital spending has driven the overall media market, it has also propelled consumer spending. Over the past five years, the digital components of consumer spending rose at a 15.0 percent CAGR compared with only 0.8 percent growth compounded annually for the traditional components of the market. We project digital consumer spending to continue to be the principal market driver, increasing by a projected 10.3 percent compounded annually to 2018, compared with a 1.8 percent projected CAGR for traditional consumer spending. Digital consumer spending will overtake traditional consumer spending in 2015 and will be 26 percent larger by 2018.



Sources: McKinsey & Company, Wilkofsky Gruen Associates

[1] Digital consists of spending on: broadband, transactional video-on-demand through TV subscription providers, 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, and mobile video games

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

Looking at individual segments, broadband is the dominant driver of consumer spending, accounting for 69 percent of the total increase in 2013 worldwide. While overall consumer spending rose 6.8 percent in 2013, the market rose by only 3.4 percent if we exclude broadband.

Going forward, we project broadband spend to grow at a 9.6 percent compound annual rate over the next five years, generating 65 percent of the total projected growth in consumer spending. We expect a healthy increase in video games as well, up by 8.9 percent compounded annually to 2018, fueled by growing online and mobile-games markets and a new generation of consoles. Cinema will advance at a 5.1 percent compound annual rate, in large part due to new screens and an expanding box office market in China. The remaining categories will achieve less than 5 percent growth compounded annually.

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

Category	2008	2009	2010	2011	2012	2013p	2008-2013 CAGR	2014	2015	2016	2017	2018	2013-2018 CAGR
Broadband	216,846	245,435	279,891	327,843	373,450	421,376	14.2	467,611	512,221	560,834	612,312	666,435	9.6
In-Home Video	229,988	237,282	247,389	258,880	270,590	283,084	4.2	296,490	311,168	325,943	340,694	355,112	4.6
Audio	65,316	64,580	61,396	62,189	62,867	65,594	0.1	64,742	65,567	66,948	68,524	70,442	1.4
Cinema	26,410	29,196	30,794	31,258	33,639	34,908	5.7	36,736	38,627	40,593	42,636	44,708	5.1
Consumer Magazines	44,246	42,099	41,365	40,670	39,707	38,342	-2.8	37,380	36,963	36,916	37,275	37,774	-0.3
Newspapers	71,997	71,334	71,958	72,042	72,163	71,736	-0.1	71,880	72,359	73,021	73,932	75,224	1.0
Consumer Books	71,417	70,898	71,024	70,674	70,574	71,454	0.0	71,958	72,532	73,130	73,635	74,084	0.7
Educational Publishing	40,174	39,371	40,357	40,877	40,072	40,664	0.2	41,414	42,290	42,623	42,778	42,820	1.0
Video Games	53,549	53,423	55,734	58,481	61,495	67,223	4.7	74,023	81,110	88,350	95,652	102,980	8.9
Total	819,943	853,618	899,908	962,914	1,024,557	1,094,381	**5.9**	**1,162,234**	**1,232,837**	**1,308,358**	**1,387,438**	**1,469,579**	**6.1**

[1]At average 2013 exchange rates.
Sources: McKinsey & Company, Wilkofsky Gruen Associates

Among regional growth trends, in Latin America, Central and Eastern Europe, and Middle East/Africa, consumer spending will grow faster than overall spending (which includes advertising spend) over the next five years, driven in large part by rapid growth in broadband, as these regions currently have less-developed broadband infrastructure. In North America, Western Europe, and Asia Pacific, by contrast, consumer spending will grow more slowly than overall spending, in large part reflecting maturing and more penetrated broadband markets.

Overall consumer spending will rise at a 6.1 percent CAGR to US $1.5 trillion in 2018, up from US $1.1 trillion in 2013. Within this, Latin America and Asia Pacific will be the fastest-growing regions, and Western Europe will be the slowest-growth region, while Central and Eastern Europe and Middle East/Africa will outpace Western Europe, as will North America.

Despite lagging behind the rest of the world, however, we do expect consumer spending in Western Europe to grow more quickly over the next five years as the economy improves, as will spending in North America. In contrast, growth in the remaining regions and areas will moderate despite the improving economy as they begin to come out of the broadband and digital development stage – characterized by high percentage increases from a small base – and markets begin to mature.

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

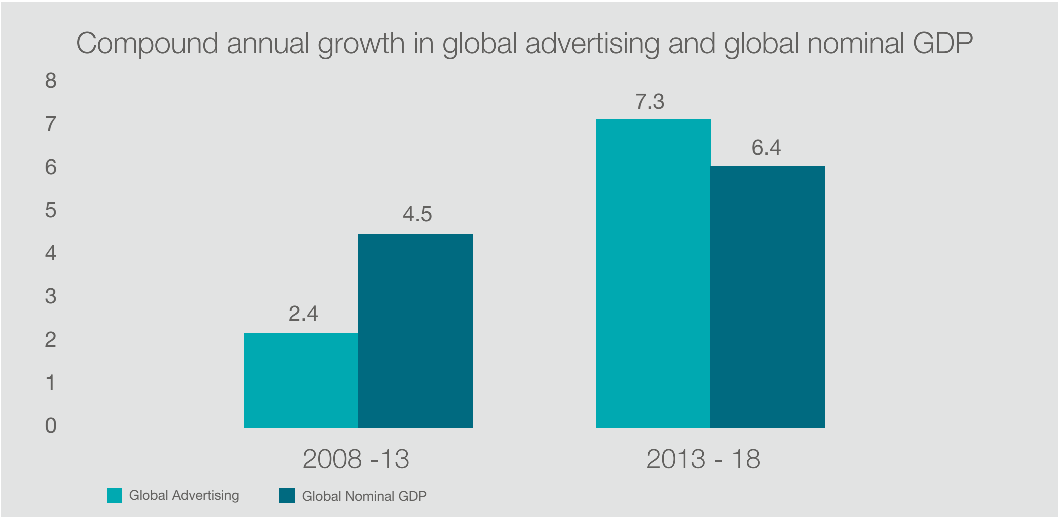
Region	2008	2009	2010	2011	2012	2013p	2008-2013 CAGR	2014	2015	2016	2017	2018	2013-2018 CAGR
North America	232,346	236,255	242,688	249,730	257,211	281,489	3.9	296,921	311,275	325,978	341,545	357,898	4.9
EMEA													
Western Europe	266,805	271,842	277,049	287,702	291,678	295,414	2.1	301,635	309,518	319,070	329,329	340,551	2.9
Central and Eastern Europe	25,665	27,437	30,142	34,173	37,088	40,339	9.5	43,784	47,832	51,980	56,460	61,181	8.7
Middle East/ Africa	11,238	12,977	14,931	20,719	23,852	26,758	18.9	30,869	35,172	40,640	46,747	53,286	14.8
EMEA Total	303,708	312,256	322,122	342,594	352,618	362,511	**3.6**	**376,288**	**392,522**	**411,690**	**432,536**	**455,018**	**4.7**
Asia Pacific	246,181	261,801	284,407	308,739	340,919	369,549	**8.5**	**398,158**	**428,073**	**458,452**	**489,405**	**520,337**	**7.1**
Latin America	37,708	43,306	50,691	61,851	73,809	80,832	**16.5**	**90,867**	**100,967**	**112,238**	**123,952**	**136,326**	**11.0**
Total	819,943	853,618	899,908	962,914	1,024,557	1,094,381	**5.9**	**1,162,234**	**1,232,837**	**1,308,358**	**1,387,438**	**1,469,579**	**6.1**

[1]At average 2013 exchange rates.
Sources: McKinsey & Company, Wilkofsky Gruen Associates

The advertising market

Economic sensitivity. Advertising is highly sensitive to the economy, generally growing more slowly than the market as a whole when the economy is weak and faster than the market when the economy is strong. Over the past five years, the 2.4 percent compound annual increase globally experienced in advertising was well below the 4.5 percent compound annual growth in nominal GDP.

With the global economy now expected to improve over the forecast period, we anticipate a concomitant improvement in advertising growth. We project global advertising to increase at a 7.3 percent compound annual rate, a bit faster than the projected 6.4 percent CAGR for nominal GDP.



Sources: McKinsey & Company, Wilkofsky Gruen Associates

Regional growth. Regions with the strongest economic growth – Latin America, Asia Pacific, and EMEA, excluding Western Europe – will also have the strongest advertising growth. These areas accounted for 42 percent of global advertising in 2013, but will generate 56 percent of the total increase in global advertising over the next five years, with spending rising at a 9.3 percent compound annual rate.

In Western Europe, advertising will grow at just over half that rate – 4.7 percent compounded annually – while advertising in North America will expand at a 6.3 percent CAGR, enhanced by an influx of sports and political advertising in 2018.

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

Region	2008	2009	2010	2011	2012	2013p	2008-2013 CAGR	2014	2015	2016	2017	2018	2013-2018 CAGR
North America	162,876	139,435	148,840	154,026	163,029	167,441	0.6	**179,221**	**186,541**	**201,188**	**210,578**	**226,911**	**6.3**
EMEA													
Western Europe	104,917	93,922	99,919	102,083	99,986	100,948	-0.8	**104,991**	**109,831**	**115,246**	**120,857**	**126,882**	**4.7**
Central and Eastern Europe	13,734	11,134	12,470	14,095	15,103	16,376	3.6	**17,641**	**19,104**	**20,755**	**22,475**	**24,281**	**8.2**
Middle East/ Africa	8,192	7,118	7,825	7,601	7,730	8,254	0.2	**9,002**	**9,555**	**10,337**	**10,975**	**11,917**	**7.6**
EMEA Total	126,843	112,174	120,214	123,779	122,819	125,578	**-0.2**	**131,634**	**138,490**	**146,338**	**154,307**	**163,080**	**5.4**
Asia Pacific	100,509	96,279	107,777	117,496	126,804	137,306	**6.4**	**149,514**	**163,232**	**179,541**	**195,933**	**214,058**	**9.3**
Latin America	18,571	18,957	22,371	24,962	27,848	30,645	**10.5**	**34,493**	**36,835**	**42,298**	**45,808**	**50,827**	**10.6**
Total	408,799	366,845	399,202	420,263	440,500	460,970	**2.4**	**494,862**	**525,098**	**569,365**	**606,626**	**654,876**	**7.3**

[1]At average 2013 exchange rates.
Sources: McKinsey & Company, Wilkofsky Gruen Associates

Digital expansion. Digital advertising is becoming a dominant force in the global media advertising market. Excluding the online and mobile components of TV advertising, in 2017 digital advertising will overtake TV, which for decades has been the largest advertising medium, and by 2018 digital advertising will be 8 percent larger. Even including the digital components in TV advertising totals, digital advertising will nearly reach overall TV advertising levels by 2018.

We project digital advertising to continue to increase at double-digit rates, growing 15.1 percent compounded annually to 2018 and accounting for 65 percent of the total increase in global advertising over the next five years. Most of that gain will come as advertisers substitute away from print media. Even including its digital components, we project global consumer magazine advertising to be flat and global newspaper advertising to be lower in 2018 than in 2013. The overall advertising market will grow from US $461 billion in 2013 to a projected US $655 billion in 2018.

Not counting the online and mobile advertising included in other categories, digital advertising will generate 38 percent of total advertising in 2018, up from 26.7 percent in 2013.

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

Category	2008	2009	2010	2011	2012	2013p	2008-2013 CAGR	2014	2015	2016	2017	2018	2013-2018 CAGR
Digital	59,619	61,870	73,447	88,035	103,806	123,041	15.6	144,259	167,755	193,310	220,363	248,661	15.1
Television	153,350	142,137	158,924	166,564	175,770	181,117	3.4	195,229	202,321	220,741	230,429	250,011	6.7
Audio	32,401	27,907	29,712	30,196	30,700	30,950	-0.9	31,634	32,442	33,389	34,441	35,607	2.8
Cinema	1,923	1,891	2,076	2,163	2,275	2,315	3.8	2,448	2,599	2,790	2,993	3,193	6.6
Out-of-Home	29,809	26,057	28,304	29,062	30,270	31,822	1.3	33,604	35,496	37,713	39,997	42,388	5.9
Consumer Magazines	32,951	26,539	27,324	27,418	26,518	25,703	-4.8	25,272	25,141	25,255	25,474	25,729	0.0
Newspapers	106,600	88,298	89,013	88,324	84,547	81,056	-5.3	79,610	78,811	78,575	78,602	78,857	-0.5
Video Games	1,262	1,432	1,684	1,931	2,203	2,805	17.3	3,432	4,174	4,935	5,656	6,330	17.7
Total	408,799	366,845	399,202	420,263	440,500	460,970	**2.4**	**494,862**	**525,098**	**569,365**	**606,626**	**654,876**	7.3

[1]At average 2013 exchange rates.
Sources: McKinsey & Company, Wilkofsky Gruen Associates

Global advertising shares by category (percent)

Category	2008	2009	2010	2011	2012	2013p	2014	2015	2016	2017	2018
Digital	14.6	16.9	18.4	20.9	23.6	26.7	29.2	31.9	34.0	36.3	38.0
Television[1]	37.0	38.1	39.0	38.6	38.6	37.7	37.6	36.4	36.4	35.3	35.1
Audio[1]	7.9	7.6	7.4	7.1	6.9	6.6	6.2	6.0	5.7	5.5	5.2
Cinema	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Out-of-Home[2]	7.3	7.1	7.1	6.9	6.9	6.9	6.8	6.8	6.6	6.6	6.5
Consumer Magazines[2]	7.7	6.9	6.5	6.1	5.5	5.0	4.5	4.2	3.8	3.5	3.2
Newspapers[2]	24.7	22.6	20.7	19.4	17.5	15.9	14.5	13.4	12.3	11.4	10.5
Video Games	0.3	0.4	0.4	0.5	0.5	0.6	0.7	0.8	0.9	0.9	1.0

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

TV vs. digital. Despite the rapid growth of digital, television's share of total advertising continues to hold up at 37.7 percent in 2013, up from 37.0 percent in 2008, although down from the five-year peak of 39.0 percent in 2010.

Looking only at non-Internet advertising, in fact, television is a relative stalwart. Its share of non-digital advertising increased from 43.4 percent in 2008 to 51.5 percent in 2013 and is projected to rise to 56.6 percent by 2018. Viewing time and audience reach for the media overall have been fairly stable, which has helped sustain advertising spend levels.

Global non-Internet advertising shares by category (percent)

Category	2008	2009	2010	2011	2012	2013p	2014	2015	2016	2017	2018
Television[1]	43.4	45.9	47.8	48.9	50.5	51.5	53.1	53.5	55.0	55.4	56.6
Audio[1]	9.2	9.1	9.1	9.0	9.0	9.0	8.8	8.8	8.6	8.6	8.4
Cinema	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8
Out-of-Home[2]	8.5	8.5	8.7	8.7	9.0	9.4	9.6	9.9	10.0	10.4	10.4
Consumer Magazines[3]	9.1	8.3	7.9	7.7	7.2	6.9	6.4	6.1	5.7	5.5	5.2
Newspapers[2]	28.9	27.1	25.4	24.5	22.9	21.8	20.4	19.7	18.6	17.9	17.0
Video Games	0.4	0.5	0.5	0.6	0.7	0.8	1.0	1.2	1.3	1.5	1.6

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

As digital growth continues apace, we project TV's share to drop to 35.1 percent by 2018. Newspapers will experience the largest share decline, however, falling from 15.9 percent in 2013 to 10.5 percent in 2018.

Audiences are essential. The share of total advertising for out-of-home has also increased, buoyed by the growth in digital assets that are increasing the effective inventory and expanding the reach of out-of-home advertising to more locations. We expect further share gains during the next five years as the reach of OOH advertising continues to expand.

We also look for share gains for the small video games and cinema advertising markets, while shares for audio entertainment and the print media will decline.

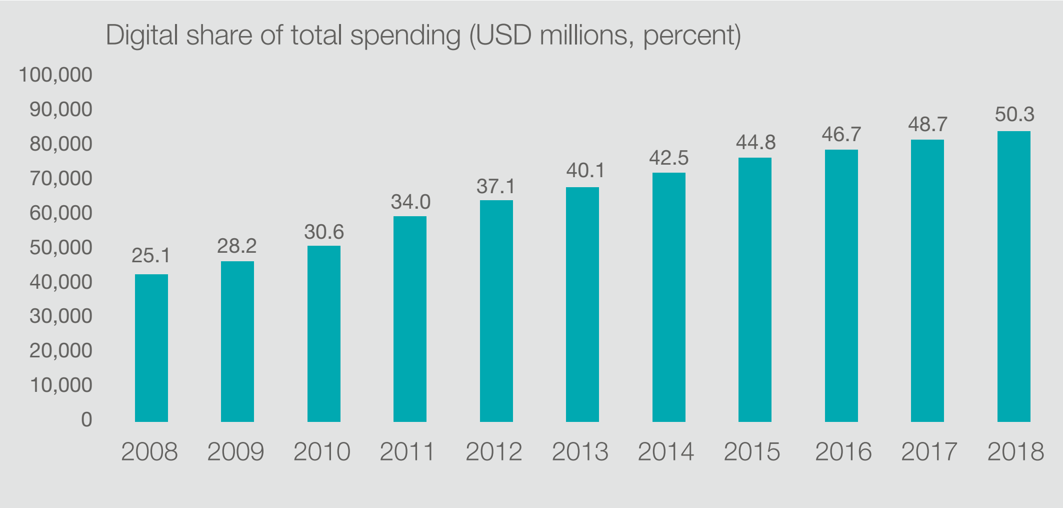
Key global drivers

1. Digital spending will fuel overall growth. The digital share of total media spending rose from 25.1 percent in 2008 to 40.1 percent in 2013. Over the next five years, we project digital spending to grow another 11.4 percent compounded annually, generating 78 percent of the projected increase in total media spending over that period. Concurrently, the non-digital component of the market will expand at only a 2.5 percent CAGR. As a result, digital spending is projected to make up a majority of total global media spending by 2018 with 50.3 perecent.

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

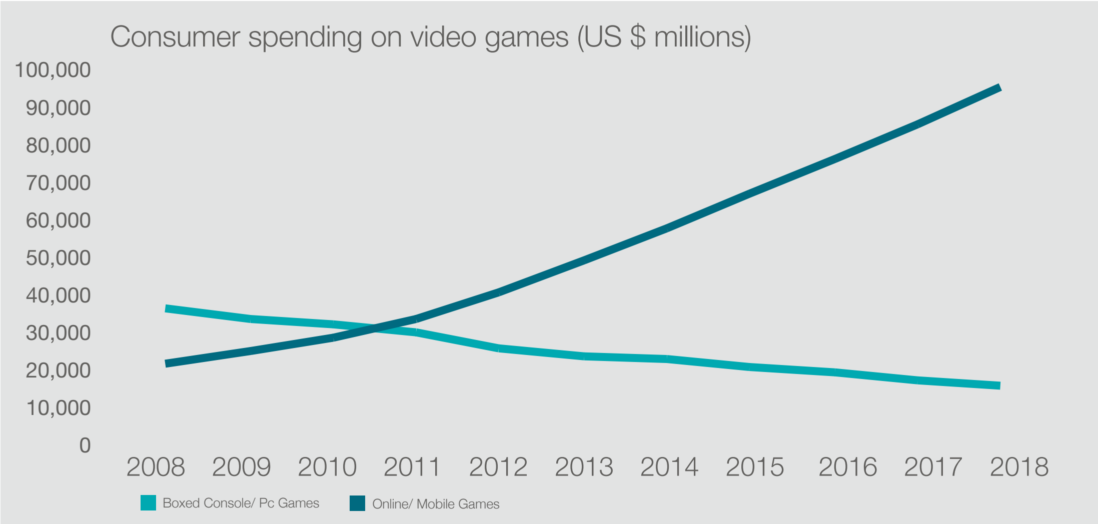
Status	2008	2009	2010	2011	2012	2013p	2008-2013 CAGR	2014	2015	2016	2017	2018	2013-2018 CAGR
Digital[2]	308,374	344,346	397,817	470,051	543,951	624,058	15.1	704,940	787,642	877,022	971,163	1,069,251	11.4
Non-digital	920,368	876,117	901,293	913,126	921,106	931,293	0.2	952,156	970,293	1,000,701	1,022,901	1,055,204	2.5
Total	1,228,742	1,220,463	1,299,110	1,383,177	1,465,057	1,555,351	**4.8**	**1,657,096**	**1,757,935**	**1,877,723**	**1,994,064**	**2,124,455**	**6.4**

[1]At average 2013 exchange rates.
[2]Consists of online and mobile advertising, broadband, transactional video-on-demand through TV subscription providers, OTT transactional digital video, OTT subscription digital video, digital recorded music downloads, digital recorded music streaming subscriptions, digital out-oh-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



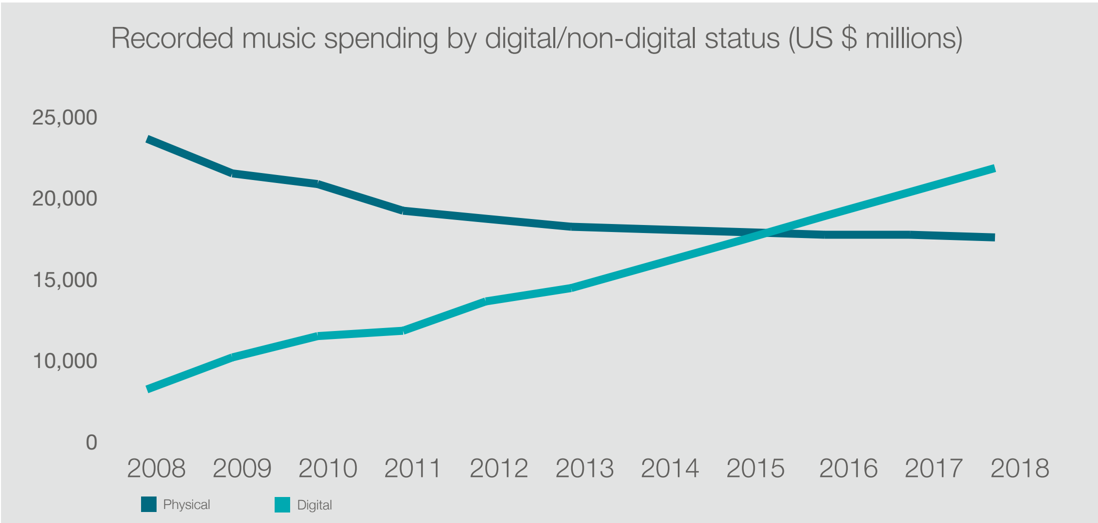
Sources: McKinsey & Company, Wilkofsky Gruen Associates

We note that in video games, the digital components – online and mobile games – already dominate the market. Spending on these digital components overtook spending on the physical components – boxed console and PC games – in 2011 and in 2013, accounted for 67 percent of total consumer spending on video games. By 2018, online and mobile games will make up 86 percent of the consumer video games market.



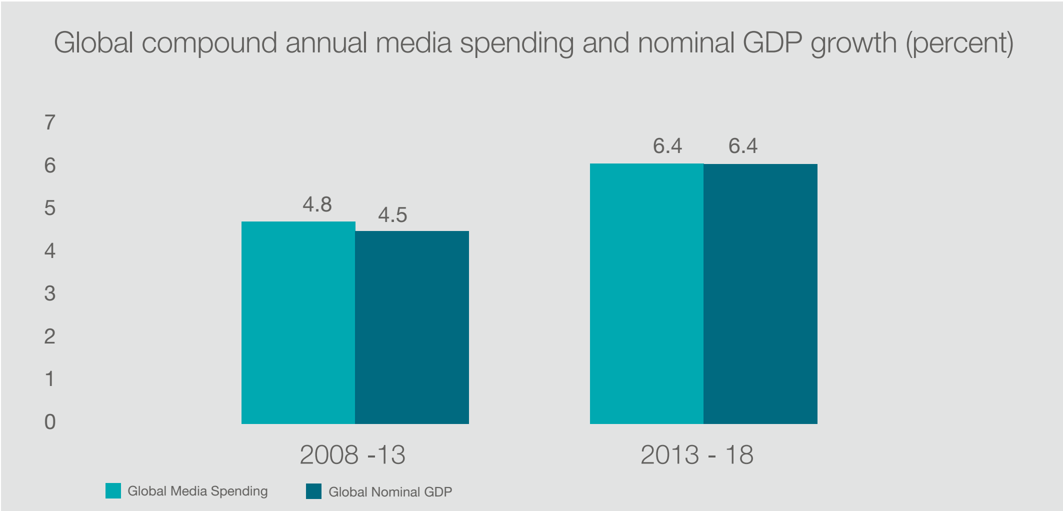
Sources: McKinsey & Company, Wilkofsky Gruen Associates

In recorded music, the market is still in transition from physical to digital. However, digital spending – digital downloads, digital streaming subscriptions, and ad-supported digital streaming – will overtake physical distribution in 2015 and will account for 56 percent of total recorded-music spending by 2018.



Sources: McKinsey & Company, Wilkofsky Gruen Associates

2. Improving economies will lead to faster media growth. As noted the global media market is sensitive to the economy. Relatively weak economic growth over the past five years in North America and Western Europe, for example, has been associated with slow growth in media spending in those areas. Globally, media spending has risen at a 4.8 percent CAGR over the past five years, comparable to the 4.5 percent compound annual increase in nominal GDP over the same period. During the next five years, we expect global nominal GDP growth to improve to 6.4 percent on a compound annual basis. Not surprisingly, we expect media spending to improve as well, matching the increase in global GDP growth.



Sources: McKinsey & Company, Wilkofsky Gruen Associates

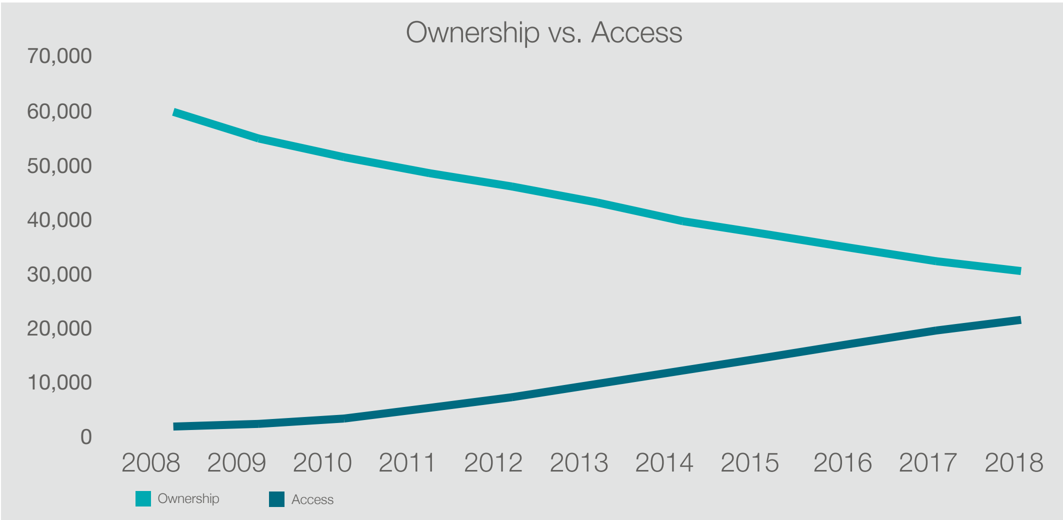
3. **Advertising will generate most of the improvement in media growth.** Advertising is the more cyclically sensitive component of media spending and has been the sector most affected by the weak economic climate, rising at only a 2.4 percent CAGR over the past five years, well below the 5.9 percent CAGR for consumer spending. During the next five years, we project that advertising growth will improve to 7.3 percent compounded annually, benefiting from stronger economic growth. While consumer spending, which has been less affected by the weak economy over the past five years, will benefit less from the stronger economy over the next five years. As a result, growth in consumer spending will improve by only a projected two-tenths of a percentage point, growing 6.1 percent compounded annually to 2018. In contrast with the past five years, therefore, advertising will be the faster-growing category over the next five years.

Global advertising and consumer spending growth (percent)

Status	2009	2010	2011	2012	2013p	2008-2013 CAGR	2014	2015	2016	2017	2018	2013-2018 CAGR
Advertising	-10.3	8.8	5.3	4.8	4.6	2.4	**7.4**	**6.1**	**8.4**	**6.5**	**8.0**	**7.3**
Consumer spending	4.1	5.4	7.0	6.4	6.8	5.9	**6.2**	**6.1**	**6.1**	**6.0**	**5.9**	**6.1**
Total	-0.7	6.4	6.5	5.9	6.2	4.8	**6.5**	**6.1**	**6.8**	**6.2**	**6.5**	**6.4**

Sources: McKinsey & Company, Wilkofsky Gruen Associates

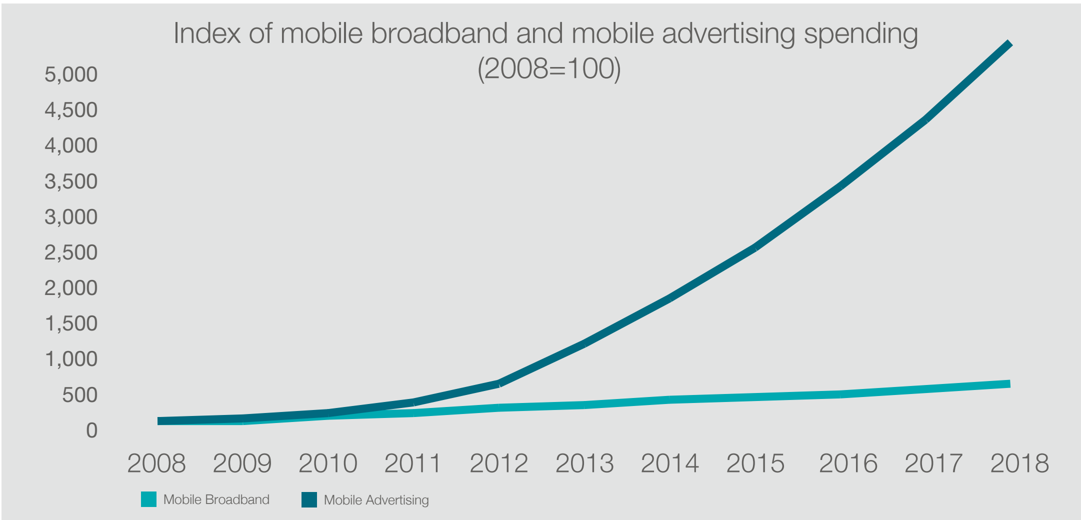
4. **Access to content is replacing ownership of content.** Consumers are spending less to buy and own content, while spending more to gain access to content. In home video, physical sales are falling, while digital streaming is rising. In recorded music, consumers are not only buying less music in physical formats, but they are also cutting back on digital downloads, shifting their spending to streaming subscriptions and increasing their usage of ad-supported streaming services. With video games, free-to-play games are gaining share, funded by in-game upgrades, microtransactions and advertising. In fact, spending on access in the recorded music and home video categories represented only 2 percent of spending on ownership in 2008, but by 2013 that share had risen to 21 percent. By 2018, we project that the share of spending on access will have jumped to 71 percent.



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.

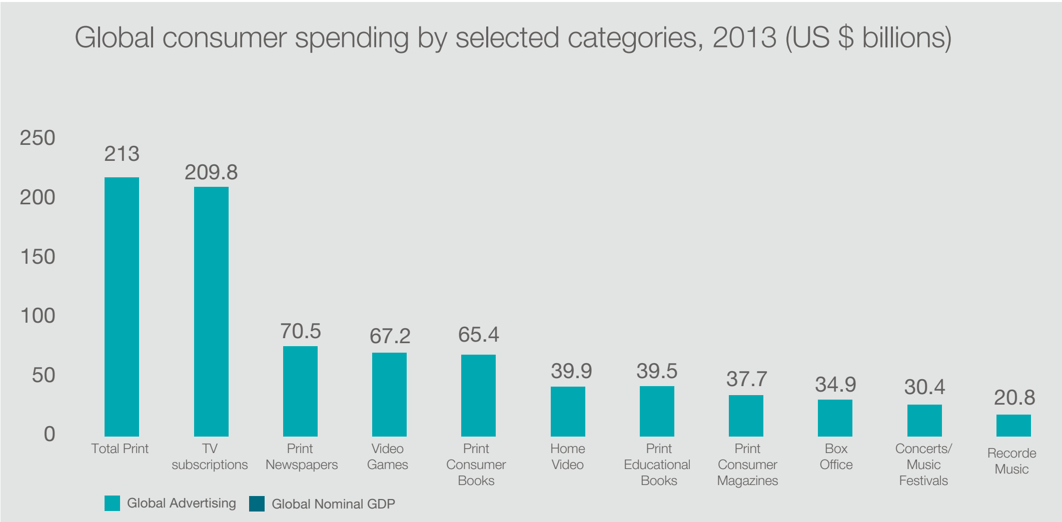
Sources: McKinsey & Company, Wilkofsky Gruen Associates

5. Rising tablet and smartphone penetration will continue to drive mobile spending.
The mobile components of the global media market are booming. Global mobile advertising rose 83.9 percent in 2013 and will increase by a projected 34.5 percent compounded annually over the next five years. After rising 19.2 percent in 2013, spending on mobile Internet access will also continue to expand at double-digit annual rates, rising by an estimated 11.6 percent compounded annually through 2018. Three key trends are fueling this growth: still increasing penetration of tablets and smartphones, enabling easier internet browsing; upgrades in wireless infrastructure that enable faster connectivity; and continued growth in a number of applications for mobile.



Sources: McKinsey & Company, Wilkofsky Gruen Associates

6. Consumer spending on print media will continue to support the market. Much of the attention in the media industry is focused on the more vibrant parts of the industry—box office, recorded music, concerts, video games, and home video—and on the growing digital components of the print media—electronic books and digital newspaper and magazine circulation. What can be forgotten is that consumer spending on print media is still formidable. In fact, consumers spent more on print newspapers in 2013 than they did on video games, home video, box office, recorded music, or concerts. Consumer-book print spending was also well above spending for the home video, box office, recorded music, or concert markets. In addition, spending on the four print media—newspapers, consumer books, educational books, and consumer magazines—taken together exceeded total spending on TV subscriptions in 2013.

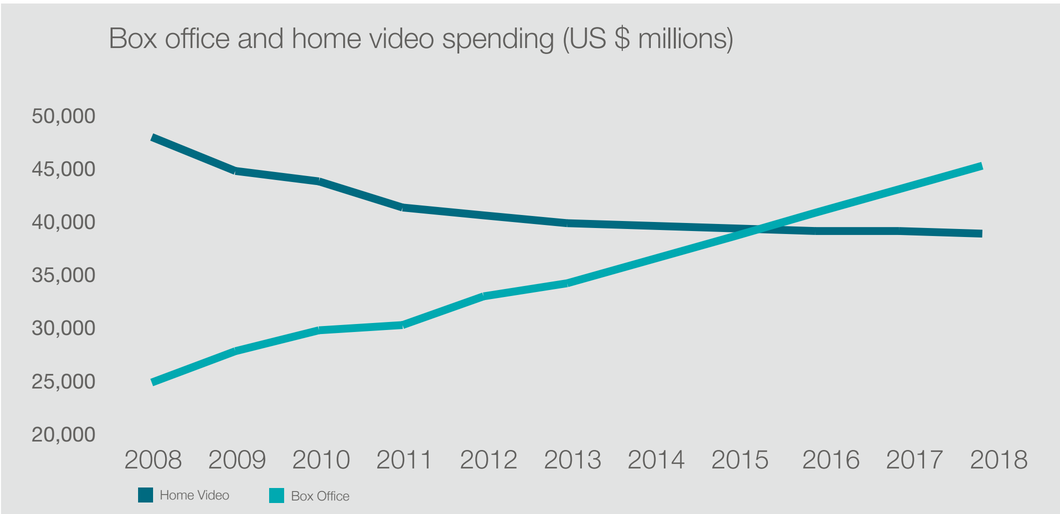


Sources: McKinsey & Company, Wilkofsky Gruen Associates

In contrast to print advertising, which has fallen at a 6.1 percent compound annual rate over the past five years, print consumer spending has declined only 1.5 percent compounded annually. Going forward, these more moderate declines in print consumer spending will contribute to keeping overall consumer spending on media strong over the next five years especially in some countries like India (+5% p.a.) and China (+2% p.a).

7. Box office resilience will fuel consumer spending. Despite a shortening release window and the emergence of digital over-the-top home video alternatives, box office spending worldwide is flourishing, rising a cumulative 32.2 percent between 2008 and 2013. We expect box office to continue growing apace, increasing by a cumulative projected 28.1 percent over the next five years due to the digitization of cinemas and growth in the number of screens in some countries.

Simultaneously, we note that home video spending is declining as that market shifts from higher-priced physical formats to lower-priced digital formats. While box office spending was 44 percent smaller than home video spending in 2008, that gap narrowed to 12 percent in 2013. We project box office to overtake home video in 2016 and to be 15 percent larger by 2018.



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 is 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 2013 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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